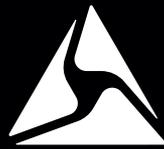




**ANNUAL REPORT 2021**

 **AXON**



## **THE MISSION**

Axon is a mission-driven company whose overarching goal is to protect life. Our vision is a world where bullets are obsolete, where social conflict is dramatically reduced, and where everyone has access to a fair and effective justice system.

To our shareholders:

Watching the bloodshed in Ukraine, I had a troubling thought: Have we backslid into a world that accepts warfare as a way of achieving political ends? Simultaneously, the Internet, which we all believed would enlighten the world with shared knowledge, is being perverted to undermine the very concept of truth.

In light of these times, our mission to Protect Life and Protect Truth are as important and relevant as ever.

Vladimir Putin's capricious use of war doesn't fit our modern world and a sense of global revulsion is palpable. Even amid this, we have cause for hope. The history of civilization is that when evil rises, we all must rise to defeat it. As Ghanaian journalist Anas Aremeyaw Anas said, "When evil men destroy, good men must build and bind."

The world is responding—not through a call to arms or an escalation of combat, but to ostracize the aggressor, freezing Russian assets and excluding its leaders from the modern world and the benefits of our shared economy.

It's too early to say if this will be enough. But if the world's economic force combined with the heroic Ukrainian self-defense proves effective, this conflict might be remembered as the moment when the world rejected "wars of choice" as acceptable.

Let me be clear: I am not a doe-eyed pacifist. Democracies must maintain advanced military force to deter bad actors. But I also see an opportunity to develop ways to project force without lethality. Imagine if Western militaries had at their disposal swarms of non-lethal drones designed to destroy and disable tanks, artillery, and other military armaments. Imagine if those same devices would be programmed to leave human beings unharmed. How useful would such a technology be? How quickly might it defang the Russian war machine — but without sending tens of thousands of young conscripts, who did not choose this war, home in body bags or abandoning them lifeless on the tundra. Theoretically, such technology might end the war—but without wholesale slaughter.

It's why I have called on the US military to explore technologies that take us beyond increasing lethality. We have ample lethal capacity at our disposal—and yet, we're limiting our support in this war to defensive systems. We have the means to kill endlessly, but no way to stop the aggressor without an unacceptable loss of life on all sides. The truly powerful don't need to annihilate their opponents.

I explored these ethical and geopolitical conundrums in my book, "The End of Killing." My thesis is that we do not have to accept killing as a de facto part of human existence—not in war, not in policing, and not in our homes.

No, I don't think we can just lay down arms and hope threats disappear. But I do think we need to open our minds to new tools and techniques—to technology that can incapacitate but not kill. I have long argued that killing is a technological problem, and that we can do better.

During this tough time, my thoughts have especially been with the Ukraine National Police, as well as our Axon teammates in Ukraine. We will not be commenting publicly on any steps we are taking specific to this conflict, but I believe our technologies play a role in geopolitical building and binding. We seek to foster trust in democracy over autocracy. We seek to promote transparency over propaganda, truth over lies, and protecting over killing.

At their core, our products are designed to strengthen trust in the rule of law. We directly support the United Nations' 16th sustainable development goal: To foster peace, justice, and strong institutions.

Public and personal safety is foundational for a modern society. Our product ecosystem ties together body cameras and fleet cameras, TASER devices, drones and third party sensors with a growing suite of software capabilities. We are not only serving customers, but saving lives while promoting truth and transparency. We are accelerating the end of killing by investing in advanced non-lethal technology. By 2030, I am confident that we are going to outperform the 9mm pistol, which is the standard in policing. In parallel, our work helps to improve fairness and efficiency in the criminal justice system, especially through our new justice software category, which will save attorneys time and also shorten the time people are jailed awaiting trial.

The private sector can play a powerful role here in concert with the public sector—and being held accountable by shareholders and the market increases our drive to build better products and services. The results speak for themselves: In 2021, we achieved revenue growth of 27% to \$863 million. Over the past three years, we have delivered a 27% compound annual revenue growth rate. And our financial results showcase our ability to deliver profitability while investing heavily

in new technology. Our focus on building best-in-class subscription software has driven our annual recurring software revenue to \$327 million, tripling over three years. And record annual bookings of \$1.7 billion in 2021, up 54% over 2020, point to continued strong growth ahead.

I believe in the power of conscious capitalism to change the world—that there are few better paths to fixing big problems than building organizations that can grow and self-sustain. Enterprises like ours can be mission driven. Axon has thousands of employees, and hundreds of millions of dollars, devoted to ending or reducing violence. And we have done that while creating value for shareholders, providing jobs, and creating wealth for our employees. This is exactly how stakeholder capitalism is supposed to work.

I've never been secretive about our secret sauce: it's a powerful combination of a world-changing mission, building unparalleled user experiences, and attracting passionate people.

While our tech is the best in the industry, our irreplaceable advantage is our people. Our employees are passionate about helping customers succeed. Imagine engineers running across parking lots with their laptops in hand to debug a new feature. Or whole teams rising before dawn to support a customer's new technology deployment, working tirelessly to answer hundreds of questions, and support testing and training. In the past weeks, I have had chiefs of major police departments excitedly sharing just such stories.

Let me share one story. The first customer who went live with our new Dispatch product hit some challenges during launch. The system went down for a few hours on the first day. Our team worked around the clock, hand in hand with our customer, to solve the problem. By the end of the week, the captain and project leader said to me: "Had everything gone smoothly, that would have been really impressive. It's 10 times more impressive that you stayed with us when things got tough."

The next day he spoke to Axon's software engineers, saying, "When we [officers] go to calls, we understand that the people that are with us may save our lives and may give theirs doing that. When dispatchers are on the air checking for us, they are checking to make sure we go home at night. Your company talks a lot about saving lives, and I know you as engineers, go, 'Well, it doesn't really feel like I'm a part of that because I'm doing computer things.' You *are* a part of that with our agency. You need to understand that we see you that way. ...You stayed in the fight with us. That is why we call ourselves a family. That is the trust and faith that we have in each other."

There are lots of companies with smart people that can build good technology. But the passion and dedication of the team I am so blessed to work with is so much harder to replicate.

Through the past two years, through the pandemic and social unrest and now new geopolitical challenges, I am fortunate to work with awesome people who get out of bed regardless of what's happening in the world. Our people just get after our mission. They want the world to be safer, fairer, and more just.

As you read this—wherever you are in the world—please take heart. We don't get to choose the times that we live in. But we can choose our principles and how we respond.

We stand for transparency, truth, and protecting life.

Because you've invested in Axon, I know you do, too. Thank you for being a part of our mission.

-Rick



AXON ENTERPRISE, INC.  
17800 North 85th Street  
Scottsdale, Arizona 85255

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**  
**May 20, 2022**

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To Our Shareholders:

The 2022 Annual Meeting of Shareholders (the “Annual Meeting”) of Axon Enterprise, Inc. (the “Company” or “Axon”) will be held at 10:00 a.m. (local time) on Friday, May 20, 2022. This year’s Annual Meeting will be a completely virtual meeting of shareholders. You will be able to attend the Annual Meeting, vote your shares electronically, and submit your questions during the live webcast by visiting [www.virtualshareholdermeeting.com/AXON2022](http://www.virtualshareholdermeeting.com/AXON2022). You will need to have your 16-digit control number included on your Notice, on your proxy card, or in the instructions that accompanied your proxy materials. The Annual Meeting will be held for the following purposes:

1. Approving an amendment to the Company’s Amended and Restated Certificate of Incorporation to declassify the Board of Directors;
2. Electing the three Class A directors of the Company named in this proxy statement;
3. Advisory vote to approve the compensation of the Company’s named executive officers;
4. Ratifying the appointment of Grant Thornton LLP as the Company’s independent registered public accounting firm for fiscal year 2022;
5. To approve the Axon Enterprise, Inc. 2022 Stock Incentive Plan; and
6. Transacting such other business as may properly come before the Annual Meeting or any continuation, postponement or adjournment thereof.

Only shareholders of record of the Company’s common stock at the close of business on March 22, 2022 are entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. Only shareholders with a valid 16-digit control number will be able to attend the Annual Meeting and vote, ask questions, and access the list of shareholders as of the close of business on the Record Date for the Annual Meeting.

**Your vote is very important. Whether or not you plan to attend the Annual Meeting virtually, we encourage you to read the proxy statement and vote as soon as possible. For specific instructions on how to vote your shares, please refer to the section entitled “General Information About the Annual Meeting and Voting” and the instructions on your proxy card or the voting instruction card you receive from your broker, bank or other intermediary. Please note that if you hold shares in different accounts, it is important that you vote the shares represented by each account.**

If you have any questions concerning the proposals or this proxy statement, would like additional copies of this proxy statement or need help voting your shares of Axon, please contact Axon's proxy solicitor:

**Innisfree M&A Incorporated**  
**501 Madison Avenue**  
**New York, NY 10022**  
**Shareholders Call Toll Free: (888) 750-5834**  
**International Callers: +1 (412) 232-3651**  
**Banks and Brokers Call: (212) 750-5833**

By Order of the Board of Directors,

/s/ ISAIAH FIELDS

Isaiah Fields

Corporate Secretary

Scottsdale, Arizona

April 8, 2022

**YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING VIRTUALLY, PLEASE VOTE ON THE INTERNET, BY TELEPHONE, OR MARK, SIGN, DATE AND PROMPTLY RETURN YOUR PROXY OR VOTING INSTRUCTION CARD IN THE ENCLOSED ENVELOPE.**

## TABLE OF CONTENTS

<b>General Information About the Annual Meeting and Voting</b>	<b>1</b>
<b>Governance</b>	<b>7</b>
The Board of Directors	7
Board and Committee Governance	14
Director Compensation	17
Certain Relationships and Related Transactions	19
<b>Share Ownership</b>	<b>19</b>
Ownership of Equity Securities of the Company	19
Delinquent Section 16(a) Reports	20
<b>Executive Compensation</b>	<b>21</b>
Executive Officers	21
Compensation Discussion and Analysis	23
Summary Compensation Table	34
Pay Ratio of Chief Executive Officer Compensation to Median Employee Compensation	36
2021 Grants of Plan-Based Awards	37
<b>Audit Matters</b>	<b>45</b>
Report of the Audit Committee	45
<b>Proposals</b>	<b>47</b>
Proposal No. 1 - Amendment to the Company's Amended and Restated Certificate of Incorporation to Declassify the Board of Directors	48
Proposal No. 2 - Election of Directors	51
Proposal No. 3 - Advisory Approval of the Company's Executive Compensation	52
Proposal No. 4 - Ratification of Appointment of Independent Registered Public Accounting Firm	54
Proposal No. 5 – Approval of the Axon Enterprise, Inc. 2022 Stock Incentive Plan	56
<b>Other Matters</b>	<b>64</b>
<b>Annex A - Marked Copy of Form of Amended and Restated Certificate of Incorporation</b>	<b>A-1</b>
<b>Annex B – Axon Enterprise, Inc. 2022 Stock Incentive Plan</b>	<b>B-1</b>



AXON ENTERPRISE, INC.  
17800 North 85th Street  
Scottsdale, Arizona 85255

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## PROXY STATEMENT FOR 2022 ANNUAL MEETING OF SHAREHOLDERS

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### **GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING**

#### ***Why am I receiving these proxy materials?***

Our Board of Directors (the “Board” or “Board of Directors”) has made these materials available to you on the Internet or has delivered printed versions of these materials to you by mail in connection with the Board of Directors’ solicitation of proxies for use at the Annual Meeting, which will take place virtually at 10:00 a.m. local time on Friday, May 20, 2022. You will be able to attend the Annual Meeting, vote your shares electronically, access the list of shareholders as of the close of business on the Record Date, and submit your questions during the live webcast by visiting [www.virtualshareholdermeeting.com/AXON2022](http://www.virtualshareholdermeeting.com/AXON2022). You will need to have your 16-digit control number included on your Notice, on your proxy card, or in the instructions that accompanied your proxy materials. We recommend logging into the meeting prior to the start time. This proxy statement describes matters on which you, as a shareholder, are entitled to vote. It also gives you information on these matters so that you can make an informed decision. This proxy statement is first being made available or sent to shareholders on or about April 8, 2022.

#### ***What is included in these materials?***

These materials include:

- This proxy statement for the Annual Meeting; and
- The Company’s Annual Report on Form 10-K for the year ended December 31, 2021 (the “Annual Report”).

If you received printed versions of these materials by mail, these materials also include the proxy card or vote instruction form for the Annual Meeting.

#### ***Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials instead of printed proxy materials?***

In accordance with the rules of the Securities and Exchange Commission (“SEC”), instead of mailing a printed copy of our proxy materials to all of our shareholders, we have elected to furnish such materials to shareholders by providing access to these documents over the Internet. Accordingly, on April 8, 2022 we sent a Notice of Internet Availability of Proxy Materials (the “Notice”) to shareholders of record and beneficial owners. Shareholders have the ability to access the proxy materials on a website referred to in the Notice or request to receive a printed or electronic set of the proxy materials by following the directions found in the Notice. The Company encourages you to take advantage of the availability of the proxy materials on the Internet in order to help reduce the cost and environmental impact of the Annual Meeting.

***How can I get electronic access to the proxy materials?***

The Notice provides you with instructions regarding how to: (1) view our proxy materials for the Annual Meeting on the Internet; (2) vote your shares after you have viewed our proxy materials; (3) request a printed or electronic copy of the proxy materials; and (4) instruct us to send our future proxy materials to you electronically via email. Copies of the proxy materials are also available for viewing at the investor relations page of the Company’s website at <http://investor.axon.com>.

***What proposals will be voted on at the Annual Meeting and how does the Board of Directors recommend I vote?***

Shareholders will vote on the following items at the Annual Meeting:

<b>Proposal</b>	<b>Description</b>	<b>Board Recommendation</b>
No. 1	Amendment to the Company’s Amended and Restated Certificate of Incorporation to declassify the Board of Directors	FOR
No. 2	The election of the three Class A directors of the Company named in this proxy statement for a term of one year and until their successors are elected and qualified, if Proposal No. 1 (to declassify the Board of Directors) is approved by shareholders, or three years and until their successors are elected and qualified, if Proposal No. 1 is not approved by shareholders.	FOR (all nominees)
No. 3	Advisory vote to approve the compensation of the Company’s named executive officers	FOR
No. 4	Ratification of the appointment of Grant Thornton LLP as the Company’s independent registered public accounting firm for fiscal year 2022	FOR
No. 5	To approve the Axon Enterprise, Inc. 2022 Stock Incentive Plan	FOR

Shareholders will also vote on the transaction of any other business as may properly come before the Annual Meeting or any continuation, postponement or adjournment thereof. To the maximum extent allowed by the SEC’s proxy rules, the proxy holders will vote your shares on such other matters as they determine in their discretion.

***Where are the Company’s principal executive offices located and what is the Company’s main telephone number?***

The Company’s principal executive offices are located at 17800 North 85th Street, Scottsdale, Arizona 85255. The Company’s main telephone number is (480) 991-0797.

***Who may vote at the Annual Meeting?***

As of March 22, 2022 (the “Record Date”), there were 70,995,368 shares of the Company’s common stock outstanding. Each share of common stock entitles the holder to one vote on each matter that may properly come before the Annual Meeting. The holders of a majority of the voting power of all shares entitled to vote, present in person (virtually) or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. Shareholders are not entitled to cumulative voting in the election of directors. Only shareholders as of the close of business on the Record Date are entitled to receive notice of, to attend, and to vote at the Annual Meeting.

***What is the difference between a shareholder of record and a beneficial owner of shares held in street name?***

**Shareholder of Record**

If your shares are registered directly in your name with the Company’s transfer agent, Broadridge Corporate Issuer Solutions, Inc., you are considered the shareholder of record with respect to those shares, and the Notice or printed materials were sent directly to you by the Company. If you request printed copies of the proxy materials by mail, you will also receive a printed proxy card.

## **Beneficial Owner of Shares Held in Street Name**

If your shares are held in an account at a brokerage firm, bank, broker-dealer, or other similar organization, then you are the beneficial owner of shares held in “street name,” and the Notice or the printed proxy materials were forwarded to you by that organization. The organization holding your account is considered the shareholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct that organization how to vote the shares held in your account. If you request printed copies of the proxy materials by mail, you will also receive a printed vote instruction form.

### ***If I am a shareholder of record of the Company’s shares, how do I vote?***

There are multiple ways to vote:



**Via the Internet.** If you received a Notice, you may vote via the Internet:

*Before the Meeting:* visit <http://www.proxyvote.com> and enter the control number found in the Notice.

*During the Meeting:* visit <http://www.annualshareholdermeeting.com/AXON2022> and enter the control number found in the Notice.



**By telephone.** If you received or requested printed copies of the proxy materials by mail, you may vote by calling the toll free number found on the proxy card.



**By mail.** If you received or requested printed copies of the proxy materials by mail, you may vote by filling out the proxy card and returning it in the envelope provided.

### ***If I am a beneficial owner of shares held in street name, how do I vote?***

Your bank or broker will send you instructions on how to vote. There are multiple ways to vote:



**Via the Internet.** If you received a Notice, you may vote via the Internet:

*Before the Meeting:* visit <http://www.proxyvote.com> and enter the control number found in the Notice.

*During the Meeting:* visit <http://www.annualshareholdermeeting.com/AXON2022> and enter the control number found in the Notice.



**By telephone.** If you received or requested printed copies of the proxy materials by mail, you may vote by calling the toll free number found on the vote instruction form.



**By mail.** If you received or requested printed copies of the proxy materials by mail, you may vote by filling out the vote instruction form and returning it in the envelope provided.

To attend and participate in the Annual Meeting, you will need the 16-digit control number included in your Notice, on your proxy card or on the instructions that accompanied your proxy materials. If your shares are held in street name, you should contact your broker to obtain your 16-digit control number or otherwise vote through your broker. Only shareholders with a valid 16-digit control number, will be able to attend the Annual Meeting and vote, ask questions and access the list of shareholders as of the close of business on the Record Date for the Annual Meeting.

### ***What constitutes a quorum in order to hold and transact business at the Annual Meeting?***

Under Delaware law and the Company’s bylaws, the holders of a majority of the voting power of all shares entitled to vote, present in person or represented by proxy, at a meeting constitutes a quorum. Abstentions and broker non-votes will

be counted as present to determine whether a quorum has been established. Once a share of the Company's common stock is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and any adjournments or postponements. If a quorum is not present, the Annual Meeting may be adjourned until a quorum is obtained.

### ***How are proxies voted?***

All valid proxies received prior to the Annual Meeting will be voted. All shares represented by a proxy will be voted and, where a shareholder specifies by means of the proxy a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the shareholder's instructions.

### ***What happens if I do not give specific voting instructions?***

**Shareholder of Record** If you are a shareholder of record and you indicate when voting on the Internet or by telephone that you wish to vote as recommended by the Board, or sign and return a proxy card without giving specific voting instructions, then the proxy holders will vote your shares in the manner recommended by the Board on all matters presented in this proxy statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the Annual Meeting.

**Beneficial Owner of Shares Held in Street Name** If you are a beneficial owner of shares held in street name and do not provide the organization that holds your shares with specific voting instructions, the organization that holds your shares may vote on routine matters but cannot vote on non-routine matters. If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, the organization that holds your shares will inform the inspector of election that it does not have the authority to vote on such matters with respect to your shares. This is generally referred to as a "broker non-vote."

### ***Which ballot measures are considered "routine" or "non-routine"?***

Proposal No. 4 (ratification of the appointment of Grant Thornton as the Company's independent registered public accounting firm for fiscal year 2022) is considered "routine." A broker or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected in connection with this proposal.

Proposals No. 1, No. 2, No. 3, and No. 5 (approval of an amendment to the Company's Amended and Restated Certificate of Incorporation to declassify the Board, election of three directors, advisory vote to approve the compensation of the Company's named executive officers, and the approval of the Axon Enterprise, Inc. 2022 Stock Incentive Plan) are considered "non-routine." A broker or other nominee cannot vote without specific instructions from the beneficial owner on non-routine matters, and therefore we anticipate there will be broker non-votes in connection with Proposals No. 1, No. 2, No. 3 and No. 5.

### ***Can I change my vote after I have voted?***

You may revoke your proxy and change your vote at any time before the final vote during the Annual Meeting by voting again via the Internet or by telephone (only your latest Internet or telephone proxy submitted prior to the Annual Meeting will be counted), by signing and returning a new proxy card or voting instruction form with a later date, or by attending the Annual Meeting virtually and voting during the meeting. However, your attendance at the Annual Meeting will not automatically revoke your proxy unless you vote again during the virtual meeting or specifically request that your prior proxy be revoked by delivering to the Company's Corporate Secretary at 17800 North 85th Street, Scottsdale, Arizona 85255 a written notice of revocation prior to the Annual Meeting.

### ***Is my vote confidential?***

Proxy instructions, ballots and voting tabulations that identify individual shareholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within the Company or to third parties, except as necessary to

meet applicable legal requirements; to allow for the tabulation and certification of votes; and to facilitate a successful proxy solicitation.

***What is the voting requirement to approve each of the proposals?***

**Amendment to the Company’s Amended and Restated Certificate of Incorporation to declassify the Board of Directors**

Proposal No. 1 requires the affirmative vote of a majority of the shares issued and outstanding as of the record date to approve this amendment to the Amended and Restated Certificate of Incorporation. Abstentions and broker non-votes will have the same effect as a vote cast against the proposal.

**Election of Directors**

For Proposal No. 2, under our bylaws, assuming the existence of a quorum at the Annual Meeting, each director will be elected by the affirmative vote of a majority of the votes properly cast for and against such nominee’s election. Abstentions will be counted toward a quorum, but will not affect the outcome of the vote on the election of directors. Broker non-votes will have no effect on the outcome of this proposal if a quorum is present.

**Advisory Vote to Approve the Compensation of the Company’s Named Executive Officers (“Say-on-Pay”)**

For Proposal No. 3, assuming the existence of a quorum at the Annual Meeting, the affirmative vote of a majority of the total votes of shares of common stock properly cast for or against the proposal in person or by proxy at the Annual Meeting is required for ratification. Broker non-votes and abstentions will have no impact on the outcome of this proposal if a quorum is present.

**Ratification of Independent Registered Public Accounting Firm**

For Proposal No. 4, assuming the existence of a quorum at the Annual Meeting, the affirmative vote of a majority of the total votes of shares of common stock properly cast for or against the proposal in person or by proxy at the Annual Meeting is required for ratification. Broker non-votes and abstentions will have no impact on the outcome of this proposal if a quorum is present.

**Approval of the Axon Enterprise, Inc. 2022 Stock Incentive Plan**

For Proposal No. 5, assuming the existence of a quorum at the Annual Meeting, the affirmative vote of a majority of the total votes of shares of common stock properly cast for or against the proposal in person or by proxy at the Annual Meeting is required for approval. Broker non-votes and abstentions will have no impact on the outcome of this proposal if a quorum is present.

***Who will serve as the inspector of election?***

A member of the Company’s internal legal department will serve as the inspector of election.

***Where can I find the voting results of the Annual Meeting?***

The final voting results will be tallied by the inspector of election and, within four business days after the Annual Meeting, the Company expects to report the final results on Form 8-K with the SEC.

***Who is paying for the cost of this proxy solicitation?***

The Company will bear the cost of solicitation of proxies for the Annual Meeting. We are soliciting your proxy on behalf of our Board. In addition to the use of mail, proxies may be solicited by personal interview, telephone, facsimile, electronically, including e-mail, or otherwise, by our officers, directors and other employees. They will not receive any

additional compensation for these activities. We have engaged Innisfree M&A Incorporated to assist in the solicitation of proxies for an estimated fee of up to \$50,000, plus reimbursement of reasonable expenses, and we have agreed to indemnify Innisfree M&A Incorporated against certain losses, costs and expenses. We also will request persons, firms and corporations holding shares in their names, or in the names of their nominees, that are beneficially owned by others to send or cause to be sent proxy materials to, and obtain proxies from, such beneficial owners and will reimburse such holders for their reasonable expenses in so doing.

***Who can help answer my other questions?***

If after reading this proxy statement you have more questions about the Annual Meeting or the proposals, you should contact Innisfree M&A incorporated, our proxy solicitor, at:

**Innisfree M&A Incorporated**  
**501 Madison Avenue**  
**New York, NY 10022**  
**Shareholders Call Toll Free: (888) 750-5834**  
**International Callers: +1 (412) 232-3651**  
**Banks and Brokers Call: (212) 750-5833**

## GOVERNANCE

### THE BOARD OF DIRECTORS

#### *Director Nominations*

The Nominating and Corporate Governance Committee (the “NCG Committee”) is responsible for identifying and evaluating nominees for director and for recommending to the Board a slate of nominees for election at each annual meeting of shareholders. Nominees may be suggested by directors, members of management, shareholders, or, in some cases, by a third-party firm engaged by the NCG Committee.

Shareholders who wish the NCG Committee to consider their recommendations for nominees for the position of director should submit their recommendations in writing by mail to the NCG Committee, c/o Axon Enterprise, Inc., 17800 North 85th Street, Scottsdale, AZ 85255. Recommendations by shareholders that are made in accordance with these procedures will receive the same consideration by the NCG Committee as other suggested nominees.

In January 2022, the Board approved an amendment to our bylaws to move from a plurality voting standard to a majority voting standard in uncontested elections. Under the new standard, an uncontested director must receive a majority of the votes properly cast for and against such nominee, and if they do not, they must tender their resignation for Board consideration. For contested elections where the number of director nominees exceeds the number of Board seats open for election, each person nominated to be elected as a director shall be elected by a plurality of the votes properly cast.

If an incumbent director receives less than a majority of the votes cast with respect to such director’s election in an uncontested election, such director shall promptly tender his or her resignation to the NCG Committee. No later than 90 days following the receipt of any such tendered resignation, (A) the Board shall, taking into account any recommendation by the NCG Committee, take formal action with respect thereto (which action may include accepting or rejecting such tendered resignation, or taking other action considered appropriate) and (B) the Company shall publicly disclose the Board’s decision and, in the event that the Board of Directors does not accept such tendered resignation, the rationale for such decision. The director who tenders his or her resignation shall not participate in the recommendation of the NCG Committee or the decision of the Board with respect to his or her resignation. The NCG Committee, in making any recommendation, and the Board, in making any decision, may consider any factors or other information they consider appropriate or relevant. If the Board accepts a tendered resignation, then the Board may fill the resulting vacancy or may decrease the size of the Board.

#### *Qualifications for All Directors*

In its assessment of each potential candidate, including those recommended by shareholders, the NCG Committee considers the potential nominee’s demonstrated character, judgment, relevant business, functional and industry experience, and whether they possess a high degree of business, technological, medical, military, political or law enforcement acumen, independence, and other such factors the NCG Committee determines are pertinent in light of the current needs of the Board. The NCG Committee also takes into account the ability of a potential nominee to devote the time and effort necessary to fulfill his or her responsibilities to the Board of Directors. While the NCG Committee does not have a formal diversity policy, it strives to achieve a well-rounded balance of varying skill sets and backgrounds in the composition of the Board.

While recognizing that any group of people is more than the sum of its parts, that biography does not always define identity and that attempting to quantify diversity is an imperfect exercise in a world of unique individuals, we also acknowledge and celebrate that our board intentionally reflects a wide range of human experiences and identities.

On our Board, **three** identify as women and **six** identify as men, **one** identifies as Iranian-American, **one** identifies as Black, **three** identify as White or Caucasian, **one** identifies as a member of the LGBTQ+ community, **one** is a combat decorated and disabled U.S. Army Special Forces Veteran and a decorated police officer, **five** were born in the United States, **one** was born in Iran, **two** have relied on government-provided public assistance over the course of their lifetime and at least **four** religions and faith practices are represented by our board.

The NCG Committee’s process for identifying and evaluating nominees typically involves a series of internal discussions, review of information concerning candidates and interviews with selected candidates. The Company has not historically paid third parties to identify or assist in identifying or evaluating potential nominees but reserves the right to do so.

***Specific Qualifications, Attributes, Skills and Experience to be Represented on the Board***

The Board has identified particular qualifications, attributes, skills and experience that it believes are important to be represented on the Board as a whole in order to advise and contribute to the execution of the Company’s strategic objectives. Each Board member was selected in accordance with the process for the selection and nomination of directors described above. Accordingly, the Board believes that each of the Company’s Board members brings a myriad of attributes that combined benefit the Company and its shareholders. The following table summarizes, as of March 25, 2022, certain key characteristics of the Company’s business and the associated attributes that have been identified as important to be represented on the Board.

<b>Business Characteristics</b>	<b>Qualifications, Attributes, Skills &amp; Experience</b>
The Company’s business is multifaceted and involves complex financial transactions.	<ul style="list-style-type: none"> <li>• High level of financial literacy</li> <li>• Relevant CEO, CFO, or treasury experience</li> <li>• Certified Public Accountant, Certified Financial Analyst</li> </ul>
The Company’s business requires compliance with a variety of regulatory requirements across a number of countries and relationships with various governmental entities and non-governmental organizations.	<ul style="list-style-type: none"> <li>• Governmental, legal or political experience</li> </ul>
The Company’s TASER product lines utilize Neuro-Muscular Incapacitation from electrical currents as the method to disable a resisting suspect, which inherently involves medical and scientific testing.	<ul style="list-style-type: none"> <li>• Medical and/or scientific experience</li> </ul>
The Company’s primary markets are law enforcement, military and corrections agencies.	<ul style="list-style-type: none"> <li>• Law enforcement experience</li> <li>• Military experience</li> </ul>
The Company’s business includes the innovative fields of cloud computing, software as a service, wearable technology, and other emerging technologies such as artificial intelligence, all of which involve different points of view and perspectives from its traditional TASER background.	<ul style="list-style-type: none"> <li>• Emerging technologies experience</li> <li>• Complex hardware and software integration experience</li> <li>• Cybersecurity experience</li> </ul>
The Board’s responsibilities include understanding and overseeing the various risks facing the Company and ensuring that appropriate policies and procedures are in place to effectively manage risk.	<ul style="list-style-type: none"> <li>• Risk oversight</li> <li>• Management expertise</li> </ul>

***Director Nominees in 2022***

**Adriane Brown**

**Director since 2020**

**Class A**

**Age: 63**

**Board Committees:** Compensation Committee, NCG Committee, Merger and Acquisition and Capital Structures Committee

**Other Public Company Boards:** American Airlines Group Inc., eBay Inc., KKR & Co Inc.

Ms. Brown is a Managing Partner at Flying Fish Partners, a technology focused venture capital firm, beginning in 2021, and joined as a Venture Partner in 2018. Prior to that, Ms. Brown served as President and Chief Operating Officer for Intellectual Ventures (“IV”), an invention and investment company that commercializes inventions, from January 2010

through July 2017, and served as a Senior Advisor until December 2018. Before joining IV, Ms. Brown served as President and Chief Executive Officer of Honeywell Transportation Systems. Over the course of 10 years at Honeywell, she held leadership positions serving the aerospace and automotive markets globally. Prior to Honeywell, Ms. Brown spent 19 years at Corning, Inc., ultimately serving as Vice President and General Manager, Environmental Products Division, having started her career there as a shift supervisor. Ms. Brown also serves on the boards of directors of eBay Inc., American Airlines Group Inc., KKR & Co Inc., and Washington Research Foundation. Ms. Brown also serves on the board of directors of the International Women’s Forum. Previously, she served on the boards of Allergan Plc and Raytheon Company until 2020, and Harman International Industries until 2017. Ms. Brown holds an Honorary Doctorate of Humane Letters and a bachelor’s degree in environmental health from Old Dominion University, and is a winner of its Distinguished Alumni Award. She also holds a master’s degree in management from the Massachusetts Institute of Technology where she was a Sloan Fellow.

**Specific Qualifications, Attributes, Skills and Experience:**

<b>High Level of Financial Literacy</b>	President and Chief Operating Officer for IV from January 2010 to July 2017, and President and Chief Executive Officer of Honeywell Transportation Systems from January 2005 to June 2009.
<b>Risk Oversight &amp; Management</b>	Board Experience for Allergan plc, American Airlines Group Inc., eBay Inc., KKR & Co Inc., Harman, and Raytheon Company gives extensive experience relating to public company corporate governance matters.
<b>Technology Expertise</b>	Ms. Brown is a Managing Partner and member of the Investment Committee at Flying Fish Partners. The fund invests in and supports start-ups utilizing artificial intelligence and machine learning to transform processes in a variety of market verticals. Over the course of her career, Ms. Brown has engaged in business and technology transformations across a number of businesses and markets.

**Michael Garnreiter, Chairman**

**Director since 2006**

**Class A**

**Age: 70**

**Board Committees:** Audit Committee (Chair), Compensation Committee, NCG Committee

**Other Public Company Boards:** Knight-Swift Transportation Holdings, Amtech Systems

Mr. Garnreiter most recently served as Vice President of Finance and Treasurer of Shamrock Foods, a privately-held manufacturer and distributor of foods and food-related products. He retired from this position in December 2015. From January 2010 until August 2012, Mr. Garnreiter was a managing director of Fenix Financial Forensics, a Phoenix-based litigation and financial consulting firm. From April 2002 through June 2006, Mr. Garnreiter was Executive Vice President, Treasurer, and Chief Financial Officer of the Main Street Restaurant Group. Mr. Garnreiter previously served with the international accounting firm, Arthur Andersen, from 1974 through March 2002 with increasing levels of responsibility, culminating as a partner. Mr. Garnreiter holds a B.S. degree in accounting from California State University at Long Beach and is a Certified Public Accountant.

**Specific Qualifications, Attributes, Skills and Experience:**

<b>High Level of Financial Literacy</b>	Certified Public Accountant and former partner at Arthur Andersen. Served on the audit committee for each board he has served in the past.
<b>Risk Oversight &amp; Management</b>	Board Experience for Knight-Swift Transportation Holdings, Amtech Systems, and Fenix Financial Forensics gives extensive experience relating to public company corporate governance matters.

## Hadi Partovi

**Director since** 2010

**Class** A

**Age:** 49

**Board Committees:** Compensation Committee (Chair), NCG Committee, Merger and Acquisition and Capital Structures Committee

**Other Public Company Boards:** None

Mr. Partovi is the CEO and co-founder of the non-profit education organization Code.org, and serves as a Director on the board of Convoy. Mr. Partovi is a past or present strategic advisor or early investor at numerous technology companies, including Facebook, Dropbox, Uber, airbnb, SpaceX, and Zappos. From 2009 through 2010, Mr. Partovi was Senior Vice President of Technology for MySpace (via acquisition) and from 2006 through 2009 he was President and Co-Founder of ILIKE, Inc. which was acquired by MySpace in 2009. From 2002 through 2005, Mr. Partovi was General Manager, Microsoft MSN Entertainment and MSN.com and from 1999 through 2001, he was Co-Founder and VP of Product and Professional Services for TELLME Networks, Inc. From 1994 through 1999, he was Program Manager for Microsoft Internet Explorer. Mr. Partovi holds B.A. and M.S. degrees in Computer Science, *summa cum laude*, from Harvard University.

### Specific Qualifications, Attributes, Skills and Experience:

<b>Technology Expertise</b>	Experience as an investor in technology companies provides Mr. Partovi with invaluable insight into software and Internet-related business development initiatives.
<b>Risk Oversight &amp; Management</b>	Experience as an advisor to multiple start-up companies provides Mr. Partovi experience in the unique challenges facing companies pursuing new technology.

### *Incumbent Directors in 2022*

#### **Vice Admiral (Retired) Richard H. Carmona M.D., M.P.H., F.A.C.S.**

**Director since** 2007

**Class** C

**Age:** 72

**Board Committees:** NCG Committee (Chair), Scientific and Medical Committee

**Other Public Company Boards:** The Clorox Company, The Herbalife Company, McKesson Corporation

Dr. Carmona was sworn in as the 17th Surgeon General of the United States on August 5, 2002 and served the statutory four year term. Prior to being named United States Surgeon General, Dr. Carmona was the chairman of the State of Arizona Southern Regional Emergency Medical System, a professor of surgery, public health and family and community medicine at the University of Arizona, and the Pima County Sheriff's Department surgeon and deputy sheriff. He is currently employed as Chief of Health Innovation of Canyon Ranch Health in Tucson, Arizona and has held that position since October 1, 2006. Dr. Carmona attended Bronx Community College of the City University of New York where he earned his associate of arts degree. Dr. Carmona holds a B.S. degree and medical degree from the University of California, San Francisco. He has also earned a Master's Degree in Public Health from the University of Arizona.

Dr. Carmona will retire from the Company's Board of Directors on May 20, 2022.

**Specific Qualifications, Attributes, Skills and Experience:**

<b>High Level of Financial Literacy</b>	As Chief of Health Innovation at Canyon Ranch, CEO of Canyon Ranch Health, and as a member of other public company boards, Dr. Carmona is able to contribute to the oversight of the Company's financial matters.
<b>Risk Oversight &amp; Management</b>	Service on the Clorox Company and the Herbalife Company boards of directors provides valuable insight into public company corporate governance matters.
<b>Relevant Political Background</b>	Service as the former Surgeon General of the U.S. provides a unique insight into political matters.
<b>Medical and Scientific Expertise</b>	Service as the Surgeon General of the U.S. as well as an extensive career in emergency medical services, provides Dr. Carmona with a deep understanding of health, safety and medicine.
<b>Law Enforcement/Military Experience</b>	Dr. Carmona is a combat decorated and disabled U.S. Army Special Forces Veteran and a highly decorated police officer, giving him unusual insight into our diverse customer base.

**Julie A. Cullivan**

**Director since 2017**

**Class C**

**Age: 56**

**Board Committees:** Audit Committee, Enterprise Risk and Information Security Committee (Chair)

**Other Public Company Boards:** None.

Most recently, Ms. Cullivan was the Chief Technology and People Officer at Forescout Technologies, Inc., reporting to the CEO, where she was responsible for leading the company's business model transformation, information technology strategy, security risk and compliance program, customer production operations, and human resources. She joined in July 2017 and helped Forescout scale from a private company with \$160 million in revenue, through its successful initial public offering, to a publicly traded company with revenues of \$330 million and a \$1.5 billion valuation. In addition to focusing on scale, Ms. Cullivan led Forescout's operational transformation from an appliance and license software business to a cloud subscription business. Forescout was acquired by Advent International, a private equity firm, in 2020 and Ms. Cullivan left in January 2021. Prior to Forescout, Ms. Cullivan held executive roles at FireEye Inc., Autodesk, Inc., McAfee Corp, EMC Corporation, and Oracle Corporation.

**Specific Qualifications, Attributes, Skills and Experience:**

<b>Technology Expertise</b>	Ms. Cullivan is a recognized leader in the cyber security field and a sought-after speaker on topics including women in security, security as a boardroom imperative, innovation and building high impact teams.
<b>Risk Oversight &amp; Management</b>	Experience as SVP, Business Operations, Chief People Officer and Chief Information Officer where Ms. Cullivan led cross functional initiatives and information security strategy in a high-growth environment.

## Caitlin Kalinowski

**Director since** 2019

**Class** C

**Age:** 41

**Board Committees:** Audit Committee, Enterprise Risk and Information Security Committee, Merger and Acquisition and Capital Structures Committee

**Other Public Company Boards:** None

Caitlin Kalinowski leads VR hardware for Facebook’s AR/VR division. Her team is responsible for the product design, electrical and mechanical engineering of the Oculus Quest 1 and 2, Oculus Go, Oculus Rift S and Touch controllers. Before working at Facebook, Ms. Kalinowski was a technical lead at Apple on the Mac Pro and MacBook Air products, and was part of the original unibody MacBook Pro team. Ms. Kalinowski is also on the strategic board of Lesbians Who Tech & Allies, the largest LGBTQ technical organization in the world. Ms. Kalinowski holds a B.S. in Mechanical Engineering from Stanford University.

### Specific Qualifications, Attributes, Skills and Experience:

<b>Technology Expertise</b>	Ms. Kalinowski has extensive experience in established technology organizations such as Facebook and Apple. Ms. Kalinowski led technical teams at Apple and currently heads Oculus VR at Facebook. She has tremendous insight into product design and engineering for technology focused initiatives.
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## Mark Kroll, Ph.D.

**Director since** 2003

**Class** B

**Age:** 69

**Board Committees:** Enterprise Risk and Information Security Committee, NCG Committee, Scientific and Medical Committee (Chair)

**Other Public Company Boards:** Haemonetics Corporation

Dr. Kroll retired in July 2005 from St. Jude Medical, Inc., where he held various executive level positions since 1995, most recently as Senior Vice President and Chief Technology Officer, Cardiac Rhythm Management Division. Dr. Kroll holds a B.S. degree in Mathematics and a M.S. degree and a Ph.D. degree from the Electrical Engineering department of the University of Minnesota and an M.B.A. degree from the University of St. Thomas. Dr. Kroll is also the named inventor of over 350 issued U.S. patents and is a Fellow of: American College of Cardiology, Heart Rhythm Society, Institute of Electronics and Electrical Engineering ("IEEE"), and the American Institute for Medicine and Biology in Engineering ("AIMBE").

### Specific Qualifications, Attributes, Skills and Experience:

<b>Technology Expertise</b>	Advanced mathematical and scientific education and technology and scientific accomplishments as recognized by “Fellow” designations from IEEE and AIMBE provide a strong scientific background that is beneficial to the Company.
<b>Medical and Scientific Expertise</b>	Scientific accomplishments as recognized by “Fellow” designations from the American College of Cardiology and the Heart Rhythm Society provide invaluable skills and experience to the TASER business.
<b>Risk Oversight &amp; Management</b>	Service on Haemonetics Corporation’s board of directors as well as leadership positions at St. Jude’s Medical, Inc. provides beneficial experience in management and oversight.

## Matthew R. McBrady, Ph.D

**Director since** 2016

**Class B**

**Age:** 51

**Board Committees:** Enterprise Risk and Information Security Committee, Merger and Acquisition and Capital Structures Committee (Chair)

**Other Public Company Boards:** None

From August 1998 through January 2000, Dr. McBrady served as an international economist with President Clinton’s Council of Economic Advisers and the U.S. Treasury Department. Dr. McBrady subsequently served as a professor of finance at the Wharton School of Business at the University of Pennsylvania (from September 2002 through May 2003) and at the Darden Graduate School of Business Administration at the University of Virginia (from May 2003 through December 2006). Dr. McBrady then worked as an investment professional within the North American Private Equity group at Bain Capital, LLC (from January 2007 through January 2009). Dr. McBrady then joined Silver Creek Capital Management, LLC as Managing Director and Head of Investment Strategy and Risk Management (from January 2009 through January 2014) prior to joining BlackRock, Inc. where he served as Managing Director and Chief Investment Officer of Multi-Strategy Hedge Funds from January 2014 through September 2016. Dr. McBrady served as the Managing Director of Investments at the Cystic Fibrosis Foundation from September 2017 to January 2019 and as a Senior Advisor and co-CIO of Callaway Capital from January 2017 to December 2019, before returning to the Darden Graduate School of Business Administration as a Professor of Practice in August 2020. In March 2022, Dr. McBrady became the interim CFO of WorkWise, LLC.

Dr. McBrady holds a B.A. degree in Economics from Harvard University, a M.S. degree in International Economics from Oxford University (U.K.), and a Masters and Ph.D. degree in Business Economics from Harvard University. Dr. McBrady previously served as a director for the Company from January 2001 through June 2014.

### Specific Qualifications, Attributes, Skills and Experience:

<b>High Level of Financial Literacy</b>	Service as a member of President Clinton’s Council of Economic Advisory and teaching positions at the Harvard Business School, the Wharton School of Business and the Darden Graduate School of Business Administration providing Dr. McBrady valuable financial knowledge and context. Service as Chief Investment Officer for BlackRock and investment strategy and management positions for other investment management firms.
<b>Relevant Political Background</b>	Service as a member of President Clinton’s Council of Economic Advisors giving him deep insight into government processes.

## Patrick W. Smith, Chief Executive Officer

**Director since** 1993

**Class B**

**Age:** 51

**Other Public Company Boards:** None

Mr. Smith has served as Chief Executive Officer (“CEO”) and as a director of the Company since 1993. He is also co-founder of the Company. After graduating from Harvard, cum laude, in just three years (class of 1991), Mr. Smith entered directly into the Master of Business Administration program at the University of Chicago. In two years, he completed both a master’s degree in international finance from the University of Leuven in Leuven, Belgium and an M.B.A. degree with honors at the University of Chicago, graduating in the top 5% of his class. After completing graduate school in the summer of 1993, he co-founded Axon Enterprise, Inc. (F.K.A. TASER International, Inc.) in September 1993 with his brother, Thomas P. Smith.

Among other qualifications, Mr. Smith is the founder and visionary of the Company and brings to the Board extensive executive leadership experience in the technology industry, including the management of worldwide operations, sales, service, and support as well as technology innovation as he currently holds 40 U.S. patents.

## **BOARD AND COMMITTEE GOVERNANCE**

### ***Role of the Board of Directors***

The principal duties of the Board of Directors are to oversee management and evaluate strategy. The fundamental responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be the best interest of the Company and its shareholders. Our governance structure is designed to foster disciplined actions, effective decision-making, and appropriate oversight of both compliance and performance.

Axon's key governance documents, including our Corporate Governance Guidelines, are available at <http://investor.axon.com/governance/documents-and-charters>.

### ***Board Leadership Structure***

The Company's governance documents provide the Board with flexibility to select the appropriate leadership structure for the Company. In making leadership structure determinations, the Board considers many factors, including the specific needs of the business and what is in the best interests of the Company's shareholders. The current leadership structure is anchored by a non-management director as Chairman of the Board. The Board believes this structure provides a very well-functioning and effective balance between strong Company leadership and appropriate safeguards and oversight by independent directors.

- Chairman of the Board: Michael Garnreiter
- Chief Executive Officer: Patrick W. Smith

The principal role of the Chairman of the Board is to manage and to provide leadership to the Board of Directors of the Company. The Chairman is accountable to the Board and acts as a direct liaison between the Board and the management of the Company, through the CEO. The Chairman acts as the communicator for Board decisions where appropriate. The separation of the role of the Chairman from that of the CEO is based on the Board's view that the Chairman should be free from any interest and any business or other relationship that could interfere with the Chairman's judgment, other than interests resulting from Company shareholdings and remuneration.

The Board conducts an annual evaluation of the performance of the Board and each of its standing committees, including peer assessments of each individual director.

### ***Meetings of the Board of Directors***

During the year ended December 31, 2021, the Board held four meetings. During 2021, each director attended at least 75% of all regular Board and applicable committee meetings.

### ***Committees of the Board of Directors***

The following table summarizes the current membership of our standing non-management Board committees, and identifies the chair of each committee and the number of committee meetings held in fiscal 2021:

	<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>NCG Committee</u>	<u>Merger and Acquisition and Capital Structures Committee</u>	<u>Scientific and Medical Committee</u>	<u>Enterprise Risk and Information Security Committee</u>
# Meetings	5	4	3	4	2	4
<b>Director</b>						
Adriane Brown		X	X	X		
Richard H. Carmona			*		X	
Julie A. Cullivan	X					*
Michael Garnreiter	*	X	X			
Caitlin Kalinowski	X			X		X
Mark Kroll			X		*	X
Matthew R. McBrady				*		X
Hadi Partovi		*	X	X		

X = Member

\* = Chair

The Audit Committee, established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), exercises sole authority with respect to the selection of the Company’s independent registered public accounting firm and the terms of its engagement; reviews the policies and procedures of the Company and management with respect to maintaining the Company’s books and records; reviews with the independent registered public accounting firm, upon the completion of its audit, the results of the auditing engagement and any other findings or recommendations the independent registered public accounting firm may have with respect to the Company’s financial, accounting or auditing systems; and reviews with the independent registered public accounting firm, upon the completion of its quarterly review of the Company’s financial statements, the results of the quarterly review and any other recommendations the independent registered public accounting firm may have in connection with such quarterly reviews. The Report of the Audit Committee for the year ended December 31, 2021 is included in this proxy statement.

The Compensation Committee determines salaries, stock and bonus awards and considers employment agreements for appointed officers of the Company; considers and reviews grants of options and other equity awards under the Company’s compensations plans and administers such plans; and considers matters of director compensation, benefits and other forms of remuneration. The Compensation Committee Report for the year ended December 31, 2021 is included in this proxy statement. See “Compensation Discussion and Analysis” for more information regarding the Compensation Committee.

The NCG Committee is charged with identifying qualified candidates for nomination for election to the Board and nominating such candidates for election; and reviewing and making recommendation to the Board concerning the composition and size of the Board and its committees. The Committee also monitors the process to assess the Board’s effectiveness and is primarily responsible for oversight of corporate governance, and developing and updating our Corporate Governance Guidelines.

The Merger and Acquisition and Capital Structures Committee serves to focus on issues related to any proposed merger, acquisition, or other strategic investment activity or plans identified by the Company’s management.

The Enterprise Risk and Information Security Committee is responsible for the identification, monitoring, and mitigation of operational, strategic, and external environment risks inherent in the business of the Company. The Committee is also responsible for the design, implementation, and management of an effective information security system, including reviewing and overseeing the Company’s policies, procedures and plans relating to cybersecurity and data protection risks associated with the Company’s products, services, information technology infrastructure and related operations.

The Audit Committee, Compensation Committee and NCG Committee have each adopted charters that govern their respective authority, responsibilities and operation. The charters of these committees are available on our website at <http://investor.axon.com/governance/documents-and-charters>.

### ***Audit Committee Financial Experts***

The Board of Directors determined that Mr. Garnreiter, an independent director of the Company, is an audit committee financial expert within the meaning of that term under applicable rules promulgated by the SEC. Information about the past business and educational experience of Mr. Garnreiter is included in this proxy statement under the heading “Governance--The Board of Directors.” The Board has determined that each current member of the Audit Committee is financially literate and that Mr. Garnreiter satisfies the financial sophistication requirements under the current listing standards of NASDAQ.

### ***Director Independence***

As of the date of this proxy statement, based upon the information submitted by each of its directors, the Board has made a determination that a majority of our current Board is independent as that term is defined by NASDAQ listing standards and that all of the members of our Board committees also meet any additional specific independence standards applicable to any committee on which such director serves, including the more stringent audit committee and compensation committee independence committee criteria. For 2021, the Company determined that all Board members, other than Patrick W. Smith, were independent under applicable NASDAQ and SEC rules. Each of our directors other than Mr. Smith is also a “non-employee director” (within the meaning of Rule 16b-3 under the Exchange Act) and an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code and related Treasury Regulations.

Patrick W. Smith is not independent. On March 25, 2022, Mr. McBrady transitioned to non-independent director status and transitioned off of the Audit and Compensation Committees.

In making its independence determinations, the Board considered that Mark Kroll, Ph.D., provides consulting services for the Company. The expenses related to these services, excluding travel reimbursements, were approximately \$0.1 million for the year ended December 31, 2021. At December 31, 2021, the Company had accrued liabilities of \$19,000 relating to these services. The Board determined that these consulting services did not impair Mr. Kroll’s independence because the amount of the fees are not material to Dr. Kroll or the Company and they represent a significant reduction from his standard fees.

### ***Board of Directors’ Role in Risk Oversight***

The Company’s risk management process is intended to ensure that risks are taken knowingly and purposefully. As such, the Company’s executive management keeps the Board apprised by presenting results of the process to identify, assess, prioritize and address strategic, financial, operating, business, compliance, litigation, regulatory, safety, reputational, cybersecurity and other risks to the Company. Executive management meets with the Board on a quarterly basis to address high priority risks and on an as-needed basis to evaluate and monitor emerging risks.

### ***Code of Ethics***

The Company has adopted a Code of Business Conduct and Ethics (“Code of Ethics”) which is applicable to all employees, directors and consultants of the Company. The Company has also adopted a Code of Ethics for Senior Financial Officers which is applicable to the CEO, Chief Financial Officer, Corporate Controller, Director of SEC Reporting and others performing similar functions. A copy of the Company’s Code of Ethics and Senior Financial Officer Code of Ethics are published and available on the investors portion of Company’s website at <http://investor.axon.com/governance/documents-and-charters>. The Company intends to disclose any future amendments or waivers to the Code of Ethics on the Company’s website within four business days following the date of such amendment or waiver, unless required by NASDAQ rules to disclose such event on Form 8-K.

### ***Director Attendance at Annual Meetings of Shareholders***

Directors are encouraged by the Company to attend each annual meeting of shareholders if their schedules permit. All of our directors attended the 2021 Annual Meeting of Shareholders.

## ***Shareholder Communications with Directors***

Shareholders may communicate with members of the Board by mail addressed to the Chairman, or any other individual member of the Board, to the full Board, or to a particular committee of the Board. In each case, such correspondence should be sent to the Company's headquarters at 17800 North 85th Street, Scottsdale, AZ 85255. In general, any shareholder communication about bona fide issues concerning the Company delivered to the Secretary for forwarding to the Board or specified members will be forwarded in accordance with the shareholder's instructions.

## **DIRECTOR COMPENSATION**

Members of the Board who are employees of the Company are not separately compensated for serving on the Board. Board compensation is reviewed periodically by the Company's Compensation Committee. In November 2020, the Compensation Committee approved updated Board compensation levels. Non-employee directors of the Company are paid \$10,000 per quarter and are eligible to receive annual grants of restricted stock units ("RSUs") of the Company's stock with a grant date fair value equal to approximately \$200,000 vesting in equal annual installments over three years. New Board members are eligible to receive an initial grant of RSUs with a grant date fair value equal to approximately \$200,000 in their first year of service vesting in equal annual installments over three years. The Chairman of the Board receives an additional (i) \$5,000 in cash per quarter and (ii) an annual grant of RSUs with a grant date fair value equal to \$20,000 vesting over one year. Board members that provide any special Board advisory consultations in their official capacity as a Board member (other than Board and committee meetings) are paid compensation at the rate of \$2,500 per day or \$1,250 per half day, with no pay for travel days. All directors are reimbursed for reasonable expenses incurred in connection with their attendance at meetings.

In addition, board members serving on committees in either the chair or member capacity receive fees as summarized in the following table:

<b>Committee</b>	<b>Quarterly Chair Fee</b>	<b>Quarterly Member Fee</b>
Audit	\$ 5,000	\$ 2,500
Compensation	2,500	1,500
NCG	2,250	1,250
Merger and Acquisition	2,500	1,500
Scientific and Medical	6,000	2,500
Enterprise Risk and Information Security	2,500	1,500

The annual RSU awards are typically granted on the date of the Company's annual shareholder's meeting. Directors have the option of deferring all or a portion of their cash compensation into a non-qualified deferred compensation plan.

In 2021, the Compensation Committee retained compensation consulting firm Compensia, which provided research, data analyses, benchmarking and design expertise in adjusting compensation for its directors. Compensia provided director compensation data based on its proprietary database for public technology companies with annual sales between \$435 million and \$1.7 billion, with market capitalization of \$2.4 billion to \$37.6 billion. The Committee's compensation philosophy is to generally set director compensation at approximately the 50% benchmark to peers, adjusted every three years. As a result of the 2021 review, the Compensation Committee adjusted certain committee compensation for 2022. Additionally, in light of Proposal No. 1 to declassify the Board of directors and move to annual elections, and consistent with the practice of many peer companies benchmarked by Compensia in the 2021 compensation study, annual RSU awards for non-employee directors granted in 2022 will vest 1 year from the grant date.

The following table summarizes the compensation paid to non-employee directors for the fiscal year ended December 31, 2021.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) (1) (3)	All Other Compensation (\$) (2)	Total (\$)
Adriane Brown	\$ 57,000	\$ 200,014	\$ —	\$ 257,014
Richard H. Carmona	59,000	200,014	—	259,014
Julie A. Cullivan <sup>(4)</sup>	60,000	200,014	—	260,014
Michael Garnreiter	91,000	220,099	—	311,099
Caitlin E. Kalinowski	62,000	200,014	—	262,014
Mark W. Kroll <sup>(4)</sup>	75,000	200,014	114,000	389,014
Matthew R. McBrady	72,000	200,014	—	272,014
Hadi Partovi	61,000	200,014	—	261,014

- (1) Amounts in this column represent the aggregate grant date fair value of RSUs, computed in accordance with stock-based compensation accounting rules (ASC Topic 718). The fair value of each RSU is the closing price of our common stock on the date of grant. Each non-employee director received an award of 1,434 RSUs on May 27, 2021. The awards vest in three equal installments on May 27, 2022, 2023 and 2024. Pursuant to SEC regulations, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. The assumptions used in the calculations of the grant date fair value for stock awards are included in Note 1 to our Consolidated Financial Statements contained in our Annual Report on Form 10-K for fiscal 2021.

The following table shows the aggregate number of outstanding RSUs outstanding for each director as of December 31, 2021.

Name	As of December 31, 2021 Aggregate Restricted Stock Units Outstanding
Adriane Brown	2,623
Richard H. Carmona	3,638
Julie A. Cullivan	3,638
Michael Garnreiter	3,782
Caitlin E. Kalinowski	3,714
Mark W. Kroll	3,638
Matthew R. McBrady	3,638
Hadi Partovi	3,638

- (2) Other compensation for Dr. Kroll represents fees for consulting services provided.
- (3) Pursuant to his service as Chairman of the Board, on May 27, 2021, Mr. Garnreiter received a grant of 144 shares which vest one year from the award date.
- (4) Non-employee directors have the option of participating in the non-qualified deferred compensation plan through which participants may elect to postpone the receipt and taxation of a portion of their compensation. All gains or losses are allocated fully to plan participants and the Company does not guarantee a rate of return on deferred balances. The Company does not make discretionary payments to the plan. There were no above-market returns for participants in the plan. Dr. Kroll and Ms. Cullivan participate in the Company's deferred compensation plan and elected to defer \$75,000 and \$60,000, respectively, of earned compensation into the plan during the year ended December 31, 2021.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company reviews all relationships and transactions in which the Company and its directors, director nominees, executive officers or their immediate family members are participants, to determine whether such persons have a direct or indirect material interest. Management is primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related party transactions and for then determining, based on the facts and circumstances, whether the Company or a related party has a direct or indirect material interest in the transaction. As required under SEC rules, transactions that are determined to be directly or indirectly material to us or a related party are disclosed in our proxy statement.

The Company has a written related party policy which is included within the Audit Committee Charter, wherein the Audit Committee reviews, approves, or ratifies related party transactions in accordance with NASDAQ rules. All proposed transactions in excess of \$120,000 between the Company and its directors, officers, five-percent shareholders and their affiliates should be entered into or approved only if such transactions are on terms no less favorable to the Company than it could obtain from unaffiliated parties, are reasonably expected to benefit the Company and are disclosed to the Audit Committee. The Audit Committee is authorized to consult with independent legal counsel at the Company's expense in determining whether to approve any such transaction.

### SHARE OWNERSHIP

#### OWNERSHIP OF EQUITY SECURITIES OF THE COMPANY

The following table sets forth information, as of March 22, 2022, with respect to beneficial ownership of the Company's common stock by each current director or nominee for director, by each of our named executive officers (as defined by Item 402(a)(3) of Regulation S-K)(the "NEOs"), by all directors and executive officers as a group, and by each person who is known to the Company to be the beneficial owner of more than five percent of the Company's outstanding common stock. The Company believes that, except as otherwise described below, each named beneficial owner has sole voting and investment power with respect to the shares listed.

<u>Name of Beneficial Owner <sup>(1)</sup></u>	<u>Shares Owned</u>	<u>Shares Acquirable Within 60 Days (2)</u>	<u>Total Beneficial Ownership</u>	<u>Percent of Class (3)</u>
BlackRock, Inc. <sup>(4)</sup>	7,366,629	—	7,366,629	10.4 %
The Vanguard Group <sup>(5)</sup>	5,966,578	—	5,966,578	8.4
Baillie Gifford & Co <sup>(6)</sup>	4,598,695	—	4,598,695	6.5
Patrick W. Smith	2,208,480	1,376,981	3,585,461	5.0
Hadi Partovi	362,173	—	362,173	*
Michael Garnreiter	27,446	—	27,466	*
Richard H. Carmona	15,524	—	15,524	*
Mark W. Kroll	11,119	—	11,119	*
Julie A. Cullivan	4,411	—	4,411	*
Caitlin Kalinowski	3,043	—	3,043	*
Matthew R. McBrady	1,699	—	1,699	*
Adriane Brown	1,094	—	1,094	*
Jawad A. Ahsan <sup>(7)</sup>	314,927	11,112	326,039	*
Luke S. Larson	256,920	—	256,920	*
Joshua M. Isner	205,079	—	205,079	*
Jeffrey C. Kunins	178,328	—	178,328	*
All directors and executive officers as a group (13 persons)	3,590,243	1,388,093	4,978,356	6.9 %

\* Less than 1%

- (1) Except as noted in Notes 4, 5, 6, and 7 below, the address of each of the persons listed is c/o Axon Enterprise, Inc., 17800 North 85th Street, Scottsdale, AZ 85255.
- (2) Reflects the number of shares that could be purchased by exercise of options exercisable at March 22, 2022, of options or restricted stock units vesting within 60 days thereafter under the Company's stock incentive plans.
- (3) Based on 70,995,368 shares outstanding as of March 22, 2022. For purposes of computing the percentage of outstanding shares held by each person or group of persons named above, any security which such person or group has the right to acquire within 60 days of March 22, 2022, is deemed to be outstanding for the purpose of computing the percentage ownership of such person or group, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person or group.
- (4) Represents shares of the Company's common stock beneficially owned as of December 31, 2021, based on the Schedule 13G/A filed on January 27, 2022 by BlackRock, Inc. In such filing, BlackRock, Inc. lists its address as 55 East 52nd Street, New York, New York 10055, and indicates it has sole voting power with respect to 6,997,869 shares of the Company's common stock, shared voting power with respect to no shares of the Company's common stock, sole dispositive power with respect to 7,366,629 shares of the Company's common stock, and shared dispositive power with respect to no shares of the Company's common stock.
- (5) Represents shares of the Company's common stock beneficially owned as of December 31, 2021, based on the Schedule 13G/A filed on February 9, 2022 by The Vanguard Group. In such filing, The Vanguard Group lists its address as 100 Vanguard Blvd., Malvern, PA 19355, and indicates it has sole voting power with respect to no shares of the Company's common stock, shared voting power with respect to 38,938 shares of the Company's common stock, sole dispositive power with respect to 5,869,856 shares of the Company's common stock, and shared dispositive power with respect to 96,722 shares of the Company's common stock.
- (6) Represents shares of the Company's common stock beneficially owned as of December 31, 2021, based on the Schedule 13G/A filed on January 12, 2021 by Baillie Gifford & Co. In such filing, Baillie Gifford & Co lists its address as Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, Scotland, United Kingdom, and indicates it or one or more of its investment advisor subsidiaries including Baillie Gifford Overseas Limited, it has sole voting power with respect to 3,719,840 shares of the Company's common stock, shared voting power with respect to no shares of the Company's common stock, sole dispositive power with respect to 4,598,695 shares of the Company's common stock, and shared dispositive power with respect to no shares of the Company's common stock.
- (7) Includes 56,679 vested shares pledged to a financial institution.

#### **DELINQUENT SECTION 16(a) REPORTS**

Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and persons who beneficially own more than 10 percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC. Executive officers, directors and greater than 10 percent beneficial owners are required by SEC regulations to furnish the Company with copies of all forms they file pursuant to Section 16(a). Based solely on a review of the copies of Section 16(a) reports furnished to the Company and written representations from certain reporting persons that no other reports were required, to the Company's knowledge, such persons complied with all of the Section 16(a) filing requirements applicable to them in 2021.

## **EXECUTIVE COMPENSATION**

### **EXECUTIVE OFFICERS**

See “Governance--The Board of Directors” for biographical information for Patrick W. Smith, who is also our CEO.

#### **Luke S. Larson**

**Title: President**

**Joined Axon in 2008**

**Age: 40**

Mr. Larson serves as Axon’s President. Mr. Larson is responsible for day to day operations and execution for all aspects of the Company’s business. Mr. Larson joined Axon in June of 2008 and has served in a variety of executive and management roles including director of video products, product manager and product development manager. Prior to joining Axon, Mr. Larson served as a Marine Corps infantry officer. Mr. Larson graduated from University of Arizona with honors where he was an NROTC Scholarship recipient. He also received an MBA in International Business from Thunderbird School of Global Management.

#### **Jawad A. Ahsan**

**Title: Chief Financial Officer**

**Joined Axon in 2017**

**Age: 42**

Mr. Ahsan joined Axon in 2017 and is responsible for leading the company’s global finance, corporate strategy, legal and IT organizations, as well as Axon’s consumer-facing business. Prior to Axon, Mr. Ahsan was CFO for Market Track, private-equity backed SaaS company that he helped guide to an exit to Vista Equity. He spent 13 years in various roles at GE, most notably serving as CFO for GE Healthcare’s electronic health record and enterprise software solutions. Mr. Ahsan gained substantial international experience while at GE, working across more than 20 countries in several industries including healthcare, aviation, financial services, and film & entertainment. Mr. Ahsan is a graduate of GE’s Corporate Audit Staff and Financial Management leadership development programs. He earned his MBA from the MIT Sloan School of Management and a BA in Economics from the College of the Holy Cross.

#### **Joshua M. Isner**

**Title: Chief Revenue Officer**

**Joined Axon in 2009**

**Age: 36**

Mr. Isner came to Axon in 2009 as a member of our Leadership Development Program. After rotating through several departments in the Company, he eventually helmed our domestic video and cloud sales team, which he led to a record year in 2014. Mr. Isner now oversees our entire sales organization. Mr. Isner was previously the Director of Leadership Development, Northeast Regional Sales Executive, VP of Video and Cloud Sales, and EVP of Global Sales at Axon. Mr. Isner has a B.S. in Government & Political Science from Harvard University.

#### **Jeffrey C. Kunins**

**Title: Chief Product Officer and Executive Vice President of Software**

**Joined Axon in 2019**

**Age: 47**

Mr. Kunins joined the Company in September 2019. Most recently, he served as Vice President of Alexa Entertainment at Amazon from February 2018 until joining Axon. Mr. Kunins served as the Vice President of Kindle at Amazon from

March 2014 to February 2018. Prior to Amazon, Mr. Kunins served as General Manager (GM) of Product and Design at Skype, GM of Windows Live Messenger at Microsoft, and VP of Product at TELLME Networks, Inc. Mr. Kunins has a B.S. in Information & Decision Systems from Carnegie Mellon University.

Each executive officer serves at the discretion of our Board of Directors and no officer is subject to an agreement that requires the officer to serve the Company for a specified number of years. We have entered into employment-related agreements with each of the executive officers listed above. These agreements require notice of termination by the Company in certain situations that are described in further detail in this proxy statement under the heading “Compensation Discussion and Analysis--Employment Agreements and Other Arrangements.”

## COMPENSATION DISCUSSION AND ANALYSIS

The purpose of this Compensation Discussion and Analysis is to provide material information about our compensation objectives and policies and to explain and provide context for the material elements of the disclosure which follows in this proxy statement with respect to the compensation of our named executive officers (“NEOs”).

### *Fiscal 2021 Company Highlights and Compensation Overview*

Our financial and business highlights for fiscal 2021 include the following:

- Full year revenue of \$863 million, up 27% compared to fiscal 2020.
- Our investments for scale are expanding our total addressable market along three axes — introducing new products, selling into new customer market segments, and adding sales channels to new geographic regions. Our updated estimate points to a \$52 billion total addressable market.
- New product bookings more than doubled over 2020, led by software services such as Axon Records, Respond, AI-enabled transcription, AI-enabled automated license plate reading, and by demand for our Virtual Reality training powered by AI.
- We acquired Occam Video Solutions, LLC, a provider of forensic video solutions software, in December 2021.
- We attained the second through tenth operational goals under our CEO Performance Award and eXponential Stock Performance Plan, which are described below.

As described in more detail below and in the compensation tables that follow this Compensation Discussion and Analysis, our compensation structure applicable to our named executive officers did not change significantly during 2021.

### *Our Compensation Philosophy*

The Compensation Committee (in this section, the “Committee”) is in place to address matters relating to the fair and competitive compensation of our NEOs and non-employee directors, together with matters relating to our other benefit plans. The Committee believes that executive compensation should be aligned with the values, objectives and financial performance of the Company.

Objectives of NEO compensation include:

- Attract and retain highly qualified individuals who are capable of making significant contributions critical to our long-term success;
- Promote a performance-oriented environment that encourages Company and individual achievement;
- Reward NEOs for long-term strategic management and the enhancement of shareholder value;
- Strengthen the relationship between pay and performance by emphasizing variable, at-risk compensation that is dependent upon the achievement of specified corporate and personal performance goals; and
- Align long-term management interests with those of shareholders, including long-term at-risk pay.

### *Our Compensation Programs*

#### *CEO Performance Award*

On May 24, 2018, Axon’s shareholders approved the Board of Directors’ grant of non-qualified stock options to purchase 6,365,856 shares of common stock to Patrick W. Smith (the “CEO Performance Award”). The CEO Performance Award consists of 12 vesting tranches with a vesting schedule based entirely on the attainment of both operational goals (performance conditions) and market capitalization goals (market conditions), assuming continued employment either as the CEO or as both Executive Chairman and Chief Product Officer and service through each vesting date. Each of the 12 vesting tranches of the CEO Performance Award have a 10-year contractual term and will vest upon certification by the Board of Directors that both (i) the market capitalization goal for such tranche, which begins at \$2.5 billion for the first tranche and increases by increments of \$1.0 billion thereafter, and (ii) any one of the following eight operational goals

focused on revenue or eight operational goals focused on Adjusted EBITDA have been met for the previous four consecutive fiscal quarters. The CEO Performance Award specifies a post-exercise holding period of 2.5 years.

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

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

The first ten market capitalization goals have been achieved as of December 31, 2021. As of December 31, 2021, 5.3 million stock options have been certified by the Compensation Committee and vested. The number of stock options that would vest related to the remaining two probable tranches is approximately 1.1 million shares.

The fair value of the options when the CEO Performance Award was approved by our Board and accepted by Mr. Smith in February 2018 was approximately \$72.4 million. Due to a significant increase in the price of Axon's common stock between February 2018 and May 2018, when our shareholders approved the CEO Performance Award, the grant date fair value for accounting purposes increased to \$246.0 million.

Mr. Smith's compensation for 2021, 2020, and 2019 consists of an annual base salary consistent with minimum wage requirements and the CEO Performance Award.

#### *eXponential Stock Performance Plan*

On February 12, 2019, our shareholders approved the 2019 Stock Incentive Plan (the "2019 Plan"), which was adopted by the Board of Directors to reserve a sufficient number of shares to facilitate our eXponential Stock Performance Plan ("XSPP") and grants of eXponential Stock Units ("XSUs") under the plan. There were five main reasons why the Board recommended that shareholders approve the 2019 Plan. The XSPP and equity incentive awards under the 2019 Plan:

1. Substitute short-term guaranteed share-based compensation and cash compensation for long-term, performance-vesting share-based compensation to deliver market competitive total pay,
2. Align the entire Company around clearly defined market cap, revenue and Adjusted EBITDA performance goals through a broad-based plan that is offered to every employee,
3. Strengthen Axon's ability to retain and recruit top technical talent,
4. Further align the interests of employees with those of the Company's other shareholders, and
5. Incorporated shareholder feedback and input on plan design.

Pursuant to the XSPP, all eligible full-time U.S. employees were granted an award of 60 XSUs in January 2019, and certain employees had the opportunity to elect to receive a percentage of the value of their target compensation over a nine year period from 2019 to 2027 in the form of additional XSUs. For employees who elected to receive XSUs, the XSU grants were made as an up front, lump sum grant in January 2019, and are intended to replace that portion of the target compensation they elected to receive in the form of XSUs for the next nine years. Accordingly, their annual go forward

target compensation has been reduced until 2027 by the amount of such compensation that the employees elected to receive in the form of the January 2019 XSU grants.

Other than Mr. Smith, each of the NEOs received an XSU grant with a target value of \$1,000,000 prior to a 3x risk multiplier and a 9x time multiplier. The number of shares granted was based on the closing stock price on the respective grant dates. Messrs. Ahsan, Isner, and Larson each received an XSU grant of 598,537 shares on January 2, 2019. Mr. Kunins received an XSU grant of 432,000 shares on September 23, 2019. There have been no performance share units (“PSUs”) granted to the named executive officers in 2019, 2020, or 2021, as XSUs are intended to generally replace shorter-term PSUs.

The XSUs are grants of restricted stock units, each with a term of approximately nine years, that vest in 12 equal tranches. Each of the 12 tranches will vest upon certification by the Compensation Committee of the Board of Directors that both (i) the market capitalization goal for such tranche, which begins at \$2.5 billion for the first tranche and increases by increments of \$1.0 billion thereafter, and (ii) any one of eight operational goals focused on revenue or eight operational goals focused on Adjusted EBITDA have been met for the previous four consecutive fiscal quarters. Awards under the XSPP specify a holding period of at least 2.5 years from the date that both the operational goal and market capitalization goal were attained (the “Goal Attainment Date”).

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

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

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

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

The first nine market capitalization goals have been achieved as of December 31, 2021. The tenth market capitalization goal has not yet been attained, though the related operational goal was achieved as of September 30, 2021. The first XSU tranche vested in March 2021, the second and third tranches vested in May 2021, five tranches vested in September 2021, and one tranche vested in December 2021. The total number of XSU awards that would vest related to the remaining three tranches is approximately 1.3 million shares.

Axon’s shareholder outreach prior to introducing the XSPP included speaking with portfolio managers, analysts and corporate governance representatives at institutions that were among the highest percentage holders of Axon common stock for the purpose of gathering input and understanding best practices and shareholder preferences regarding share-based compensation plans. Shareholders tended to favor broad-based employee-wide plans over highly concentrated plans among senior management, and favor using performance-based share-based compensation, rather than cash, in delivering market-competitive total pay. Axon addressed shareholders’ dilution concerns by adopting into the XSPP the XSU Maximum described above, which removes any management incentive to dilute the value by increasing the share count to achieve the market capitalization goals. We credit our shareholder outreach efforts in helping us to design an employee-wide share-based compensation plan that drives alignment among shareholders, senior management and every employee.

### *Other Executive Compensation*

We utilize various non-cash compensation programs, in addition to traditional cash-based compensation methods. Specifically, we have utilized stock-based awards.

The principal components of compensation in 2021 and 2022 for our NEOs (other than the CEO) consist of the following:

- Annual salary;
- Annual performance-based cash incentive plans, comprised of:
  - Commissions on a combination of revenue growth and new product and new market bookings growth for 2021 and 2022 for our Chief Revenue Officer; and
  - Payouts under the 2021 annual cash incentive plan based on the achievement of annual operational and financial goals;
- Long-term equity compensation in the form of service-based RSUs awarded pursuant to the 2019 Stock Incentive Plan and the 2019 Stock Inducement Plan; and
- Long-term equity compensation in the form of XSUs subject to certain milestone vesting periods.

Any decision to materially increase compensation is based upon the objectives listed above, taking into account all forms of compensation, as well as based upon individual achievement of performance goals. These goals include revenue and earnings targets as well as specific operational goals. Decisions regarding the CEO's compensation are made by the Committee and reflect the same considerations used for the other NEOs. The Board has not adopted any clawback policies, but adopted stock ownership guidelines in December 2018.

### ***Stock Ownership Guidelines***

The stock ownership guidelines require that non-employee directors hold Company stock equivalent to five times the dollar value of their base cash compensation; for 2021, this equates to \$200,000. New non-employee directors have up to three years to meet this requirement. If a director falls below this requirement, he or she is not allowed to sell shares until the requirement is met. Named executive officers are required to own at least 50,000 shares of the Company's stock. For purposes of these guidelines, stock ownership includes shares for which the executive or director has direct or indirect ownership or control, including Axon common stock plus vested and unvested Axon stock options and RSUs, including unvested performance-based RSUs and XSUs. Executives are expected to meet their ownership guidelines once they have received enough grants to add up to the required minimum.

### ***Policy Regarding Hedging Transactions***

The Company's Insider Trading Policy, which applies to all employees and directors, prohibits hedging and similar transactions designed to decrease the risks associated with holding Company securities.

### **Processes and Procedures for Considering and Determining Executive Compensation**

The Committee assists the Board of Directors in addressing matters relating to the fair and competitive compensation of our NEOs and non-employee directors, together with matters relating to our other benefit plans. The Committee is currently composed of three independent directors: Hadi Partovi (Chair), Adriane Brown, and Michael Garnreiter. In addition, during 2021, Matthew R. McBrady served on the Committee. The Committee makes the sole decision regarding compensation for the Chief Executive Officer and each NEO.

The Committee met four times in 2021.

Members of management also attended the meetings. The agendas for these meetings were determined by the Committee members prior to the meetings. The Committee generally receives and reviews materials in advance of each meeting. Depending on the agenda for the particular meeting, materials may include:

- Financial reports;
- Reports on levels of achievement of corporate performance objectives;
- Schedules setting forth the total compensation of the NEOs, including base salary, cash incentives, equity awards, perquisites and other compensation and any potential amounts payable to the NEOs pursuant to employment, severance and change of control agreements;
- Summaries which show the NEOs' total accumulated stock awards and stock option holdings;
- Information regarding compensation paid by comparable companies identified in executive compensation surveys; and
- Reports from consultants to the Committee.

The Committee's primarily responsibilities are to:

- Review and approve corporate goals and objectives relevant to the compensation of NEOs, evaluate the performance of the NEOs in light of these goals and objectives and determine and approve the compensation level of NEOs based on that evaluation;
- Evaluate and establish the incentive components of the CEO's compensation and related bonus awards, taking into account the Company's performance and relative shareholder return, the value of similar incentive awards to CEOs at comparable companies, the services rendered by the CEO and the awards given to the CEO in past years;
- Review and approve the design of the compensation and benefit plans that pertain to the CEO and other NEOs who report directly to the CEO;
- Administer equity-based plans, including stock incentive plans;
- Approve the material terms of all employment, severance and change of control agreements for NEOs;
- Retain compensation consultants and advisors as necessary, or appropriate, on an advisory basis to establish comparator groups, benchmarking and targets for compensation related matters;
- Recommend to the Board the compensation for Board members, such as retainers, committee fees, chair fees, stock awards and other similar items;
- Provide oversight regarding the Company's benefit and other welfare plans, policies and arrangements;
- Form and delegate authority to subcommittees when appropriate; and
- Prepare the Compensation Committee report to be included in the Company's annual proxy statement and Annual Report on Form 10-K filed with the SEC.

The Committee's charter reflects these responsibilities, and the Committee and the Board periodically review and revise the charter. The full text of the Committee charter is available on our website at <http://investor.axon.com/governance/documents-and-charters>.

### ***Role of Management and Consultants in Determining Executive Compensation***

Our executive management supports the Committee in carrying out its responsibilities by preliminarily outlining compensation levels for NEOs, administering our benefit and other welfare plans and providing data to the Committee for analysis. Annually, compensation is initially proposed by the CEO for each executive (excluding the CEO), consisting of base salary, annual and long-term performance-based compensation and long-term equity compensation, which is then provided to the Committee for review and approval.

Our Committee has sole authority to engage the services of outside consultants and advisors, as it deems necessary or appropriate in the discharge of its duties and responsibilities. The Committee has budgetary authority to authorize and pay for the services of outside consultants and advisors, and such consultants and advisors report directly to the Committee.

In 2021, the Committee retained compensation consulting firm Compensia, which provided research, data analyses, benchmarking and design expertise in adjusting compensation for its NEOs and directors. Compensia provided executive compensation data for each NEO role based on its proprietary database for public technology companies with annual sales between \$435 million and \$1.7 billion, with market capitalization of \$2.4 billion to \$37.6 billion.

The Committee's compensation philosophy is to generally set executive and director compensation at approximately the 50% benchmark to peers, and engage a compensation consulting firm to provide research, data analyses, benchmarking and design expertise in reviewing and structuring compensation programs for its executives every three years, which practice began in 2018. Compensation generally stays flat in the interim years between compensation studies although adjustments may be made if appropriate based on individual performance, company performance, relative shareholder returns and other relevant considerations.

### ***Peer Comparator Group***

The scope of Compensia's review in 2021 included determining an appropriate comparator group to compare the Company's executive compensation to, based primarily on the following criteria: technology industry sector code, revenue, and market capitalization. Compensia selected public technology companies with annual sales between \$435 million and \$1.7 billion, with market capitalization of \$2.4 billion to \$37.6 billion.

The Committee has selected the following comparator group when reviewing executive compensation for 2021:

Alarm.com Holdings, Inc.	Fair Isaac Corporation	Pegasystems Inc.
Alteryx, Inc.	Guidewire Software, Inc.	PTC Inc.
Aspen Technology, Inc.	HEICO Corporation	Tyler Technologies Inc.
Avalara, Inc.	MongoDB, Inc.	Zendesk, Inc. (fka "J2 Global, Inc.")
Coupa Software Incorporates	Nutanix, Inc.	
Dynatrace, Inc.	Paycom Software, Inc.	
Elastic N.V.	Paylocity Holding Corporation	

In addition to the comparator group, to supplement the executive compensation information where publicly disclosed information was limited, Compensia provided executive compensation information for the NEOs based on its proprietary database for technology companies, primarily internet and software as a service companies, with revenues between \$435 million and \$1.7 billion, and with market capitalization of \$2.4 billion to \$37.6 billion.

The following tables show the composition of each NEO's total target direct compensation for 2021 and 2022:

2021 Name	Annual Salary (1)		Annual Target Incentive Compensation (2)		Long-term Target Incentive Compensation-- XSUs (3)		Long-term Equity Compensation--RSUs (4)		Target Total Direct Compensation
	\$	% Total	\$	% Total	\$	% Total	\$	% Total	\$
Patrick W. Smith	\$ 31,200	100.0 %	\$ —	— %	\$ —	— %	\$ —	— %	\$ 31,200
Luke S. Larson	350,000	15.5	305,000	13.5	1,000,000	44.4	600,000	26.6	2,255,000
Jawad A. Ahsan	325,000	15.1	330,000	15.3	1,000,000	46.4	500,000	23.2	2,155,000
Joshua M. Isner	325,000	15.9	500,000	24.4	1,000,000	48.7	225,000	11.0	2,050,000
Jeffrey C. Kunins <sup>(5)</sup>	300,000	13.6	300,000	13.6	1,000,000	45.5	600,000	27.3	2,200,000

(1) Annual salary effective January 1, 2021.

(2) Presented at target levels. Actual results for 2021 were above targets, resulting in payouts under the annual cash incentive plan for Messrs. Larson, Ahsan, and Kunins in the amounts of approximately \$448,000, \$484,000, and \$440,000, respectively. Mr. Isner earned commissions in 2021 of approximately \$2,129,000. See further discussion following under “Annual Performance-Based Incentive Plans.”

(3) Represents XSUs granted to Messrs. Larson, Ahsan, and Isner on January 2, 2019 and to Mr. Kunins on September 23, 2019 which are discussed in more detail under “Executive Compensation — Compensation Discussion and Analysis — Our Compensation Programs — eXponential Stock Performance Plan”. The grants had a target value of \$1,000,000 prior to risk and time multipliers and were granted in 2019 in lieu of traditional performance-based RSUs. This amount is reflected above to represent the amount of 2021 target compensation that the executives elected to receive over nine years (2019 to 2027) in the form of XSUs. For purposes of the Summary Compensation Table, these amounts were reported as compensation in 2019 and are not reported as compensation in 2021.

(4) Reflects the value of RSUs awarded in December 2020, which are intended as 2021 compensation awards.

2022 Name	Annual Salary		Annual Target Incentive Compensation		Long-term Target Incentive Compensation-- XSUs (1)		Long-term Equity Compensation--RSUs (2)		Target Total Direct Compensation
	\$	% Total	\$	% Total	\$	% Total	\$	% Total	\$
Patrick W. Smith	\$ 31,201	100.0 %	\$ —	— %	\$ —	— %	\$ —	— %	\$ 31,201
Luke S. Larson	350,000	9.1	500,000	13.0	1,000,000	26.0	2,000,000	51.9	3,850,000
Jawad A. Ahsan	350,000	8.0	500,000	11.5	1,000,000	23.0	2,500,000	57.5	4,350,000
Joshua M. Isner <sup>(3)</sup>	350,000	9.0	800,000	20.8	1,000,000	26.0	1,700,000	44.2	3,850,000
Jeffrey C. Kunins	300,000	9.2	300,000	9.2	1,000,000	30.8	1,650,000	50.8	3,250,000

- (1) Represents XSUs granted to Messrs. Larson, Ahsan, and Isner on January 2, 2019 and to Mr. Kunins on September 23, 2019 which are discussed in more detail under “Executive Compensation — Compensation Discussion and Analysis — Our Compensation Programs — eXponential Stock Performance Plan”. The grants had a target value of \$1,000,000 prior to risk and time multipliers and were granted in 2019 in lieu of traditional performance-based RSUs. This amount is reflected above to represent the amount of 2021 target compensation that the executives elected to receive over nine years (2019 to 2027) in the form of XSUs. For purposes of the Summary Compensation Table, these amounts were reported as compensation in 2019.
- (2) Reflects the grant date value of RSUs vesting in 2022, which were granted in December 2021.
- (3) The annual target incentive compensation for Mr. Isner reflects target commission of \$500,000 based on a combination of revenue growth and new product, new market, and international bookings growth for 2022 and \$300,000 for other non-variable cash compensation.

### ***Annual Salary***

Salaries for NEOs are reviewed annually, as well as at the time of a promotion or other changes in responsibilities. Consistent with our goal for overall compensation, we set salaries at a competitive level to ensure we can attract and retain our executives. There is no set percentile of market that we use and executive salaries vary in their positioning to market depending on facts; such as, tenure with the Company, results of personal, department and corporate performance, complexity and scope of the executive’s responsibilities, and the perceived detrimental effects to the Company that may result from such executive’s departure. The base salaries of our NEOs, other than the CEO, were proposed by the CEO, established by the Committee and approved by the independent directors after considering compensation salary trends, overall level of responsibilities, total performance and compensation levels for comparable positions in the market for executive talent based on salary surveys and compensation data from comparator group companies. After considering the above, the Committee adjusted the base salaries of Messrs. Ahsan and Isner to \$350,000 for 2022.

### ***Annual Performance-Based Incentive Plans***

The objective of the annual cash incentive plan has been to provide executives with a competitive total compensation opportunity, as well as to align executive rewards with company performance.

### **2021 Structure**

The 2021 executive compensation structure included: payments under the annual cash incentive plan, and for Mr. Isner, revenue and bookings-based commissions, paid quarterly. Each component was designed to incentivize specific Company business goals.

Payouts under the 2021 annual cash incentive plan were based on the achievement of the following annual financial goals and operational metrics: revenue, adjusted EBITDA, new product and market bookings, new product adoption, net revenue retention, return rate reduction, and net promoter score.

The Committee believed the criteria for the annual cash incentive plan were challenging, but achievable.

Sales commissions were earned based upon specific sales targets for Mr. Isner.

2021 Performance - Based Cash Incentive Plans Metrics						
Metric	Threshold	Target	Maximum	Actual	Weight	Weighted Payout
	(\$ in millions)					
Revenue	\$ 694.0	\$ 760.0	\$ 816.0	\$ 863.4	35.0 %	52.5 %
Adjusted EBITDA	120	130	150	178.1	20.0	30.0
New Product/Market Bookings	182.0	243.0	313.0	439.0	20.0	30.0
New Production Adoption	193,000	227,000	262,000	320,979.0	5.0	7.5
Net Revenue Retention	110.0 %	118.0 %	125.0 %	119.0 %	7.5	8.0
Return Rate Reduction	1.77 %	1.33 %	0.91 %	0.78 %	7.5	11.3
Net promoter score	60	63.0	65.0	67.0	5.0	7.5
Actual attainment/plan payout					100 %	146.8 %

The 2021 performance-based cash incentive plan metrics were measured and paid after the Company determined its annual earnings for 2021. The revenue, adjusted EBITDA, new product and market bookings, new product adoption, net revenue retention, return rate reduction, and net promoter score metrics each have a threshold, target and maximum goal with corresponding base payouts of 56.25%, 100% and 150% of target, respectively. The weighted payout for the 2021 annual cash incentive plan is capped at a 150% payout. The weighted average payout achieved under the 2021 performance-based cash incentive plan was 146.8%.

Payouts under the 2021 annual cash incentive plan for Mr. Isner were based on growth of total revenue and new product and new market bookings for 2021 as compared to 2020, and totaled approximately \$2,129,000.

#### ***Other Long-Term Performance-Based Equity Compensation***

Beginning in 2018, the Company discontinued its long-term performance-based RSU grants to NEOs. Instead, NEOs now participate in the CEO Performance Award (for Mr. Smith) or the XSPP. The CEO Performance Award and XSPP are each an incentive for future performance in the form of a high-risk, high-reward compensation plan, and the value is realizable only if and when each set of market capitalization and operational goals are achieved and the options or shares vest associated with each tranche. The grant was intended to compensate the NEOs over an extended term and will become vested as to all options or shares subject to each grant only if our market capitalization increases to \$13.5 billion and twelve operational goals are achieved during the ten year term of the award. If any portion of the awards have not vested by the end of the term of the award, they will be forfeited and the NEO will not realize the related value. The first set of vesting milestones (a market capitalization goal paired with an operational goal) for the CEO Performance Award and the XSPP were achieved as of December 31, 2020, and were certified by the Committee in March 2021. As of December 31, 2021, nine milestones were achieved and certified by the Compensation Committee for the XSPP and ten milestones were achieved and certified by the Compensation Committee for the CEO Performance Award.

For additional discussion of the CEO Performance Award and the XSPP, see “Executive Compensation — Compensation Discussion and Analysis — Our Compensation Programs — CEO Performance Award” and “— eXponential Stock Performance Plan” above.

#### ***Long-Term Service-Based Equity Compensation — RSUs***

The Committee believes that service-based equity compensation with multi-year vesting periods ensures that our NEOs have a continuing stake in our long-term success. For 2021, the Committee granted RSUs on November 30, 2020 which

vest in equal annual installments over a three-year service period. For 2022, the Committee granted RSUs in December 2021, which have various vesting schedules.

In determining the total number of RSUs to award to each NEO, the Committee considered, among other things, the strategic objectives of the Company over the next three years, and the practice of comparator group companies. The following table sets forth the service-based RSU awards made to our continuing NEOs in November 2020 (for 2021) and in December 2021 (for 2022).

Named Executive	2021 Awards		2022 Awards <sup>(1)</sup>	
	Number of Service-based RSUs Awarded	Approximate Grant Date Fair Value	Number of Service-based RSUs Awarded	Approximate Grant Date Fair Value
Patrick W. Smith	—	—	—	—
Luke S. Larson	4,774	600,000	21,337	3,400,264
Jawad A. Ahsan	3,979	500,000	29,245	4,500,251
Joshua M. Isner	1,791	225,000	20,930	3,175,172
Jeffrey C. Kunins	4,774	600,000	18,050	2,700,451

- <sup>(1)</sup> For each of Messrs. Ahsan, Isner, and Kunins, 13,556 shares are related to RSUs that will vest over two to three years if a successor plan to the XSPP is not approved by shareholders, or if it is approved by shareholders, but the NEO does not elect to participate at the maximum amount specified by the Compensation Committee. The remaining shares awarded as 2022 compensation vest over two to three years. These awards were granted in December 2021 as part of the Company's annual award cycle and are intended as 2022 compensation. If a successor plan to the XSPP is approved by shareholders and the NEO elects to participate, this service-based RSU will be reduced by the amount of such election, thereby effectively replacing the service-based equity compensation with performance-based equity compensation. The Committee structured these grants in this manner in order to limit total target direct compensation to the levels identified above.

### ***Employment Agreements and Other Arrangements***

In June 2019, the Company entered into revised employment agreements with Jawad A. Ahsan, Luke S. Larson, and Joshua M. Isner pursuant to their continued service. The fundamental terms and provisions of each executive's agreement are substantially similar to the terms and provisions of each executive's previously existing executive employment agreement except as follows: under the agreements, (1) the executives are no longer entitled to severance benefits following a resignation for good reason, except following Change in Control [as defined in the Company's 2019 Stock Incentive Plan (or any successor equity incentive plan adopted by the Company in the future)]; (2) following a termination without cause and the terminated executive's execution of a customary release, the terminated executive will be entitled only to continued vesting of unvested time-based RSUs scheduled to vest during the notice and severance period (one year) versus acceleration of all unvested equity awards; (3) following termination without cause and the terminated executive's execution of the customary release, the terminated executive will be entitled to a full year target annual bonus or full year target annual sales commission for the year in which the termination becomes effective, versus a prorated bonus for the year in which the termination occurs; and (4) following termination without cause and the terminated executive's execution of the customary release, a portion of the terminated executive's XSUs may be entitled to accelerated vesting. In September 2019, the Company entered into an employment agreement with Jeffrey C. Kunins with the same terms.

Mr. Smith's employment agreement terminated following shareholder approval of the CEO Performance Award on May 24, 2018 and the Company has no further obligations thereunder.

### ***Perquisites and Other Personal Benefits***

We have a non-qualified deferred compensation plan for certain executives, key employees and non-employee directors through which participants may elect to postpone the receipt and taxation of a portion of their compensation received from us. The non-qualified deferred compensation plan allows eligible participants to defer up to 80% of their base salary and up to 100% of other types of compensation. The plan also allows for matching and discretionary employer

contributions. Employee deferrals are deemed 100% vested upon contribution. Distributions from the plan generally commence upon retirement, death, separation of service, specified date or upon the occurrence of an unforeseeable emergency. Distributions can be paid in a variety of forms from lump sum to installments over a period of years. Participants in the plan are entitled to select from a wide variety of investments available under the plan and are allocated gains or losses based upon the performance of the investments selected by the participant. All gains or losses are allocated fully to plan participants and we do not guarantee a rate of return on deferred balances. Assets related to this plan consist of corporate-owned life insurance contracts. Participants have no rights or claims with respect to any plan assets and any such assets are subject to the claims of our general creditors.

We do not provide our NEOs with other significant perquisites or other benefits, except for Company matching contributions to our defined contribution benefit plans and health care benefits that are widely available to employees. The Committee periodically reviews the levels of perquisites and other benefits that could be provided to the NEOs.

### **COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis included in this proxy statement. Based on these reviews and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference in our 2021 Annual Report on Form 10-K.

The Compensation Committee:

Hadi Partovi, Chair

Adriane Brown

Michael Garnreiter

*The foregoing Compensation Committee Report will not be deemed to be incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 (the "Securities Act") or under the Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and will not otherwise be deemed filed under such Acts.*

### **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

No member of the Compensation Committee is, or was during or prior to fiscal 2021, an officer or employee of the Company or any of its subsidiaries. None of the Company's executive officers serves as a director or member of the compensation committee of another entity in a case where an executive officer of such other entity serves as a director or member of the Compensation Committee.

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$) (1)	Non-Equity Incentive Plan Compensation (\$) (2)	All Other Compensation (\$) (3)	Total (\$)
Patrick W. Smith Chief Executive Officer	2021	\$ 31,201 <sup>(4)</sup>	\$ —	\$ —	\$ —	\$ 1,914	\$ 33,115
	2020	25,004 <sup>(4)</sup>	—	2,531,425	—	2,963	2,559,392
	2019	22,880 <sup>(4)</sup>	—	2,040	—	13,609	38,529
Luke S. Larson President	2021	350,000	—	4,576,981	447,696	30,312	5,404,989
	2020	350,000	—	1,612,573	293,238	34,754	2,290,565
	2019	325,000	50,000	21,134,307	301,146	28,110	21,838,563
Jawad A. Ahsan Chief Financial Officer	2021	325,000	—	5,636,410	484,393	3,766	6,449,569
	2020	325,000	—	1,512,650	317,274	13,885	2,168,809
	2019	300,000	—	20,959,354	301,146	15,000	21,575,500
Joshua M. Isner Chief Revenue Officer	2021	325,000	—	4,306,786	2,129,101	29,985	6,790,872
	2020	325,000	—	900,063	738,134	35,419	1,998,616
	2019	275,000	270,193	20,309,338	1,304,250	231,113	22,389,894
Jeffrey C. Kunins Chief Product Officer and EVP of Software	2021	300,000	—	3,138,455	440,357	12,665	3,891,477
	2020	300,000	—	600,044	288,518	12,223	1,200,785
	2019	81,923	—	20,742,720	—	2,131	20,826,774

- (1) The amounts in this column reflect the aggregate grant date fair value for RSUs computed in accordance with stock-based accounting rules (ASC Topic 718). Pursuant to SEC regulations, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Assumptions included in the calculation of these amounts are included in footnote 1 to our financial statements for the fiscal year ended December 31, 2021 within our Annual Report on Form 10-K filed with the SEC.

On March 8, May 17, and September 9, 2021, the Compensation Committee approved a modification to release the holding period requirements for certain shares from vested XSUs for each XSPP participant who is an Arizona resident to satisfy new income tax obligations pursuant to Arizona Proposition 208. We accounted for this change as a Type I modification under ASC 718 since the expectation of the attainment for this metric remained unchanged from probable to probable. Amounts of \$525,447, \$484,889, and \$480,343 for Messrs. Larson, Ahsan, and Isner, respectively, represent the total compensation expense from the modified shares.

On December 3, 2021, the Compensation Committee approved a modification to allow for the transfer of certain shares from vested XSUs to a qualified charitable organization, including donor-advised funds. We accounted for this change as a Type I modification under ASC 718 since the expectation of the attainment for this metric remained unchanged from probable to probable. Amounts of \$651,270 each for Messrs. Larson, Ahsan, and Isner and \$438,004 for Mr. Kunins, represent the total compensation expense from the modified shares.

Other amounts of \$3,400,264, \$4,500,251, \$3,175,172, and \$2,700,451 represent RSUs granted to Messrs. Larson, Ahsan, Isner, and Kunins, respectively, in December 2021 and were intended as 2022 compensation. Of the RSUs granted, \$2,000,052 for Messrs. Ahsan, Isner, and Kunins each will vest over two to three years if a successor plan to the XSPP is not approved by shareholders, or if it is approved by shareholders, but the NEO does not elect to participate at the maximum amount specified by the Compensation Committee. If a successor plan to the XSPP is approved by shareholders and the NEO elects to participate, this service-based RSU will be reduced by the amount of such election, thereby effectively replacing the service-based equity compensation with performance-based equity compensation.

On November 3, 2020, the Compensation Committee approved a modification to exclude certain expenses from the calculation of EBITDA for the PSU awards. Although the EBITDA performance metric was unlikely to be met, the Committee determined that management had delivered upon the intentions of the Committee in designing and setting the EBITDA metric, which reflected the profitability objectives set by the Board in 2017. The Compensation Committee's rationale in making this determination was based on its findings and determinations that certain expenses that were incurred during 2020 were not anticipated at the time of determining the award metric and were already being excluded when making business investment and strategic decisions, and therefore should be excluded from the award metric to ensure that management incentives remained properly aligned with

these decisions. The excluded expenses were related to significant non-cash stock-based compensation expenses associated with the 2018 and 2019 adoptions of the CEO Performance Award and eXponential Stock Performance Plan (“XSPP”), both of which were approved by shareholders as unique programs to deliver outsized long-term performance. Additionally, the Company incurred significant expenses associated with FTC litigation in 2020, related to Axon’s 2018 acquisition of Viewu LLC. At the time of the acquisition, management did not anticipate the FTC’s unreasonable challenge. This modification is aligned with the rationale that the Compensation Committee had adopted in setting the EBITDA targets in 2017, which incentivized management to maximize the profit trajectory of the business while also making the optimal balance of investment. We accounted for this change as a Type III modification under ASC 718 since the expectation of the attainment for this metric changed from improbable to probable. Amounts of \$2,531,425, \$1,012,529, \$1,012,529, and \$674,952 for Messrs. Smith, Larson, Ahsan, and Isner, respectively, represent the total compensation expense from the modified shares. Other amounts of \$600,044, \$500,121, \$225,111, and \$600,044 represent RSUs granted to Messrs. Larson, Ahsan, Isner, and Kunins, respectively, on November 30, 2020 and were intended as 2021 compensation.

On February 12, 2019, our shareholders approved the 2019 Plan, which was adopted by the Board of Directors to reserve a sufficient number of shares to facilitate our XSPP and grants of XSUs under the plan. Pursuant to the XSPP, all eligible full-time U.S. employees were granted an award of 60 XSUs in January 2019, and certain employees had the opportunity to elect to receive a percentage of the value of their target compensation over the following nine years (2019-2027) in the form of additional XSUs. Messrs. Larson, Ahsan, Isner, and Kunins elected to receive XSUs, which XSU grants were made as an up front, lump sum grant in January 2019 (September 2019 for Mr. Kunins), and are intended to replace that portion of the target compensation they elected to receive in the form of XSUs for the subsequent nine years. Accordingly, their go forward target compensation will be reduced until 2027 by the amount of such compensation that the employees elected to receive in the form of the 2019 XSU grants.

All of the XSUs will be vested only if our market capitalization increases to \$13.5 billion and twelve operational goals are achieved during the nine year term of the award. 1/12th of the total number of options in the grant will become vested and exercisable each time: (i) Company market capitalization increases by \$1 billion above the February 2018 market capitalization of approximately \$1.5 billion (to align with the CEO Performance Award); and (ii) one of sixteen operational goals tied to revenue and adjusted EBITDA are attained, subject to continued service to the Company at each such vesting event. If any XSUs have not vested by the end of the nine year term of the award, they will be forfeited and the NEOs will not realize the value of such XSUs. As of December 31, 2021, nine tranches have been achieved and were subsequently certified by the Compensation Committee and vested. The amounts and timing of compensation realized by the NEOs for the XSPP will differ from the amount reported here pursuant to the requirements for the Summary Compensation Table.

For 2019, the grant-date fair value of the 60 XSUs received by Messrs. Smith, Larson, Ahsan and Isner is approximately \$2,000. Additional XSUs granted include amounts of \$19,957,225 for Messrs. Larson, Ahsan and Isner and \$18,342,720 for Mr. Kunins.

- (2) In 2021, Messrs. Larson, Ahsan, and Kunins received non-equity incentive compensation as a result of exceeding target metrics around revenue and other operating measures. Their 2021 incentive compensation was provided in the form of cash payouts, which were paid in March 2022. In 2020, Messrs. Larson, Ahsan, and Kunins received non-equity incentive compensation as a result of meeting target metrics around revenue and other operating measures. In 2019, Messrs. Larson and Ahsan, received non-equity incentive compensation as a result of exceeding target metrics around bookings and other operating measures. Their 2019 incentive compensation was provided in the form of cash payouts, which were paid in February 2020. Amounts for Mr. Isner represent commissions, and in 2019 also include cash incentives earned upon completion of certain leadership development courses.
- (3) All other compensation consists of matching contributions made to 401(k), contributions to health savings accounts, employer paid life insurance premiums, taxable fringe items and payments made for taxes required to gross-up other earnings. In 2019, approximately \$200,000 of Mr. Isner’s compensation related to the taxes paid by the Company for a vehicle Mr. Isner received in lieu of a cash bonus.

- (4) The amounts paid to Mr. Smith for 2021, 2020 and 2019 are consistent with minimum wage requirements pursuant to the requirements of the CEO Performance Award.

### **PAY RATIO OF CHIEF EXECUTIVE OFFICER COMPENSATION TO MEDIAN EMPLOYEE COMPENSATION**

The Company's compensation practices and programs are designed with the goal of ensuring compensation programs are fair, equitable, globally compliant and are aligned with its business objectives. Our CEO, Patrick W. Smith, has agreed to a compensation arrangement in the CEO Performance Award, which was approved by shareholders in May 2018, that vests based solely on attainment of both market capitalization and internal operational goals. We are providing a ratio of (i) Mr. Smith's 2021 annual total compensation to (ii) the median of the 2021 annual total compensation of all Axon employees other than Mr. Smith, calculated pursuant to the disclosure requirements of the Summary Compensation Table above as if the median compensated employee was a named executive officer. Because of the treatment of the CEO Performance Award as compensation for Mr. Smith in 2018 for purposes of the Summary Compensation Table, there may be a significant disconnect between what is reported as compensation for Mr. Smith in a given year in the Summary Compensation Table and the value actually realized as compensation in that year or over a period of time. See "Executive Compensation — Compensation Discussion and Analysis — Our Compensation Programs — CEO Performance Award" above.

Mr. Smith's annual total compensation, as reported in the Summary Compensation Table, for 2021 was \$33,115, and the median 2021 annual total compensation of all other employees was \$126,901. Consequently, the applicable ratio of such amounts for 2021 was 0.26:1.

Our methodology for identifying the median of the 2021 annual total compensation for each of our employees other than Mr. Smith was as follows:

- We determined that as of December 31, 2021, Axon and all of our subsidiaries had 2,142 qualifying individuals (full-time, part-time, and temporary employees other than Mr. Smith), of which 17% were based outside of the U.S. and 16% were production line employees.
- We did not include in the population of qualifying individuals any employees of staffing agencies whose compensation is determined by such agencies.
- We applied the requirements and assumptions required for the table in the Summary Compensation Table for each of such individuals as if he or she was a named executive officer to calculate the total annual compensation, including base salary or wages, performance-based commission payments, and equity awards based on their grant date fair values.
- We converted any payment earned or paid in a foreign currency to U.S. dollar using the average of the prevailing conversion rates for 2021.
- We selected the median of all total annual compensation amounts calculated in accordance with the foregoing.

The SEC rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, exclusions, and assumptions that reflect their compensation practices. As such, the pay ratio reported above may not be comparable to the pay ratio reported by other companies, even those in a related industry or of a similar size and scope. Other companies may have different employment practices, regional demographics or may utilize different methodologies and assumptions in calculating their pay ratios.

## 2021 GRANTS OF PLAN-BASED AWARDS

The following table shows information about awards made under various compensation plans during 2021:

Name	Grant Date	Estimated future payouts under non-equity incentive plan awards			All other stock awards: number of shares of stock or units (#)	Grant date fair value of stock awards (\$)(1)
		Threshold (\$)	Target (\$)	Maximum (\$)		
Luke S. Larson	12/2/2021 <sup>(2)</sup>	—	—	—	12,551	2,000,127
	12/2/2021 <sup>(5)</sup>	—	—	—	8,786	1,400,137
		171,563	305,000	457,500 <sup>(3)</sup>	—	—
	2/12/2019 <sup>(7)</sup>	—	—	—	—	525,447
	2/12/2019 <sup>(8)</sup>	—	—	—	—	651,270
Jawad A. Ahsan	12/2/2021 <sup>(2)</sup>	—	—	—	9,413	1,500,056
	12/2/2021 <sup>(5)</sup>	—	—	—	6,276	1,000,143
	12/15/2021 <sup>(2)(6)</sup>	—	—	—	6,778	1,000,026
	12/15/2021 <sup>(5)(6)</sup>	—	—	—	6,778	1,000,026
		185,625	330,000	495,000 <sup>(3)</sup>	—	—
	2/12/2019 <sup>(7)</sup>	—	—	—	—	484,889
2/12/2019 <sup>(8)</sup>	—	—	—	—	651,270	
Joshua M. Isner	12/2/2021 <sup>(2)</sup>	—	—	—	4,393	700,068
	12/2/2021 <sup>(5)</sup>	—	—	—	2,981	475,052
	12/15/2021 <sup>(2)(6)</sup>	—	—	—	6,778	1,000,026
	12/15/2021 <sup>(5)(6)</sup>	—	—	—	6,778	1,000,026
		—	500,000 <sup>(4)</sup>	—	—	—
	2/12/2019 <sup>(7)</sup>	—	—	—	—	480,343
2/12/2019 <sup>(8)</sup>	—	—	—	—	651,270	
Jeffrey C. Kunins	12/2/2021 <sup>(2)</sup>	—	—	—	2,511	400,153
	12/3/2021 <sup>(5)</sup>	—	—	—	1,652	250,129
	12/3/2021 <sup>(2)</sup>	—	—	—	331	50,117
	12/15/2021 <sup>(2)(6)</sup>	—	—	—	6,778	1,000,026
	12/15/2021 <sup>(5)(6)</sup>	—	—	—	6,778	1,000,026
		168,750	300,000	450,000 <sup>(3)</sup>	—	—
	9/23/2019 <sup>(8)</sup>	—	—	—	—	438,004

- (1) Grant date fair value of RSUs and options, computed in accordance with stock-based compensation accounting rules (ASC 718). The fair value of each RSU is the closing price of our common stock on the date of grant. The assumptions used in the calculations of the grant date fair value for option awards are included in Note 1 to our Consolidated Financial Statements contained in our Annual Report on Form 10-K for fiscal 2021.
- (2) RSUs vest at annual intervals over a three-year period. The awards granted in December 2021 are intended as 2022 compensation. Pursuant to the rules and principles of the SEC, however, they are treated as 2021 compensation for purposes of this table and the Summary Compensation Table.
- (3) Payouts under the 2021 annual cash incentive plan are based on the achievement of annual financial goals, including goals related to: revenue; Adjusted EBITDA as a percentage of revenue; new product and new market bookings; new product adoption; net revenue retention; return rate reduction; and net promoter score. Actual awards earned in 2021 were included in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table.

- (4) Mr. Isner was eligible for commissions based on bookings and revenue growth for the Company. There was no maximum amount related to these commissions. Actual commissions earned in 2021 were included in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table.
- (5) Two thirds of the RSUs will vest upon the first anniversary of the grant date and the remaining one third will vest upon the second anniversary of the grant date.
- (6) These awards vest over two to three years if a successor plan to the XSPP is not approved by shareholders, or if it is approved by shareholders, but the NEO does not elect to participate at the maximum amount specified by the Compensation Committee. If a successor plan to the XSPP is approved by shareholders and the NEO elects to participate, this service-based RSU will be reduced by the amount of such election, thereby effectively replacing the service-based equity compensation with performance-based equity compensation.
- (7) Represents the incremental expense incurred in 2021 for the modification of shares originally granted on February 12, 2019, to satisfy new income tax obligations pursuant to Arizona Ballot Proposition 208.
- (8) Represents the incremental expense incurred in 2021 for the modification of shares to allow for the transfer of certain shares from vested XSUs to a qualified charitable organization, including donor-advised funds. The original grant date of shares for Messrs. Larson, Ahsan, and Isner was February 12, 2019 and was September 23, 2019 for Mr. Kunins.

## OUTSTANDING EQUITY AWARDS AT FISCAL 2021 YEAR-END

The following table includes certain information with respect to all outstanding equity awards previously awarded to the NEOs as of December 31, 2021.

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Patrick W. Smith	1,376,981 <sup>(1)</sup>	1,060,976 <sup>(1)</sup>	28.58	2/26/28			15 <sup>(2)</sup>	2,355
Luke S. Larson	—	—	—	—	12,747 <sup>(3)</sup>	2,001,279	15 <sup>(2)</sup>	2,355
					8,306 <sup>(4)</sup>	1,304,042	149,634 <sup>(2)</sup>	23,492,538
					3,183 <sup>(6)</sup>	499,731		
					12,551 <sup>(8)</sup>	1,970,507		
					8,786 <sup>(9)</sup>	1,379,402		
Jawad A. Ahsan	—	—	—	—	11,112 <sup>(5)</sup>	1,744,584	15 <sup>(2)</sup>	2,355
					11,085 <sup>(3)</sup>	1,740,345	149,634 <sup>(2)</sup>	23,492,538
					6,922 <sup>(4)</sup>	1,086,754		
					2,653 <sup>(6)</sup>	416,521		
					9,413 <sup>(8)</sup>	1,477,841		
					6,276 <sup>(9)</sup>	985,332		
					6,778 <sup>(10)</sup>	1,064,146		
					6,778 <sup>(11)</sup>	1,064,146		
Joshua M. Isner	—	—	—	—	2,772 <sup>(3)</sup>	435,204	15 <sup>(2)</sup>	2,355
					3,115 <sup>(4)</sup>	489,055	149,634 <sup>(2)</sup>	23,492,538
					1,194 <sup>(6)</sup>	187,458		
					4,393 <sup>(8)</sup>	689,701		
					2,981 <sup>(9)</sup>	468,017		
					6,778 <sup>(10)</sup>	1,064,146		
					6,778 <sup>(11)</sup>	1,064,146		
Jeffrey C. Kunins	—	—	—	—	3,200 <sup>(7)</sup>	502,400	108,000 <sup>(2)</sup>	16,956,000
					3,183 <sup>(6)</sup>	499,731		
					2,511 <sup>(8)</sup>	394,227		
					1,652 <sup>(8)</sup>	259,364		
					331 <sup>(9)</sup>	51,967		
					6,778 <sup>(10)</sup>	1,064,146		
					6,778 <sup>(11)</sup>	1,064,146		

- <sup>(1)</sup> This grant is intended to compensate Mr. Smith over its ten-year term and will become vested as to all shares subject to it only if both market capitalization and internal operational goals are attained during such ten year period. 1/12<sup>th</sup> of the total number of shares subject to the options will become vested and exercisable upon certification by the Board of Directors that both: (i) one of the market capitalization goals is achieved; and (ii) one of sixteen specified internal operational goals relating to financial results is attained, subject to Mr. Smith's continued service at each such vesting event. If any tranches have not vested by the end of the ten-year term of the award, they will be forfeited, and Mr. Smith will not realize the value of such shares. As of December 31,

2020, ten tranches and have been achieved and certified by the Compensation Committee and vested in March 2021. See “Executive Compensation — Compensation Discussion and Analysis — Our Compensation Programs — CEO Performance Award” above.

- (2) These grants are intended to compensate our executives over their approximately nine-year term and will become vested as to all shares subject to each grant only if both market capitalization and internal operational goals are attained during such term. 1/12<sup>th</sup> of the total number of shares will become vested upon certification by the Board of Directors that both: (i) one of the market capitalization goals is achieved; and (ii) one of sixteen specified internal operational goals relating to financial results is attained, subject to the NEO’s continued service at each such vesting event. If any tranches have not vested by the end of the term of the award, they will be forfeited and the NEO will not realize the value of such shares. As of December 31, 2021, nine tranches have been achieved and certified by the Compensation Committee. See “Executive Compensation — Compensation Discussion and Analysis — Our Compensation Programs — eXponential Stock Performance Plan” above.
- (3) These stock awards vest fully in January 2022.
- (4) These stock awards vest fully in December 2022.
- (5) This stock award vests at annual intervals over a five-year period and becomes fully vested in April 2022.
- (6) These stock awards vest at annual intervals over a three-year period and become fully vested in November 2023.
- (7) This stock award vests at annual intervals over a three-year period and becomes fully vested in September 2022.
- (8) These stock awards vests at annual intervals over a three-year period and become fully vested in December 2024.
- (9) These stock awards vest two thirds in December 2022 and one third in December 2023.
- (10) These stock awards vest at annual intervals over a three-year period and becomes fully vested in December 2024 if a successor plan to the XSPP is not approved by shareholders, or if it is approved by shareholders, but the NEO does not elect to participate at the maximum amount specified by the Compensation Committee. If a successor plan to the XSPP is approved by shareholders and the NEO elects to participate, this service-based RSU will be reduced by the amount of such election, thereby effectively replacing the service-based equity compensation with performance-based equity compensation.
- (11) These stock awards vest two thirds in January 2023 and one third in December 2023 if a successor plan to the XSPP is not approved by shareholders, or if it is approved by shareholders, but the NEO does not elect to participate at the maximum amount specified by the Compensation Committee. If a successor plan to the XSPP is approved by shareholders and the NEO elects to participate, this service-based RSU will be reduced by the amount of such election, thereby effectively replacing the service-based equity compensation with performance-based equity compensation.

## 2021 OPTION EXERCISES AND STOCK VESTED

The following table provides information related to option exercises and vested stock awards for each NEO during the year ended December 31, 2021:

Name	Stock Awards	
	Number of Shares Acquired upon Vesting (#)	Value Realized on Vesting (\$)
Patrick W. Smith	124,527	\$ 21,125,726
Luke S. Larson	500,331	82,028,798
Jawad A. Ahsan	525,655	86,088,801
Joshua M. Isner	482,741	79,104,510
Jeffrey C. Kunins	333,591	54,634,065

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)
Patrick W. Smith	3,927,899	\$ 571,432,662

A majority of the stock awards that vested in 2021 related to the XSPP, as a result of the attainment of nine of the twelve award tranches. The net shares are subject to a minimum 2.5 year holding period following the Goal Attainment Date. Similarly, the option awards exercised by Mr. Smith in 2021 related solely to the CEO Performance Award, and the net shares are subject to a 2.5 year post-exercise holding period. The number of shares acquired upon vesting and the value realized upon vesting were as follows:

Name	XSU Awards	
	Number of Shares Acquired upon Vesting (#)	Value Realized on Vesting (\$)
Patrick W. Smith	45	\$ 7,354
Luke S. Larson	448,948	73,372,041
Jawad A. Ahsan	448,948	73,372,041
Joshua M. Isner	448,948	73,372,041
Jeffrey C. Kunins	324,000	52,951,680

## 2021 NONQUALIFIED DEFERRED COMPENSATION

On July 1, 2013 the Company adopted the TASER International, Inc. Deferred Compensation Plan ("DCP"). The DCP allows eligible executives, key employees and non-employee directors through which participants may elect to defer the receipt and taxation of a portion of their compensation. Compensation, as defined in the DCP, is comprised of base salary, bonus, commission, director fees, and such other cash or equity-based compensation approved by the Compensation Committee. Participants may elect to defer up to 80% of their base salary and up to 100% of other types of compensation. Participants are 100% vested at all times in amounts deferred pursuant to the DCP. All gains or losses are allocated fully to plan participants, and the Company does not guarantee a rate of return on deferred balances. There were no above-market returns for participants in the plan.

The following table provides information on NEO participation in the DCP:

Name	Executive Contributions in Last FY (\$)(1)	Registrant Contributions in Last FY (\$)(1)(2)	Aggregate Earnings in Last FY (\$)(2)(3)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last FYE (\$)
Joshua M. Isner	15,590	—	104,370	—	663,310

- (1) The amounts included in the table as executive contributions and registrant contributions in the last fiscal year were all reported as compensation in 2021 in the Summary Compensation Table.
- (2) The Company does not make discretionary payments to the plan, but does make a restorative 401(k) match contribution to participants as their eligible wages for 401(k) purposes is net of contributions made to the deferred compensation plan.
- (3) Aggregate earnings reflected represent deemed investment earnings from voluntary deferrals and Company contributions, as applicable. No amounts included in aggregate earnings are reported in the 2021 Summary Compensation Table because the plan does not provide for above-market or preferential earnings.

### POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE OF CONTROL

Pursuant to the employment agreements, the Company may terminate each of the NEOs with or without cause. The conditions or events triggering the payment of severance benefits include the executive's death, disability, termination without cause, termination for good reason, or termination in connection with a change in control of the Company (i.e., double-trigger). Conditions to the payment of severance benefits include covenants relating to assignment of inventions, nondisclosure of Company confidential information, and non-competition with the Company for a period of 12 months after termination of employment. For Mr. Smith, benefits are determined pursuant to the CEO Performance Award.

The severance benefit amounts with respect to the above triggering events were determined based on competitive practices. The Company agreed to pay these variable amounts of compensation as severance benefits or change in control benefits in order to attract and retain executive officers.

The table below depicts the severance payable to each of the NEOs other than Mr. Smith under the conditions indicated:

Termination for Cause	Termination without Cause	Termination By Executive Within 36 Months Following a Change in Control For Good Reason or by the Company Without Cause Six Months Prior to Change in Control at the Request of a Third-Party Purchaser	Death or Disability
Earned but unpaid salary and benefits	12 months' salary <sup>1</sup> ; target bonus for calendar year of effective date of termination; time-based RSUs vesting during notice and severance period will continue to vest	36 months' salary; pro rata portion of annual target bonus for the year in which termination occurs; 12 months COBRA; all time- and performance-based RSUs will vest at target levels	18 months' salary; pro rata portion of annual target bonus for the year in which termination occurs; all time- and performance-based RSUs will vest at target levels

For all NEOs, all non-vested RSUs and PSUs may immediately vest at target levels and restrictions would lapse. Accelerated vesting conditions are as follows:

- *Termination for Cause*: no accelerated vesting.
- *Termination without Cause*: except for Mr. Smith, continued vesting of time-based awards during the notice and severance periods.

- *Termination By Executive Within 36 Months Following a Change in Control For Good Reason or by the Company Without Cause Six Months Prior to Change in Control at the Request of a Third-Party Purchaser ("Change in Control") and Termination due to Death or Disability:* acceleration of all awards (both performance-based at target and time-based).

<sup>1</sup> The payment of 12 months' salary includes an 11-month notice period and cash payment equal to 1 month's base salary.

Additional accelerated vesting conditions pursuant to the CEO Performance Award and the XSPP are as follows:

<b>Plan</b>	<b>Termination with Cause</b>	<b>Termination without Cause</b>	<b>Change in Control</b>	<b>Death or Disability</b>
CEO Performance Award (Patrick W. Smith)	Any tranches of the CEO Performance Award for which the operational and market capitalization goals have been achieved as of the last date of employment immediately vest	CEO Performance Award operational goals are disregarded and all tranches of CEO Performance Award for which market capitalization goals have been attained as of the effective date of termination vest; next unattained tranche will partially vest on a prorated basis by comparing the six-month market capitalization to the goal	CEO Performance Award operational goals are disregarded and an alternative market capitalization calculation is utilized for purposes of determining attainment of unvested tranches, plus one additional tranche	Any tranches of the CEO Performance Award for which the operational and market capitalization goals have been achieved as of the last date of employment are immediately vested
XSPP (all other NEOs)	Any tranches of the XSU awards for which the operational and market capitalization goals have been achieved as of the last date of employment immediately vest; most recently acquired tranche is forfeited	XSU operational goals are disregarded and all tranches of XSU Awards for which market capitalization goals have been attained as of the effective date of termination vest; next unattained tranche will partially vest on a prorated basis by comparing the six-month market capitalization to the goal	XSU operational goals are disregarded and an alternative market capitalization calculation is utilized for purposes of determining attainment of unvested tranches, plus one additional tranche	N/A

The table below reflects the severance compensation that would be provided to each of the NEOs of the Company assuming the notice of intent to terminate such executive's employment occurred on December 31, 2021. The following table excludes the deferred compensation amounts that would also be payable to Mr. Isner as described and set forth under the heading "2021 Nonqualified Deferred Compensation."

	Voluntary Termination By Executive	Termination for Cause	Termination without Cause	Change in Control	Death or Disability
<b>Patrick W. Smith</b>					
Stock Awards <sup>(1)</sup>	\$ —	\$ —	\$ 26,021,965	\$ 83,286,616	\$ —
Total	\$ —	\$ —	\$ 26,021,965	\$ 83,286,616	\$ —
<b>Luke S. Larson</b>					
Severance Payments <sup>(2)</sup>	\$ —	\$ —	\$ 350,000	\$ 1,050,000	\$ 525,000
Annual Cash Incentive Plan <sup>(3)</sup>	—	—	305,000	305,000	305,000
Benefits <sup>(4)</sup>	—	—	—	21,646	—
Stock Awards <sup>(1)</sup>	—	—	11,231,309	14,985,807	7,154,961
Total	\$ —	\$ —	\$ 11,886,309	\$ 16,362,453	\$ 7,984,961
<b>Jawad A. Ahsan</b>					
Severance Payments <sup>(2)</sup>	\$ —	\$ —	\$ 325,000	\$ 975,000	\$ 487,500
Annual Cash Incentive Plan <sup>(3)</sup>	—	—	330,000	330,000	330,000
Benefits <sup>(4)</sup>	—	—	—	21,646	—
Stock Awards <sup>(1)</sup>	—	—	12,029,026	17,410,515	9,579,669
Total	\$ —	\$ —	\$ 12,684,026	\$ 18,737,161	\$ 10,397,169
<b>Joshua M. Isner</b>					
Severance Payments <sup>(2)</sup>	\$ —	\$ —	\$ 325,000	\$ 975,000	\$ 487,500
Annual Cash Incentive Plan <sup>(3)</sup>	—	—	500,000	500,000	500,000
Benefits <sup>(4)</sup>	—	—	—	21,646	—
Stock Awards <sup>(1)</sup>	—	—	7,659,559	12,228,573	4,397,727
Total	\$ —	\$ —	\$ 8,484,559	\$ 13,725,219	\$ 5,385,227
<b>Jeffrey C. Kunins</b>					
Severance Payments <sup>(2)</sup>	\$ —	\$ —	\$ 300,000	\$ 900,000	\$ 450,000
Annual Cash Incentive Plan <sup>(3)</sup>	—	—	300,000	300,000	300,000
Benefits <sup>(4)</sup>	—	—	—	21,615	—
Stock Awards <sup>(1)</sup>	—	—	5,407,237	9,487,981	3,835,981
Total	\$ —	\$ —	\$ 6,007,237	\$ 10,709,596	\$ 4,585,981

(1) For Mr. Smith, includes the intrinsic value of non-vested performance stock options under the CEO Performance Award which would immediately vest and become exercisable, as well as the value of non-vested PSUs and RSUs which would immediately vest and restrictions would lapse, as described above.

For all NEOs other than Mr. Smith, includes the value of non-vested XSUs which would immediately vest and become exercisable, as well as the value of those non-vested PSUs and RSUs which would immediately vest and restrictions would lapse, as described above.

The value of RSU, PSU, and XSU vesting or acceleration is equal to the \$157.00 closing market price of shares of the Company's common stock on December 31, 2021 multiplied by the number of units that would vest.

(2) Represents 12 months' base salary for Termination without Cause (comprised of an 11-month notice period and 1 month's base salary), 36 months' base salary for Change in Control, and 18 months' base salary for Termination due to Death or Disability.

(3) Represents target bonus for the calendar year in which the effective date of termination occurs; for Change of Control and Termination due to Death or Disability, represents target bonus pro-rated through termination date.

(4) Represents 12 months of payment of medical, dental, and vision insurance premiums for each NEO.

## **AUDIT MATTERS**

### **REPORT OF THE AUDIT COMMITTEE**

The Audit Committee of the Board of Directors reviews the Company's financial reporting process on behalf of the Board. The Audit Committee has sole authority to retain, set compensation and retention terms for, terminate, oversee and evaluate the work of the Company's independent auditor. The independent auditor reports directly to the Audit Committee.

The Company's management is responsible for the Company's financial reporting process including its system of internal controls, and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States. Grant Thornton LLP, the Company's independent registered public accounting firm, is responsible for expressing an opinion based on their audits of the consolidated financial statements. In accordance with its written charter, the Audit Committee assists the Board of Directors in its oversight of (i) the integrity of the Company's financial statements and the Company's financial reporting processes and systems of internal control, (ii) the qualifications, independence and performance of the Company's independent public accounting firm and the performance of the Company's internal audit function, (iii) the Company's compliance with legal and regulatory requirements involving financial, accounting and internal control matters, (iv) investigations into complaints concerning financial matters and (v) risks that may have a significant impact on the Company's financial statements.

Further, the Audit Committee reviews reports prepared by management on various matters including critical accounting policies and issues, material written communications between the independent auditor and management, significant changes in the Company's selection or application of accounting principles and significant changes to internal control procedures. It is not the duty or responsibility of the Audit Committee to conduct auditing and accounting reviews or procedures.

In discharging its oversight responsibilities with respect to the audit process, the Audit Committee (i) obtained from the independent public accounting firm a formal written statement describing all relationships between the independent public accounting firm and the Company that might bear on the independent public accounting firm's independence consistent with the applicable requirements of the Public Company Accounting Oversight Board ("PCAOB"), (ii) discussed with the independent auditing firm any relationships that may impact its objectivity and independence, and (iii) considered whether any non-audit services provided to the Company by Grant Thornton LLP are compatible with maintaining their independence. The Audit Committee also discussed with the independent auditing firm their identification of audit risk, audit plans and audit scope, as well as all communications required by generally accepted auditing standards, including those described in Auditing Standard No. 1301, "Communications with Audit Committees" issued by the PCAOB.

The Audit Committee reviewed and discussed with management and its independent public accounting firm our annual audited financial statements and quarterly financial statements, including a review of the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Form 10-K and 10-Q filings, as well as the Company's shareholder letters and information related thereto.

During fiscal year 2021, the Audit Committee met with representatives of the independent public accounting firm, both with management present and in private sessions without management present, to discuss the results of the financial statement audit and quarterly reviews and to solicit their evaluation of the Company's accounting principles, practices and judgments applied by management and the quality and adequacy of the Company's internal controls.

In performing the above described functions, the Audit Committee acts only in an oversight capacity and necessarily relies on the work and assurances of the Company's management and independent public accounting firm, which, in the independent public accounting firm's report, expresses an opinion on the conformity of the Company's annual financial statements to accounting principles generally accepted in the United States.

Based upon the Audit Committee's discussion with the Company's management and Grant Thornton LLP, and the Audit Committee's review of the representations of the Company's management and the report of the independent public accounting firm to the Audit Committee, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021. The

Audit Committee also approved the selection of Grant Thornton LLP as the Company's independent auditor for the fiscal year 2022.

February 24, 2022

The Audit Committee:

Michael Garnreiter, Chair  
Julie A. Cullivan  
Caitlin Kalinowski  
Matthew R. McBrady

*The foregoing Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act or Exchange Act, except to the extent the Company specifically incorporates this Report by express reference therein.*

## **PROPOSALS**

### **Overview of Proposals**

This proxy statement contains five proposals requiring shareholder action.

- Proposal No. 1 requests that shareholders approve an amendment to the Company's Amended and Restated Certificate of Incorporation to declassify the Board of Directors.
- Proposal No. 2 requests the election of the three Class A directors of the Company named in this proxy statement for a term of one year and until their successors are elected and qualified, if Proposal No. 1 is approved by shareholders, or three years and until their successors are elected and qualified, if Proposal No, 1 is not approved by shareholders.
- Proposal No. 3 requests that shareholders vote to approve, on an advisory basis, the compensation of the Company's named executive officers.
- Proposal No. 4 requests the ratification on the appointment of Grant Thornton LLP as the Company's independent registered public accounting firm for fiscal year 2022.
- Proposal No. 5 requests that shareholders approve the Axon Enterprise, Inc. 2022 Stock Incentive Plan.

Each proposal is discussed in more detail below.

## **PROPOSAL NO. 1 – AMENDMENT TO THE COMPANY’S AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO DECLASSIFY THE BOARD OF DIRECTORS**

On March 23, 2022, the Board of Directors unanimously voted to adopt a resolution approving and recommending the shareholders to approve an amendment to our Amended and Restated Certificate of Incorporation (the “Certificate”) to provide for the declassification of the Board of Directors.

### **Background**

Pursuant to the Company’s Certificate and Bylaws, the Board is currently divided into three classes of directors serving staggered three-year terms (Classes A, B and C), with each class as nearly equal in number as possible. The Company’s Certificate authorize a Board of Directors consisting of not less than three or more than eleven directors. The Board of Directors currently comprises nine directors and is divided into three classes of three directors in each class, of whom Adriane Brown, Michael Garnreiter and Hadi Partovi are Class A directors; Dr. Mark Kroll, Matthew R. McBrady and Patrick W. Smith are Class B directors; and Richard H. Carmona, Julie Cullivan and Caitlin Kalinowski are Class C directors. Dr. Richard Carmona will retire effective as of the Annual Meeting. One class is elected each year for a three-year term and until their successors are elected and qualified. The classes of prospective directors is determined upon appointment.

The terms for the Class A directors are scheduled to expire at the Annual Meeting. At this Annual Meeting, we are asking shareholders to approve and adopt a proposal to amend the Company’s Certificate to declassify the Board of Directors. If approved, the declassification of the Board of Directors will be phased-in so that beginning with the Annual Meeting, directors will be elected for one-year terms as their present terms expire.

### **Rationale for Declassifying the Board of Directors**

As part of our Board of Directors’ regular evaluations of the Company’s corporate governance and in response to feedback from certain of our shareholders, our Board of Directors has continued to evaluate the classified board structure and consider arguments both for and against the continuation of a classified board. Our Board of Directors recognizes that a classified structure may reduce directors’ accountability to shareholders because such a structure does not enable shareholders to express a view on each director’s performance by means of an annual vote and that many institutional investors believe that the election of directors is the primary means for shareholders to influence corporate governance policies and to hold management accountable for implementing these policies. After careful deliberation by the NCG Committee and the Board of Directors, upon the recommendation of the NCG Committee, the Board of Directors has determined that it would be in the best interests of the Company, subject to shareholder approval, to declassify the Board of Directors over a phase-in period commencing at the Annual Meeting pursuant to an amendment to our Certificate (the “Declassification Amendment”).

### **Effect of Proposed Amendment**

If the Declassification Amendment is approved and adopted by our shareholders at the Annual Meeting, the Company’s Amended and Restated charter will be amended and we will begin the phased transition to a declassified board structure beginning at the Annual Meeting. In accordance with the Declassification Amendment, the transition would be phased in as follows:

- If each of Adriane Brown, Michael Garnreiter and Hadi Partovi are elected pursuant to Proposal No. 2 at the Annual Meeting, then each director will be elected for a one-year term expiring at our 2023 annual meeting of shareholders.
- Each of Dr. Kroll, Matthew R. McBrady and Patrick W. Smith would continue to serve as a Class B director for a term expiring at our 2023 annual meeting of shareholders. At our 2023 annual meeting of shareholders, each of these individuals and each director elected for a one-year term at the immediately preceding annual meeting of

shareholders or their respective successors who are nominated by our Board of Directors to serve as a director, and any other individual(s) nominated by our Board of Directors to serve as a director, would stand for election to serve a one-year term.

- Each of Julie Cullivan and Caitlin Kalinowski would continue to serve as a Class C director for a term expiring at our 2024 annual meeting of shareholders. At our 2024 annual meeting of shareholders, each of these individuals and each director elected for a one-year term at the immediately preceding annual meeting of shareholders or their respective successors who are nominated by our Board of Directors to serve as director, and any other individual(s) nominated by our Board of Directors to serve as a director would stand for election to serve a one-year term.
- Accordingly, at each annual meeting beginning with our 2024 annual meeting, all directors would be elected to serve one-year terms.

In all cases, each director will serve until his or her successor is duly elected and qualified or until his or her earlier resignation or removal. Accordingly, if the Declassification Amendment is approved and adopted, then our Board of Directors will be completely declassified and all directors will be elected annually beginning with our 2024 annual meeting of shareholders. In addition, if the Declassification Amendment is approved and adopted, the Board of Directors would also take prompt action to approve an amendment to the Company's Bylaws to conform the Bylaws to the Charter with respect to the structure of the Board of Directors' classes, terms of office and other related provisions.

If the Declassification Amendment is not approved and adopted by our shareholders, the Company's Certificate will not be amended as set forth above and our Board of Directors will continue to be classified with directors serving staggered terms. The directors elected at this year's Annual Meeting will serve a three-year term and their term will expire at our 2025 annual meeting of shareholders.

### **Proposed Amendment to Declassify the Board of Directors**

Declassifying the Board of Directors requires an amendment to our Certificate. If this proposal is approved by the shareholders, Section 5(b) of the Certificate would be amended and restated in its entirety to read as follows:

“(b) The directors elected or appointed to the Board of Directors prior to the 2022 annual meeting of shareholders are currently divided into three classes, designated Class A, Class B and Class C. Each class consists, as nearly as may be possible, of an equal number of directors, with the directors of each class serving for a term expiring at the third annual meeting of shareholders after his or her election and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. Commencing with the Company's 2022 annual meeting of shareholders, directors shall be elected as follows: (i) each director elected at the 2022 annual meeting of shareholders to succeed those Class A directors whose term expires at such meeting shall hold office for a term expiring at the annual meeting of shareholders to be held in 2023 and until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal; (ii) each director elected at the 2023 annual meeting of shareholders to succeed those Class B directors whose term expires at such meeting shall hold office for a term expiring at the annual meeting of shareholders to be held in 2024 and until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal; and (iii) beginning with the 2024 annual meeting of shareholders and at all subsequent annual meetings of shareholders, the Board of Directors will no longer be classified under Section 141(d) of the DGCL and each director elected at an annual meeting of shareholders to succeed those directors whose term expires at such meeting shall hold office for a term expiring at the next annual meeting of shareholders and until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal.”

In addition, the second sentence of Section 5(c) of the Certificate would be deleted.

The Certificate reflecting this proposed change is attached as [Appendix A](#) to this proxy statement.

If approved by our shareholders, the Declassification Amendment will become effective upon the filing of a certificate of amendment with the Delaware Secretary of State, which will occur promptly following the 2022 Annual Meeting.

**The Board of Directors unanimously recommends a vote FOR approval of the amendment to our Amended and Restated Certificate of Incorporation to declassify the Board of Directors.**

## **Vote Required**

Proposal No. 1 requires the affirmative vote of a majority of the shares issued and outstanding as of the record date to approve this amendment to the Certificate. Abstentions and broker non-votes will have the same effect as a vote cast against the proposal.

## PROPOSAL NO. 2 - ELECTION OF DIRECTORS

The Board is elected by and accountable to the shareholders to oversee their interest in the long-term health and the overall success of the Company's business and its financial strength. The Board serves as the ultimate decision-making body of the Company except for those matters reserved to, or shared with, the shareholders. The Board selects and oversees the members of senior management, who are charged by the Board with conducting the business of the Company.

### *Election Process*

The Board is currently comprised of nine directors. The directors are divided into three classes comprised of three directors in each class. Currently, one class is elected each year for a three-year term and until their successors are elected and qualified. The three director nominees in Class A are up for nomination at the 2022 Annual Meeting. These Class A directors are: Adriane Brown, Michael Garnreiter, and Hadi Partovi.

If the Declassification Amendment (Proposal No. 1) is approved and adopted by our shareholders, then the directors elected at this year's Annual Meeting will serve a one-year term expiring at our 2023 annual meeting of shareholders. If the Declassification Amendment is not approved and adopted by our shareholders, the Company's Certificate will not be amended as set forth above and our Board of Directors will continue to be classified with directors serving staggered terms. The directors elected at this year's Annual Meeting will serve a three-year term and their term will expire at our 2025 annual meeting of shareholders.

The Board has no reason to believe that any of the nominees will be unwilling or unable to serve if elected a director. If any nominee is unable or unwilling to serve as a director at the date of the Annual Meeting or any postponement or adjournment thereof, the proxies may be voted for a substitute nominee, as designated by the Board to fill such vacancy.

Unless marked otherwise, signed proxies received will be voted FOR the election of each of the nominees.

**The Board of Directors recommends a vote FOR the election of Adriane Brown, Michael Garnreiter, and Hadi Partovi.**

### **Vote Required**

Assuming the existence of a quorum, each director will be elected by the affirmative vote of the majority of votes properly cast for and against such nominee's election. Abstentions and broker non-votes will be counted toward a quorum, but will not affect the outcome of the vote on the election of directors.

## PROPOSAL NO. 3 - ADVISORY APPROVAL OF THE COMPANY'S EXECUTIVE COMPENSATION

Shareholders will be given the opportunity to vote on the following advisory resolution (commonly referred to as “say on pay”):

**RESOLVED**, that the shareholders of Axon Enterprise, Inc. hereby approve the compensation paid to the Company's NEOs, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion set forth in this proxy statement.

### *Background on Proposal*

In accordance with the requirements of Section 14A of the Exchange Act and related SEC rules, shareholders are being given the opportunity to vote at the annual meeting on this advisory resolution regarding the compensation of our NEOs.

As described in the Compensation Discussion and Analysis, our executive compensation program is designed to allow us to: attract and retain talent, link annual incentive compensation to our financial results produced during the year, and link long term compensation in the form of stock awards to Company performance and enhancement of shareholder value over time. For a comprehensive description of our executive compensation program, philosophy and objectives, including the specific elements of executive compensation that comprised the program in 2021, please refer to the Compensation Discussion and Analysis. The Summary Compensation Table and other executive compensation tables (and accompanying narrative disclosures) provide additional information about the compensation that we paid to our NEOs in 2021.

At our 2017 Annual Meeting of Shareholders, the shareholders indicated, on an advisory vote basis, that they preferred that we hold Say on Pay votes on an annual basis (a frequency vote is required to be held at least once every six years). In light of these results, the Company's Board of Directors decided to hold its future advisory votes on the compensation of named executive officers annually until the next frequency vote, which will be held on or before our 2023 Annual Meeting.

### *Effects of Advisory Vote*

Because the vote on this proposal is advisory in nature, it will not affect any compensation already paid or awarded to our NEOs and will not be binding on the Board or the Compensation Committee. However, the Compensation Committee will consider the outcome of the vote when making future executive compensation decisions.

### *Overview and Summary; Consideration of Prior Year Say on Pay Vote*

The Company believes in competitive compensation aligned with the values, objectives and financial performance of the Company. Since 2018, a significant amount of our executives' potential total compensation was tied to performance. The Compensation Committee considers the performance criteria for the Company's performance-based compensation challenging, but achievable. Performance-based RSUs, non-equity incentive compensation plan, and commission targets have been achieved during 2019, 2020, and 2021. With the creation of the CEO Performance Award and XSU awards in 2018 and 2019, respectively, more focus and compensation is aligned with long-term Company performance. As of December 31, 2021, ten tranches of the CEO Performance Award and nine tranches of the XSU awards had vested.

At the 2021 Annual Meeting of Shareholders (“2021 Annual Meeting”), we presented to shareholders, for advisory approval, the Company's executive compensation (“Say on Pay”). Of the 48.7 million votes cast on the Say on Pay vote (including abstentions), over 93% were favorable for our Say on Pay resolution. The Compensation Committee considered this a favorable outcome and believed it conveyed our shareholders' support of the Compensation Committee's decisions and existing executive compensation programs.

Our compensation opportunities for our named executive officers are predominantly delivered in the form of performance-based awards, including equity-based awards, which are designed to promote incentives that are aligned with long-term shareholder interests. It is the Committee's intent that the total compensation for our NEOs be competitive to attract and retain highly qualified individuals who are capable of making significant contributions critical to our long-term success.

The Compensation Committee will continue to consider the results from this year's and future advisory votes on executive compensation.

Unless marked to the contrary, proxies received will be voted FOR approval of the advisory vote on executive compensation.

**The Board of Directors unanimously recommends a vote FOR approval of the resolution set forth above approving the compensation of our named executive officers.**

## **Vote Required**

For Proposal No. 3, assuming the existence of a quorum at the Annual Meeting, the affirmative vote of a majority of the total votes of shares of common stock properly cast for or against the proposal, in person or represented by proxy at the meeting and entitled to vote on this proposal is required for approval. Abstentions and broker non-votes will have no impact on this proposal if a quorum is present.

## PROPOSAL NO. 4 - RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed Grant Thornton LLP, independent registered public accounting firm, to audit the consolidated financial statements of the Company for the year ending December 31, 2022. Grant Thornton LLP has acted as the independent registered public accounting firm for the Company since 2005. A representative of Grant Thornton LLP is expected to be present at the Annual Meeting, will have the opportunity to make a statement and is expected to be available to respond to appropriate questions.

Shareholder ratification of the selection of Grant Thornton LLP as our independent registered public accounting firm is not required by our bylaws or otherwise. Nonetheless, the Audit Committee is submitting the selection of Grant Thornton LLP to the shareholders for ratification as a matter of good corporate practice and because the Audit Committee values the views of our shareholders on our independent auditors.

If the shareholders fail to ratify the election, the Audit Committee will reconsider the appointment of Grant Thornton LLP. Even if the selection is ratified, the Audit Committee, in its discretion, may appoint a different independent registered public accounting firm at any time during the year if it determines that such an appointment would be in the Company's best interest.

If the appointment is not approved by the shareholders, the adverse vote will be considered a direction to the Audit Committee to consider other auditors for next year. However, because of the difficulty in making any substitution of auditors so long after the beginning of the current year, the appointment in 2022 will stand, unless the Audit Committee finds other good reason for making a change.

### *Audit and Non-Audit Fees*

The following table presents fees for audit, tax and other professional services rendered by Grant Thornton LLP for the years ended December 31, 2021 and 2020.

	2021	2020
Audit fees	\$ 1,875,000	\$ 1,480,997
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	—	—
	<u>\$ 1,875,000</u>	<u>\$ 1,480,997</u>

**Audit Fees:** Consisted of fees billed for professional services rendered for the audit of Axon Enterprise, Inc.'s financial statements, fees billed related to Sarbanes-Oxley 404 review and services provided by Grant Thornton LLP in connection with statutory and regulatory filings.

**Audit-Related Fees:** Audit-related fees related to professional services that are reasonably related to the performance of the audit or review of Axon's consolidated financial statements. No such services were rendered during the years ended December 31, 2021 or 2020.

**Tax Fees:** Consisted of fees billed principally for services provided in connection with worldwide tax consulting and planning services. No such services were rendered during the years ended December 31, 2021 or 2020.

**All Other Fees:** All other fees related to services not included in the categories above, including services related to other regulatory reporting requirements. No such services were rendered during the years ended December 31, 2021 or 2020.

### *Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor*

Consistent with SEC policies regarding auditor independence, the Audit Committee must pre-approve all audit and permissible non-audit services provided by our independent auditors. Our Non-Audit Services Pre-Approval Policy covers

all services to be performed by our independent auditors. The policy contemplates a general pre-approval for all audit, audit-related, tax and all other services that are permissible, with a general pre-approval period of twelve months from the date of each pre-approval. Any other proposed services that are to be performed by our independent auditors, not covered by or exceeding the pre-approved levels or amounts, must be specifically approved in advance.

Prior to engagement, the Audit Committee pre-approves the following categories of services. These fees are budgeted, and the Audit Committee requires the independent auditors and management to report actual fees versus the budget periodically throughout the year, by category of service.

- **Audit** services include the annual financial statement audit (including required quarterly reviews) and other work required to be performed by the independent auditors to be able to form an opinion on our consolidated financial statements. Such work includes, but is not limited to, services associated with SEC registration statements, periodic reports, SEC reviews and other documents filed with the SEC or other documents issued in connection with securities offerings.
- **Audit-related** services are for services that are reasonably related to the performance of the audit or review of our financial statements or that are traditionally performed by the independent auditor. Such services typically include but are not limited to, due diligence services pertaining to potential business acquisitions or dispositions, accounting consultations related to accounting, financial reporting or disclosure matters not classified as “audit services,” statutory audits or financial audits for subsidiaries or affiliates, and assistance with understanding and implementing new accounting and financial reporting guidance.
- **Tax** services include all services performed by the independent auditors’ tax personnel, except those services specifically related to the financial statements, and includes fees in the area of tax compliance, tax planning and tax advice.

The Company’s CFO has the authority to engage the Company’s independent registered public accounting firm for amounts less than \$5,000. There were no such audit-related fees, tax fees or other fees in 2021.

The Audit Committee has considered and concluded that the provision by Grant Thornton LLP of non-audit services is compatible with Grant Thornton maintaining its independence.

Unless marked to the contrary, proxies received will be voted FOR ratification of the appointment of Grant Thornton LLP as the Company’s independent registered public accounting firm for the year ending December 31, 2022.

**The Board of Directors recommends a vote FOR ratification of the appointment of Grant Thornton LLP as the Company’s independent registered public accounting firm for fiscal 2022.**

## **Vote Required**

For Proposal No. 4, assuming the existence of a quorum at the Annual Meeting, the affirmative vote of a majority of the total votes of shares of common stock properly cast for or against the proposal, in person or represented by proxy at the meeting and entitled to vote on this proposal is required for approval. Abstentions and broker non-votes will have no impact on this proposal if a quorum is present.

## PROPOSAL NO. 5 – APPROVAL OF THE AXON ENTERPRISE, INC. 2022 STOCK INCENTIVE PLAN

At the Annual Meeting, shareholders will be asked to approve the Axon Enterprise, Inc. 2022 Stock Incentive Plan (the “2022 Plan”), which was approved by the Board on March 24, 2022, effective upon and subject to shareholder approval at this Annual Meeting (the “Effective Date”). The full text of the 2022 Plan is attached to this proxy statement as Annex B. If approved by shareholders, the 2022 Plan will replace the 2019 Plan and no further awards will be made under the 2019 Plan following the Effective Date.

### General Information

On December 19, 2018, the Board adopted, subject to shareholder approval, the Axon Enterprise, Inc. 2019 Stock Incentive Plan (the “2019 Plan”). The 2019 Plan was approved by the Company’s shareholders at a special meeting on February 12, 2019. Since that special meeting, the Company has been granting equity awards, including under its XSPP, pursuant to the 2019 Plan.

As of February 28, 2022, a total of 931,340 shares remained available for grant under the 2019 Plan. In order to continue to have an appropriate supply of shares for equity incentives to recruit, hire and retain the talent required to successfully execute our business plans, the Company is asking the shareholders to approve the adoption of the 2022 Plan, resulting in an additional 2,500,000 shares available for grant for future equity incentive awards. Based on estimated usage, the Company believes the 2022 Plan will provide the Compensation Committee with sufficient shares for our equity compensation program (exclusive of any grants under the XSPP or any successor program thereto) for an additional two to three years. If the 2022 Plan is approved, awards granted under the 2019 Plan or any other Prior Plan (as defined in the 2022 Plan) will continue to be subject to the terms of the Company equity plan under which they were granted.

While the 2,500,000 shares that will be available under the 2022 Plan will increase the potential dilution to our current shareholders, we believe that our equity compensation plan is well-managed. Additionally, the shares available under the 2022 Plan would increase our overhang from 8% to 11%. Since the 2019 Plan was approved by shareholders, our net sales have grown by 151%, from \$343.8 million in 2017 (the latest date for which such information was available when shareholders voted on the 2019 Plan) to \$863.4 million in 2021 and five year total shareholder return is over 500%. Over the past three years, we have delivered a 27% compound annual revenue growth rate. Annual Adjusted EBITDA<sup>(1)</sup> of \$178.2 million in 2021 reflected a 20.6% profit margin and showcases our ability to deliver profitability while investing heavily in new technology. Indeed, we have achieved a three-year Adjusted EBITDA<sup>(1)</sup> CAGR of 43%. Our focus on building best-in-class subscription software has driven our annual recurring software revenue to \$327 million, tripling over three years.

- (1) EBITDA represents a non-GAAP financial measure. For further information about this non-GAAP measure and a reconciliation to net income, the most comparable GAAP financial measure, see Part II, Item 7 "Management's Discussion and Analysis for Financial Condition and Results of Operations-Non-GAAP Financial Measures" in the accompanying Annual Report.

Like the 2019 Plan, the 2022 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights (“SARs”), restricted stock, restricted stock units, stock grants, stock units, performance shares, performance share units and performance cash. The key differences between the 2022 Plan and the 2019 Plan include the following:

- The total number of shares authorized for issuance under the 2022 Plan is 2,500,000, plus the number of shares that were authorized but unissued under the 2019 Plan and the other Prior Plans as of the Effective Date (931,340 shares, as of February 28, 2022). Based on current grant practices, we believe the 2022 Plan will provide the Compensation Committee with sufficient shares for grants (exclusive of any grants under the XSPP or any successor program thereto) through approximately 2024.
- The definition of “change in control” has been modified to include any of the following events: (i) an acquisition (other than directly from the Company) by an individual, entity or a group (excluding the Company or an employee benefit plan of the Company) of 30% or more of the combined voting power of

the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); (ii) a change during any 24 consecutive calendar months in a majority of the Company’s current Board (the “Incumbent Board”) (excluding any persons approved by a vote of at least a majority of the Incumbent Board other than in connection with an actual or threatened proxy contest); (iii) the consummation of a merger, consolidation or sale of all or substantially all of the Company’s assets (collectively, a “Business Combination”) other than a Business Combination immediately after which (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such Business Combination, (B) at least a majority of the board of directors of the resulting corporation were members of the Incumbent Board, and (C) no person owns 30% or more of the stock of the resulting corporation, who did not own such stock immediately before the Business Combination; or (iv) shareholder approval of a complete liquidation or dissolution of the Company.

- Unless sooner terminated, the 2022 Plan will expire on the ten year anniversary of the Effective Date.

No awards have been granted at this time under the 2022 Plan. If shareholders do not approve the 2022 Plan, the 2019 Plan will remain in effect in accordance with its current terms.

### Historical Equity Award Data

The following table illustrates the Company’s historical burn rate for the past three years. Burn rate is calculated as (i) the number of stock options and time-based restricted stock units (“RSUs”) granted, plus (ii) the number of performance-based restricted stock units (“PSUs”) earned, divided by (iii) the weighted average basic common shares outstanding in the year indicated. The Company’s burn rate was as follows:

Year	(a) Options Granted <sup>(1)</sup>	(b) RSUs Granted	(c) PSUs Earned	(d) = (a) + (b) + (c) Total Granted/Earned	(e) Weighted Average Basic Outstanding Granted/Earned	(d) ÷ (e) Burn Rate
2019	-	717,915	103,416	821,331	59,189,566	1.39%
2020	-	576,891	183,540	760,431	61,782,262	1.23%
2021	-	686,166	4,345,601	5,031,767	66,190,528	7.60%
<b>3-Year Average</b>						<b>3.41 %</b>

- <sup>(1)</sup> Options are included in the year granted, rather than earned. Options granted pursuant to the CEO Performance Award are excluded as they were granted in 2018.

In preparing the 2022 Plan, the Company has taken into consideration current best practices with respect to equity-based compensation plans. In this regard, the 2022 Plan contains the following provisions, which we believe reflect best practices for equity-compensation plans: (i) prohibits the repricing of stock options and SARs without shareholder approval, (ii) prohibits the grant of stock options and SARs with discounted exercise prices, (iii) contains a definition of change in control whereby potential acceleration of awards will only occur in the event of an actual change in control transaction; (iv) includes, as a general rule, double-trigger vesting following a change in control; (v) provides, as a general rule, that no portion of any award will vest prior to the 12-month anniversary of the grant date, subject to certain limited exceptions; (vi) contains an annual \$750,000 limit on non-employee director compensation; (vii) provides that no dividend equivalent may be awarded in connection with any option or SAR and that no dividend equivalents will be paid on full value awards that vest based on the achievement of performance goals, unless and until the underlying award vests or is earned by satisfaction of the applicable performance goals; (viii) does not include an “evergreen” or similar provision providing for automatic share replenishment; and (ix) provides that every award will be subject to potential clawback or recapture to the fullest extent called for by law or Company policy.

The following is a summary of the material terms of the 2022 Plan that may be of importance to you. The summary is qualified by reference to the full text of the 2022 Plan, which is attached to this proxy statement as Annex B.

## **Summary of Material Plan Features**

### **Purpose**

The Board believes that the 2022 Plan will promote the success and enhance the value of the Company by continuing to link the personal interests of participants to those of Company shareholders. The Board also believes that the 2022 Plan will enhance the Company's ability to attract and retain qualified persons to perform services for the Company, by providing incentives to such persons to put forth maximum efforts for the Company and by rewarding persons who contribute to the achievement of the Company's economic objectives.

### **Administration**

The 2022 Plan will be administered by the Compensation Committee. The Compensation Committee must be comprised of at least two (2) independent members of the Board. Each Compensation Committee member must be a "non-employee director" as defined in Rule 16b-3 of the Securities Exchange Act and an "independent" director for purposes of the applicable NASDAQ Listing Rules. The Compensation Committee, by majority action, is authorized to interpret the 2022 Plan, to prescribe, amend, and rescind rules and regulations relating to the 2022 Plan, to provide for conditions and assurances deemed necessary or advisable to protect the interests of the Company, and to make all other determinations necessary or advisable for the administration of the 2022 Plan, to the extent they are not inconsistent with the 2022 Plan.

Subject to the express provisions of the 2022 Plan, the Compensation Committee will have the authority to determine the participants who are entitled to receive awards under the 2022 Plan; the types of awards; the times when awards shall be granted; the number of awards; the purchase price, exercise price, or base value, if any; the period(s) during which such awards shall be exercisable (whether in whole or in part); the restrictions applicable to awards; and the form of each award agreement. Neither the award agreement nor the other terms and provisions of any award must be identical for each participant. The Compensation Committee may, in its discretion, make a limited delegation of its authority to the Company's Chief Executive Officer to grant awards under the 2022 Plan to individuals who are not subject to Section 16 of the Exchange Act. The Compensation Committee also will have the authority to modify existing awards, subject to specified provisions of the 2022 Plan and the listing requirements of NASDAQ. The 2022 Plan prohibits the Compensation Committee from repricing any previously granted option or SAR without first obtaining shareholder approval.

In the case of awards made to non-employee directors, the Board, and not the Compensation Committee, shall administer the 2022 Plan.

### **Stock Subject to 2022 Plan**

The total number of shares of common stock reserved under the 2022 Plan is 2,500,000, plus the number of shares of stock that were authorized but unissued under the 2019 Plan and all other Prior Plans as of the Effective Date (931,340 shares as of February 28, 2022). Subject to the express provisions of the 2022 Plan, if any award granted under the 2022 Plan or any award outstanding under any Prior Plan after the Effective Date terminates, expires, or lapses for any reason, or is paid in cash, any stock subject to or surrendered for such award will again be stock available for the grant of an award under the 2022 Plan. The exercise of a stock-settled SAR, or broker-assisted "cashless" exercise of an option (or a portion thereof) will reduce the number of shares of stock available for issuance pursuant to the 2022 Plan by the entire number of shares of stock subject to such SAR or option (or applicable portion thereof), even though a smaller number of shares of stock will be issued upon such an exercise. Shares of stock tendered to pay the exercise price of an option or tendered or withheld to satisfy a tax withholding obligation arising in connection with an award will become available for use under the 2022 Plan.

### **Limitations on Non-Employee Director Awards**

The sum of the total cash compensation earned and paid and the aggregate grant date fair value (calculated as of the date of grant in accordance with applicable accounting rules) of shares subject to awards granted to any one participant who is a non-employee director during any one 12-month period shall not exceed \$750,000.

## Eligibility

All employees, officers and non-employee directors of, and consultants to, the Company or an affiliate thereof, as determined by the Compensation Committee, are eligible to participate in the 2022 Plan. As of March 22, 2022, this included 2,297 employees, 5 officers and 8 non-employee directors.

## Awards Available Under the 2022 Plan

The following types of awards may be granted pursuant to the 2022 Plan: incentive stock options, nonqualified stock options, SARs, restricted stock, restricted stock units, performance shares, performance share units, performance cash, stock grants and stock units.

Stock Options. The Compensation Committee may grant incentive stock options and nonqualified stock options under the 2022 Plan. Incentive stock options will be granted only to participants who are employees. The exercise price of all options granted under the 2022 Plan will be equal to at least 100% of the fair market value of Company stock on the date granted and no option may be exercised more than ten years from the date of grant. Incentive stock options will not be granted more than ten years after the earlier of the adoption of the 2022 Plan by the Board or the approval of the 2022 Plan by the Company's shareholders. The Compensation Committee will determine how the exercise price of an option may be paid and the form of payment, including, without limitation, cash, shares of stock held for longer than six months (through actual tender or by attestation), any net-issuance arrangement or other property acceptable to the Compensation Committee (including broker-assisted "cashless exercise" arrangements), and how shares of stock will be delivered or deemed delivered to participants. A participant will have no rights as a shareholder with respect to options until the record date of the stock purchase. No dividend equivalents may be awarded in connection with any option granted under the 2022 Plan.

Stock Appreciation Rights. The Compensation Committee also may grant SARs under the 2022 Plan. SARs give the participant the right to receive the appreciation in value of one share of common stock of the Company. Appreciation is calculated as the excess of (i) the fair market value of a share of common stock on the date of exercise over (ii) the base value fixed by the Compensation Committee on the grant date, which may not be less than the fair market value of a share of common stock on the grant date. Payment for SARs shall be made in cash, stock, or a combination thereof. SARs are exercisable at the time and subject to the restrictions and conditions as the Compensation Committee approves, provided that no SAR may be exercised more than ten years following the grant date. No dividend equivalents may be awarded in connection with any SAR granted under the 2022 Plan.

Restricted Stock. The Compensation Committee may grant restricted stock under the 2022 Plan. A restricted stock award gives the participant the right to receive a specified number of shares of common stock at a purchase price determined by the Compensation Committee (including and typically zero). Restrictions limit the participant's ability to transfer the stock and subject the stock to a substantial risk of forfeiture until specific conditions or goals are met. The restrictions will lapse in accordance with a schedule or other conditions as determined by the Compensation Committee, which typically involve the achievement of specified performance targets and/or continued employment of the participant until a specified date. As a general rule, if a participant terminates employment when the restricted stock is subject to restrictions, the participant forfeits the unvested restricted stock.

Restricted Stock Units. The Compensation Committee also may grant restricted stock unit awards under the 2022 Plan. A restricted stock unit award gives the participant the right to receive common stock, or a cash payment equal to the fair market value of common stock (determined as of a specified date), in the future, subject to restrictions and a risk of forfeiture. The restrictions typically involve the achievement of specified performance targets and/or the continued employment of the participant until a specified date. Participants holding restricted stock units have no rights as a shareholder with respect to the shares of stock subject to their restricted stock unit award prior to the issuance of such shares pursuant to the award.

Stock Grant Awards. The Compensation Committee may grant stock grant awards under the 2022 Plan upon such terms and conditions, and at any time, and from time to time, as the Compensation Committee shall determine. A stock grant award gives the participant the right to receive (or purchase at such price as determined by the Compensation Committee) shares of stock, free of any vesting restrictions. The purchase price, if any, for a stock grant award shall be payable in cash

or in any other form of consideration acceptable to the Compensation Committee. A stock grant award may be granted or sold in respect of past services or other valid consideration, or in lieu of any cash compensation owed to a participant.

Stock Unit Awards. The Compensation Committee may grant stock unit awards under the 2022 Plan upon such terms and conditions, and at any time, and from time to time, as the Compensation Committee shall determine. A stock unit award gives the participant the right to receive shares of stock, or a cash payment equal to the fair market value of a designated number of shares, in the future, free of any vesting restrictions. A stock unit award may be granted or sold in respect of past services or other valid consideration, or in lieu of any cash compensation owed to a participant.

Performance Shares. The Compensation Committee also may grant performance share awards under the 2022 Plan. A performance share award gives the participant the right to receive common stock if the award achieves specified performance goals during a specified performance period, each as specified by the Compensation Committee. Each performance share will have a value determined by the Compensation Committee at the time of grant.

Performance Share Units. The Compensation Committee also may grant performance share unit awards under the 2022 Plan. A performance share unit award gives the participant the right to receive common stock, a cash payment or a combination of stock and cash, if the award achieves specified performance goals during a specified performance period, each as specified by the Compensation Committee. Each performance share unit will have a value determined by the Compensation Committee at the time of grant.

Performance Cash. The Compensation Committee may grant performance cash awards under the 2022 Plan upon such terms and conditions, and at any time, and from time to time, as the Compensation Committee shall determine. A performance cash award gives the participant the right to receive an amount of cash depending on the satisfaction of one or more performance goals for a particular performance period. The achievement of the performance goals for a particular performance period will determine the ultimate value of the performance cash award.

## **Restrictions**

The Compensation Committee may impose such restrictions on any awards under the 2022 Plan as it may deem advisable, including restrictions under applicable federal securities law, the requirements of any stock exchange upon which the Company's common stock is then listed and any blue sky or state securities law applicable to the awards.

## **Minimum Vesting Requirement**

The 2022 Plan imposes a minimum vesting requirement on awards such that no portion of any award shall vest prior to the 12-month anniversary of the grant date. This minimum vesting requirement does not apply to up to 5% of the total number of shares reserved for grant under the 2022 Plan.

## **Change in Control**

The 2022 Plan also provides that in the event of a "change in control" of the Company, unless otherwise provided for in an award agreement, change in control transaction document or employment agreement between the Company and a participant, all awards that are outstanding and unvested as of immediately prior to such change in control will remain outstanding and unvested. If, however, (a) within 12 months following a change in control, the participant's employment with the Company is terminated without cause (as defined in the 2022 Plan), or (b) in connection with the change in control, no provision is made for continuation or assumption of awards in a manner that preserves the material terms and conditions of the awards, then, as of the date of such termination or change in control, all awards then-held by such participant shall become fully vested and exercisable and all restrictions on such outstanding awards shall lapse.

## **Non-transferability**

Unless otherwise determined by the Compensation Committee, no award granted under the 2022 Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and

distribution or, if applicable, until the termination of any restricted or performance period as determined by the Compensation Committee.

### **Adjustment Provisions**

If there is a change in the outstanding shares of stock because of a stock dividend or split, split-up or spin-off, extraordinary dividend or other extraordinary distribution (whether in the form of cash, stock or other property), change in control, recapitalization, rights offering, liquidation, merger, consolidation, combination, exchange of shares, or other similar corporate change or event in respect of the stock, the aggregate number of shares of stock available under the 2022 Plan and subject to each outstanding award, and any applicable stated exercise price or the basis upon which the award is measured, will be adjusted by the Compensation Committee. In such circumstances, the Compensation Committee may also make any adjustments it determines in its sole discretion to be appropriate, including, for example, substitution of other securities or property for the shares of stock subject to awards, cancellation of outstanding awards for cash or other property and cancellation of options or SARs for which the exercise price exceeds the fair market value without payment or consideration. Any adjustments permitted under the 2022 Plan will be binding on all holders of awards under the 2022 Plan.

### **Clawback**

Every award granted under the 2022 Plan is subject to potential forfeiture or recovery to the fullest extent called for by law, any applicable listing standard, or any current or future clawback policy that may be adopted by the Company from time to time, including, without limitation, any clawback policy adopted to comply with the final rules issued by the Securities and Exchange Commission and the final listing standards to be adopted by the NASDAQ Stock Market pursuant to Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

### **Amendment, Modification and Termination of 2022 Plan**

Subject to the Board's right to terminate, amend or modify the 2022 Plan at any time, the 2022 Plan will remain in effect until all awards issued under the 2022 Plan expire, terminate, are exercised or are paid in full in accordance with the 2022 Plan provisions and any award agreement. However, no award may be granted under the 2022 Plan after the tenth anniversary of the Effective Date.

The Board has discretion to terminate, amend or modify the 2022 Plan. Any such action of the Board is subject to the approval of the shareholders to the extent required by the 2022 Plan, law, regulation or the rules of any exchange on which Company stock is listed. To the extent permitted, the Board may delegate to the Compensation Committee or the Company's Chief Executive Office the authority to approve immaterial amendments to the 2022 Plan. Except as otherwise provided in the 2022 Plan, neither the Board, the Compensation Committee nor the Company's Chief Executive Officer may do any of the following without shareholder approval: reduce the purchase price, exercise price, or base value of any outstanding award, including any option or SAR; increase the number of shares available under the 2022 Plan; grant options or SARs with an exercise price or base value that is below fair market value of a share of common stock on the grant date; reprice previously granted options or SARs; cancel any option or SAR in exchange for cash or any other award or in exchange for any option or SAR with an exercise price that is less than the exercise price of the original option or SAR; extend the exercise period or term of any option or SAR beyond ten years from the grant date; expand the types of awards available for grant under the 2022 Plan; or expand the class of individuals eligible to participate in the 2022 Plan.

### **Tax Withholding**

The Company shall have the power to withhold, or require a participant to remit to the Company, the value of any applicable tax withholding in respect of any award, or take such other action as may be necessary or appropriate in the opinion of the Compensation Committee to satisfy any obligation for the payment of such taxes. To the extent that alternative methods of withholding are available under applicable laws, the Compensation Committee will have the power to choose among such methods.

## **Federal Income Tax Information**

The following is a brief summary of certain of the U.S. federal income tax consequences of certain transactions under the 2022 Plan based on federal income tax laws in effect on March 22, 2022. This summary is intended for the information of shareholders considering how to vote at the Annual Meeting and not as tax guidance to participants in the 2022 Plan, as the consequences may vary with the types of awards made, the identity of the recipients and the method of payment or settlement. The summary does not address in any detail the effects of other federal taxes (including possible “golden parachute” excise taxes) or taxes imposed under state, local or foreign tax laws.

As a general rule, a participant will not recognize taxable income with respect to any award at the time of grant except in the case of a participant who receives a restricted stock award and makes the timely election permitted by Section 83(b) of the Tax Code. Under the 2022 Plan, no participant will be permitted to make a Section 83(b) election without the prior written consent of the Company.

Upon exercise of a nonqualified stock option, the lapse of restrictions on restricted stock, or upon the payment or settlement of SARs, restricted stock units, stock grants, stock units, performance shares, performance share units or performance cash, the participant will generally recognize ordinary taxable income in an amount equal to the difference between the amount paid for the award, if any, and the fair market value of the stock or amount received on the date of exercise, lapse of restriction or payment. Subject to the deduction limitations of Section 162(m) of the Code, the Company will be entitled to a concurrent income tax deduction equal to the ordinary income recognized by the participant.

A participant who is granted an incentive stock option will not recognize taxable income at the time of exercise of such option. However, the amount equal to the excess of the stock’s fair market value on the date of exercise over the option price could be subject to the alternative minimum tax in the year of exercise (assuming the stock received is not subject to a substantial risk of forfeiture or is transferable). If stock acquired upon exercise of an incentive stock option is held for a minimum of two years from the date of grant and one year from the date of exercise (the “holding period requirements”), the gain or loss (in an amount equal to the difference between the sale price and the exercise price) upon disposition of the stock will be treated as a long-term capital gain or loss, and the Company will not be entitled to any income tax deduction. If the holding period requirements are not met, the incentive stock option will not meet the requirements of the Tax Code and the tax consequences described for nonqualified stock options will apply.

Some awards may be subject to Section 409A of the Tax Code (“Section 409A”), which regulates deferral arrangements. If certain awards fail to comply with Section 409A, a participant must include in ordinary income all deferred compensation conferred by the award, pay interest from the date of the deferral and pay an additional 20% tax. The award agreement for any award that is subject to Section 409A may include provisions necessary for compliance as determined by the Compensation Committee. The Company intends (but cannot and does not guarantee) that awards granted under the 2022 Plan will comply with the requirements of Section 409A or an exception thereto and intends to administer and interpret the 2022 Plan in such a manner.

## **Tax Consequences to the Company or Its Affiliates**

To the extent that a participant recognizes ordinary income in the circumstances described above, the Company or the subsidiary for which the employee performs services will, subject to the deduction limitations of Section 162(m) of the Tax Code, be entitled to a corresponding deduction provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense and is not an “excess parachute payment” within the meaning of Section 280G of the Tax Code.

## New Plan Benefits

Benefits under the 2022 Plan will depend on the Compensation Committee's actions and the fair market value of the Company's common stock at various future dates. Consistent with our current director compensation program discussed under "Director Compensation", it is anticipated that each non-employee director will be granted restricted stock units on the date of the Annual Meeting with a grant date fair value of \$200,000 and that the Chairman of the Board will receive a grant of restricted stock units with a grant date fair value of \$20,000 (collectively, the "2022 Director Grants"). Consequently, other than the 2022 Director Grants it is not possible to determine the future benefit that will be received by participants in the 2022 Plan. In 2021, however, the following awards were made under the 2019 Plan to the CEO and Other Individuals Named in the Summary Compensation Table.

<u>Name and Position</u>	<u>Number of Grants</u>	<u>Number of Shares Granted</u>	<u>Grant Date Fair Value (\$)</u>
Patrick W. Smith Chief Executive Officer	-	-	\$ -
Luke S. Larson President	2	21,337	3,400,264
Jawad A. Ahsan Chief Financial Officer	4	29,245	4,500,251
Joshua M. Isner Chief Revenue Officer	4	20,930	3,175,173
Jeffrey C. Kunins Chief Product Officer and EVP of Software	5	18,050	2,700,451

Stock awards made during 2021 to employees and other service providers who are not the CEO and Other Individuals Named in the Summary Compensation Table:

<u>Name and Position</u>	<u>Number of Shares Granted <sup>(1)</sup></u>	<u>Grant Date Fair Value (\$)</u>
Current executive officers as a group	89,562	\$ 13,776,140
All current non-employee directors as a group	11,616	1,620,200
All employees, including all current officers who are not executive officers as a group	709,363	116,719,373

<sup>(1)</sup> Includes performance share units at target value.

No options have been granted under the 2019 Plan. As of March 22, 2022, the closing price of the Company's stock on the NASDAQ was \$137.67 per share.

**The Board of Directors recommends a vote FOR approval of Proposal No. 5.**

## Vote Required

For Proposal No. 5, assuming the existence of a quorum at the Annual Meeting, the affirmative vote of a majority of the total votes of shares of common stock properly cast for or against the proposal, in person or represented by proxy at the meeting and entitled to vote on this proposal is required for approval. Abstentions and broker non-votes will have no impact on this proposal if a quorum is present.

## **OTHER MATTERS**

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This proxy statement contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this proxy statement that are not historical facts are hereby identified as “forward-looking statements” for the purpose of the safe harbor provided by Section 21E of the Exchange Act, and Section 27A of the Securities Act. These forward-looking statements, wherever they occur in this proxy statement, are necessarily estimates reflecting the best judgment of the management of Axon and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in this proxy statement.

Words such as “estimate,” “project,” “plan,” “intend,” “expect,” “anticipate,” “believe,” “would,” “should,” “could” and similar expressions are intended to identify forward-looking statements. These forward-looking statements are found at various places throughout this proxy statement. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include those set forth in Axon’s filings with the SEC, including its Annual Report on Form 10-K for the fiscal year ended December 31, 2021, which accompanies this proxy statement.

Axon undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. In the event that Axon does update any forward-looking statement, no inference should be made that Axon will make additional updates with respect to that statement, related matters or any other forward-looking statements.

### **SHAREHOLDER PROPOSALS**

To be eligible for inclusion in the Company’s proxy materials for the 2023 Annual Meeting of Shareholders, a proposal intended to be presented by a shareholder for action at that meeting must, in addition to complying with the shareholder eligibility and other requirements of the SEC’s rules governing such proposals, be received not later than December 9, 2022 by the Corporate Secretary of the Company at the Company’s principal executive offices, 17800 North 85th Street, Scottsdale, Arizona 85255.

Shareholders may bring business before an annual meeting of shareholders that is not submitted for inclusion in the Company’s proxy materials (including the nomination of any person to be elected as a director) only if the shareholder proceeds in compliance with the Company’s bylaws. For business to be properly brought before an annual meeting of shareholders by a shareholder that is not submitted for inclusion in the Company’s proxy materials (including the nomination of any person to be elected as a director), notice of the proposed business must be given to the Corporate Secretary of the Company in writing no later than 60 days before the annual meeting of shareholders or (if later) ten days after the first public notice of the meeting is sent to shareholders.

The notice to the Company’s Corporate Secretary must set forth as to each matter that the shareholder proposes to bring before the meeting: (a) the nature of the proposed business with reasonable particularity, including the exact text of any proposal to be presented for adoption, and the reasons for conducting that business at the annual meeting; (b) the shareholder’s name and address as they appear on the records of the Company, business address and telephone number, residence address and telephone number, and the number of shares of common stock of the Company directly or beneficially owned by the shareholder; (c) any interest of the shareholder in the proposed business; (d) the name or names of each person nominated by the shareholder to be elected or re-elected as a director, if any; and (e) with respect to any such director nominee, the nominee’s name, business address and telephone number, residence address and telephone number, the number of shares of common stock of the Company, if any, directly or beneficially owned by the nominee, all information relating to the nominee that is required to be disclosed in solicitations of proxies for elections of directors, or is otherwise required, under Regulation 14A of the Exchange Act or successor regulation, and a letter signed by the nominee stating the nominee’s acceptance of the nomination, the nominee’s intention to serve as a director if elected and consenting to being named as a nominee for director in any proxy statement relating to such election. In addition, to comply with the universal proxy rules (once effective), stockholders who intend to solicit proxies in support of director nominees

other than Company nominees must provide notice to the Company that sets forth the information required by Rule 14a-19 under the Exchange Act no later than March 21, 2023.

The presiding officer at any annual meeting shall determine whether any matter was properly brought before the meeting in accordance with the above provisions. If the presiding officer should determine that any matter has not been properly brought before the meeting, he or she will so declare at the meeting and any such matter will not be considered or acted upon.

#### **HOUSEHOLDING OF ANNUAL MEETING MATERIALS**

Some brokers and other nominee record holders may be participating in the practice of “householding” proxy statements and annual reports. This means that only one copy of the proxy statement and Annual Report may have been sent to multiple shareholders in a shareholder’s household. The Company will promptly deliver a separate copy of either document to any shareholder who contacts the Company’s investor relations department at 17800 North 85th Street, Scottsdale, Arizona 85255, phone number (480) 515-6330, requesting such copies. If a shareholder is receiving multiple copies of the proxy statement and Annual Report at the shareholder’s household and would like to receive a single copy of the proxy statement and annual report for a shareholder’s household in the future, shareholders should contact their broker, other nominee record holder, or the Company’s investor relations department to request mailing of a single copy of the proxy statement and annual report.

**A copy of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021, is available to shareholders without charge upon request to: Investor Relations, Axon Enterprise, Inc., 17800 North 85th Street, Scottsdale, Arizona 85255.**

#### **IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL SHAREHOLDER MEETING TO BE HELD ON MAY 20, 2022**

The proxy materials for the Company’s Annual Meeting of Shareholders, including the 2021 Annual Report and this proxy statement, are available over the Internet by accessing the investor relations page of the Company’s website at <http://investor.axon.com>. Other information on the Company’s website does not constitute part of the Company’s proxy materials.

By Order of the Board of Directors,

/s/ ISAAH FIELDS

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Isaiah Fields  
Corporate Secretary

April 8, 2022

**AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
AXON ENTERPRISE, INC.**

Axon Enterprise, Inc., a corporation organized and existing under and by virtue of the provisions of the General Corporation Law of the State of Delaware (the “Law”),

DOES HEREBY CERTIFY:

1. That the name of this corporation is Axon Enterprise, Inc. and that this corporation was originally incorporated pursuant to the General Corporation Law on January 5, 2001 under the name Taser International, Inc.

2. That the Board of Directors duly adopted resolutions proposing to amend and restate the Certificate of Incorporation of this corporation, declaring said amendment and restatement to be advisable and in the best interests of this corporation and its stockholders, and authorizing the appropriate officers of this corporation to solicit the consent of the stockholders therefor, which resolution setting forth the proposed amendment and restatement is as follows:

RESOLVED, that the Certificate of Incorporation of this corporation be amended and restated in its entirety to read as follows:

1. The name of the corporation is Axon Enterprise, Inc. (the “Corporation”).

2. The street and the mailing address of the Corporation’s registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, State of Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

3. The purpose of the Corporation is to conduct any lawful business, to promote any lawful purpose, and to engage in any lawful act or activity for which corporations may be organized under the Law.

4. (a) The Corporation is authorized to issue a total of 225,000,000 shares of two classes of stock: 200,000,000 shares of Common Stock, par value \$.00001 per share; and 25,000,000 shares of Preferred Stock, par value \$.00001 per share.

(b) Holders of Common Stock are entitled to one vote per share on any matter submitted to the stockholders. On dissolution of the Corporation, after any preferential amount with respect to any series of Preferred Stock has been paid or set aside, the holders of Common Stock and the holders of any series of Preferred Stock entitled to participate in such distribution of assets are entitled to receive the net assets of the Corporation.

(c) The Board of Directors is authorized, subject to limitations prescribed by the Law and by the provisions of this Article 4, and to the approval of a majority of the Corporation’s independent and disinterested directors, to provide for the issuance of shares of Preferred Stock in series. The Board of Directors is further authorized to establish from time-to-time the number of shares to be included in each series and to determine the designations, relative rights, preferences and limitations of the shares of each series. The authority of the Board of Directors with respect to each series includes determination of the following:

(i) The number of shares in and the distinguishing designation of that series;

(ii) Whether shares of that series will have full, special, conditional, limited or no voting rights, except to the extent otherwise provided by the Law;

(iii) Whether shares of that series will be convertible and the terms and conditions of the conversion, including provision for adjustment of the conversion rate in circumstances determined by the Board of Directors;

(iv) Whether shares of that series will be redeemable and the terms and conditions of the redemption, including the date or dates upon or after which they will be redeemable and the amount per share payable in case of redemption, which amount may vary under different conditions or at different redemption dates;

(v) The dividend rate, if any, on shares of that series, the manner of calculating any dividends and the preferences of any dividends;

(vi) The rights of shares of that series in the event of voluntary or involuntary dissolution of the Corporation and the right of priority of that series relative to the Common Stock and any other series of Preferred Stock on the distribution of assets on dissolution; and

(vii) Any other rights, preferences and limitations of that series that are permitted by the Law.

(d) No stockholder of the Corporation shall be entitled to any cumulative voting rights. The Board of Directors is authorized, subject to limitations prescribed by the Law, by resolution to create, issue and fix the terms of any preemptive or antidilution rights of any stockholder.

5. The number, classification and terms of the Board of Directors and the procedures to elect or remove directors and to fill vacancies on the Board of Directors shall be as follows:

(a) The number of directors that shall constitute the whole Board of Directors shall from time to time be fixed exclusively by the Board of Directors by a resolution adopted by a majority of the whole Board of Directors serving at the time of the vote. In no event shall the number of directors that constitute the whole Board of Directors be less than three (3) or more than eleven (11). No decrease in the number of directors shall have the effect of shortening the term of any incumbent director.

(b) ~~The Board of Directors of the Corporation shall be divided into three (3) classes designated Class A, Class B and Class C, respectively, as nearly equal in number as possible, with each director in office at the time of such initial classification receiving the classification approved by a majority of the Board of Directors. The initial term of office of directors of Class A shall expire at the annual meeting of stockholders of the Corporation in 2001, of Class B shall expire at the annual meeting of stockholders of the Corporation in 2002, and of Class C shall expire at the annual meeting of stockholders of the Corporation in 2003, and in all cases a director shall serve until the director's successor is elected and qualified or until the director's earlier death, resignation or removal. At each annual meeting of stockholders beginning with the annual meeting of stockholders in 2001, each director elected to succeed a director whose term is then expiring shall hold office until the third annual meeting of stockholders after his or her election and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. If the number of directors that constitutes the whole Board of Directors is changed as permitted by this Article, a majority of the whole Board of Directors that adopts the change shall also fix and determine the number of directors comprising each class; provided, however, that any increase or decrease in the number of directors shall be apportioned among the classes as equally as possible. The directors elected or appointed to the Board of Directors prior to the 2022 annual meeting of stockholders are currently divided into three classes, designated Class A, Class B and Class C. Each class consists, as nearly as may be possible, of an equal number of directors, with the directors of each class serving for a term expiring at the third annual meeting of stockholders after his or her election and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. Commencing with the Company's 2022 annual meeting of stockholders, directors shall be elected as follows: (i) each director elected at the 2022 annual meeting of stockholders to succeed those Class A directors whose term expires at such meeting shall hold office for a term expiring at the annual meeting of stockholders to be held in 2023 and until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal; (ii) each director elected at the 2023 annual meeting of stockholders to succeed those Class B directors whose term expires at such meeting shall hold office for a term expiring at the annual meeting of stockholders to be held in 2024 and until his or her~~

successor is duly elected and qualified or until his or her earlier death, resignation or removal; and (iii) beginning with the 2024 annual meeting of stockholders and at all subsequent annual meetings of stockholders, the Board of Directors will no longer be classified under Section 141(d) of the DGCL and each director elected at an annual meeting of stockholders to succeed those directors whose term expires at such meeting shall hold office for a term expiring at the next annual meeting of stockholders and until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal.

(c) Vacancies on the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause, and newly created directorships resulting from any increase in the authorized number of directors, may be filled by no less than a majority vote of the remaining directors then in office, though less than a quorum, who are designated to represent the same class or classes of stockholders that the vacant position, when filled, is to represent or by the sole remaining director (but not by the stockholders except as required by the Law); provided that, with respect to any directorship to be filled by the Board of Directors by reason of an increase in the number of directors: (i) such directorship shall be for a term of office continuing only until the next election of one or more directors by the stockholders; and (ii) the Board of Directors may not fill more than two such directorships during the period between any two successive annual meetings of stockholders. ~~Each director chosen in accordance with this provision shall receive the classification of the vacant directorship to which he or she has been appointed or, if it is a newly created directorship, shall receive the classification approved by a majority of the Board of Directors and shall hold office until the first meeting of stockholders held after his or her election for the purpose of electing directors of that classification and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal from office.~~

(d) A director may be removed from office before the expiration date of that director's term of office, with or without cause, only by an affirmative vote of the holders of a majority of the voting power of the then outstanding shares of capital stock entitled to vote thereon (the "Voting Stock"), voting together as a single class.

(e) Notwithstanding any other provision of this Certificate of Incorporation or any provision of the Law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by the Law or by this Certificate of Incorporation, the affirmative vote of a majority of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article 5.

6. (a) All of the power of the Corporation, insofar as it may be lawfully vested by this Certificate of Incorporation in the Board of Directors, is hereby conferred upon the Board of Directors. In furtherance of and not in limitation of that power or the powers conferred by the Law, a majority of directors then in office (or such higher percentage as may be specified in the Bylaws with respect to any provision thereof) shall have the power to adopt, alter, amend and repeal the Bylaws of the Corporation, and notwithstanding any other provision of this Certificate of Incorporation or any provision of the Law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by the Law or by this Certificate of Incorporation, the Bylaws of the Corporation shall not be adopted, altered, amended or repealed by the stockholders of the Corporation except in accordance with the provisions of the Bylaws and by the vote of the holders of not less than a majority of the Voting Stock, voting together as a single class. Notwithstanding any other provision of this Certificate of Incorporation or any provision of the Law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by the Law or by this Certificate of Incorporation, the affirmative vote of the holders of not less than a majority of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article 6.

(b) Subject to the terms of any Preferred Stock, any action required or permitted to be taken by the stockholders of the Corporation must be taken at a duly called annual or special meeting of such stockholders or by written consent of all (but not less than all) stockholders entitled to vote in lieu of such a meeting.

7. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for conduct as a director, provided that this Article does not eliminate the liability of any director for

any act or omission for which such elimination of liability is not permitted under the Law. No amendment to the Law that further limits the acts or omissions for which elimination of liability is permitted will affect the liability of a director for any act or omission which occurs prior to the effective date of the amendment.

8. The Corporation may indemnify to the fullest extent not prohibited by law any person (an “Indemnified Person”) who is made, or threatened to be made, a party to an action, suit or proceeding, whether civil, criminal, administrative, investigative or other (including an action, suit or proceeding by or in the right of the Corporation), by reason of the fact that such person is or was a director, officer, employee or agent of the Corporation or a fiduciary within the meaning of the Employee Retirement Income Security Act of 1974 with respect to any employee benefit plan of the Corporation, or serves or served at the request of the Corporation as a director, officer, employee or agent, or as a fiduciary of an employee benefit plan, of another corporation, partnership, joint venture, trust or other enterprise. The Corporation may, in its sole discretion, pay for or reimburse the reasonable expenses incurred by any Indemnified Person in any such proceeding in advance of the final disposition of the proceeding. This Article 8 will not be deemed exclusive of any other provisions for indemnification of or advancement of expenses to an Indemnified Person that may be included in any statute, bylaw, agreement, general or specific action of the Board of Directors, vote of stockholders or other document or arrangement.

9. The election of directors need not be by written ballot unless a stockholder demands election by written ballot before voting begins at a meeting of stockholders.

10. The name and mailing address of the incorporator is Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware, 19808.

\* \* \*

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, this Amended and Restated Certificate of Incorporation has been executed by a duly authorized officer of this corporation on this \_\_\_ day of \_\_\_\_\_, 2022.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

## AXON ENTERPRISE, INC.

## 2022 STOCK INCENTIVE PLAN

## SECTION 1

**ESTABLISHMENT, PURPOSE, EFFECTIVE DATE, EXPIRATION DATE**

**1.1 Establishment.** Axon Enterprise, Inc., a Delaware corporation (the “Company”), hereby establishes the Axon Enterprise, Inc. 2022 Stock Incentive Plan (the “Plan”). The Plan shall supersede and replace the Axon Enterprise, Inc. 2019 Stock Incentive Plan (the “2019 Plan”) and all other Prior Plans. No awards shall be made pursuant to the 2019 Plan or any other Prior Plan on or after the Effective Date; provided, that, the Prior Plans shall remain in effect until all awards granted prior to the Effective Date under such Prior Plans have been exercised, forfeited, canceled, expired or otherwise terminated in accordance with the terms of such grants.

**1.2 Purpose.** The purpose of the Plan is to advance the interests of the Company and its shareholders by enhancing the Company’s ability to attract and retain qualified persons to perform services for the Company, by providing incentives to such persons to put forth maximum efforts for the Company and by rewarding persons who contribute to the achievement of the Company’s economic objectives. To further these objectives, the Plan provides for the grant of Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Stock Grant Awards, Stock Units, Performance Shares, Performance Share Units, and Performance Cash.

**1.3 Effective Date.** The Plan shall become effective on the date it is approved by the shareholders at the Company’s 2022 Annual General Meeting of Shareholders (the “Effective Date”).

**1.4 Expiration Date.** The Plan shall expire on, and no Award may be granted under the Plan after, the tenth (10th) anniversary of the Effective Date (the “Expiration Date”). Any Awards that are outstanding on the Expiration Date shall remain in force according to the terms of the Plan and the applicable Award Agreement.

## SECTION 2

**GLOSSARY AND INTERPRETATION**

**2.1 Glossary.** Capitalized words used but not defined herein shall be given the meaning ascribed to it in the attached Glossary, which is incorporated into and is part of the Plan.

**2.2 Interpretation.** Pronouns and other words of gender shall be read as gender-neutral. The singular shall include the plural and the plural shall include the singular. The words “include”, “includes” or “including” shall be deemed to be followed by the words “without limitation”. If any provision of this Plan is determined to be for any reason invalid or unenforceable, the remaining provisions shall continue in full force and effect.

## SECTION 3

**ELIGIBILITY AND PARTICIPATION**

**3.1 General Eligibility.** Persons eligible to participate in the Plan consist of all employees, officers and Non-Employee Directors of, and Consultants to, the Company or any Affiliate. Awards may also be granted to prospective employees or Non-Employee Directors but no portion of any such Award shall vest, become exercisable, be issued, or become effective prior to the date on which such individual begins to provide services to the Company or its Affiliates.

**3.2 Actual Participation.** Subject to the provisions of the Plan, the Committee may, from time to time, select from among all eligible individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award.

## **SECTION 4**

### **ADMINISTRATION**

**4.1 General.** The Plan shall be administered by the Committee or, with respect to individuals who are Non-Employee Directors, the Board. All references in the Plan to the “Committee” shall refer to the Committee or Board, as applicable. The Committee, by majority action thereof, is authorized to interpret the Plan, to prescribe, amend, and rescind rules and regulations as it may deem necessary or advisable to administer the Plan, to provide for conditions and assurances deemed necessary or advisable to protect the interests of the Company, and to make all other determinations necessary or advisable for the administration of the Plan, but only to the extent not contrary to the express provisions of the Plan. Determinations, interpretations, or other actions made or taken by the Committee in good faith pursuant to the provisions of the Plan shall be final, binding and conclusive for all purposes of the Plan.

**4.2 Committee Responsibilities.** Subject to the provisions of the Plan, the Committee shall have the authority to: (a) designate the Participants who are entitled to receive Awards under the Plan; (b) determine the types of Awards and the times when Awards shall be granted; (c) determine the number of Awards to be granted and the number of shares of Stock to which an Award shall relate; (d) determine the terms and conditions of any Award, including the purchase price or exercise price or base value, the grant price, the period(s) during which such Awards shall be exercisable (whether in whole or in part); (e) determine any restrictions or limitations on the Award, any schedule for lapse of restrictions or limitations, and accelerations or waivers thereof, based in each case on such considerations as the Committee determines; provided, however, that except in the case of a Change in Control, the Committee shall not have the authority to accelerate the vesting or waive the forfeiture restrictions on any Award subject to the minimum vesting requirement set forth in Section 12.9 prior to the date on which such minimum vesting requirements are satisfied; (f) determine whether, to what extent, and in what circumstances an Award may be settled in, or the exercise price or purchase price of an Award may be paid in cash, Stock or other property, or whether an Award may be canceled, forfeited, exchanged or surrendered; (g) prescribe the form of each Award Agreement, which need not be the same for each Participant; (h) decide all other matters that must be determined in connection with an Award; (i) interpret the terms of, and determine any matter arising pursuant to, the Plan or any Award Agreement; (j) make any other decisions or determinations that may be required pursuant to the Plan or an Award Agreement as the Committee deems necessary or advisable to administer the Plan, including establishing, adopting or revising any rules and regulations as it deems necessary or advisable to administer the Plan; and (k) correct any defects and reconcile any inconsistencies in the Plan or any Award Agreement. The Committee shall also have the authority to modify existing Awards to the extent that such modification is within the power and authority of the Committee as set forth in the Plan. The foregoing list of powers is not intended to be complete or exclusive and, to the extent not contrary to the express provisions of the Plan, the Committee shall have such powers, whether or not expressly set forth in the Plan, that it may determine necessary or appropriate to administer the Plan.

**4.3 Decisions Final.** The Committee’s interpretation of the Plan and any Award Agreement and all decisions and determinations by the Committee with respect to the Plan and the Award Agreements are final, binding and conclusive on all parties. All authority of the Committee with respect to Awards issued pursuant to the Plan, including the authority to amend outstanding Awards, shall continue after the termination of the Plan so long as any Award remains outstanding. Any action authorized to be taken by the Committee pursuant to the Plan may be taken or not taken by the Committee as long as such action or decision not to act is not inconsistent with a provision of the Plan. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award granted under the Plan.

**4.4 Delegation to CEO.** The Committee may, in its discretion, delegate to the CEO, in writing, the power and authority to grant Awards to individuals (other than to employees who are or may become, upon hiring, employees subject to Section 16 of the Exchange Act) to expedite the hiring process or to retain talented employees. The Committee’s delegation to the CEO may be revoked or modified at any time. Any such delegation must be consistent with applicable law and shall be subject to such restrictions or limitations as may be imposed by the Committee and must, at a minimum, specify the total number of shares of Stock subject to such Awards and the vesting schedule applicable to such Awards.

**SECTION 5**  
**SHARES AVAILABLE FOR GRANT**

**5.1** **Number of Shares.** Subject to adjustment as provided in Section 5.4, the aggregate number of shares of Stock reserved and available for grant pursuant to the Plan shall be 2,500,000 shares of Stock, plus the number of shares of Stock that are authorized but unissued under the Prior Plans as of the Effective Date. The shares of Stock delivered pursuant to any Award may consist, in whole or in part, of authorized but unissued Stock, treasury Stock not reserved for any other purposes, or Stock purchased on the open market.

**5.2** **Share Counting.** The following rules shall apply solely for purposes of determining the number of shares of Stock available for grant under the Plan at any given time:

a. The number of shares of Stock available for grant under the Plan shall be reduced by one share of Stock for each share subject to Awards granted under the Plan.

b. In the event any Award granted under the Plan, or any award outstanding under any Prior Plan after the Effective Date, is terminated, expired, forfeited, or canceled for any reason, the number of shares of Stock subject to such Award, to the extent of any such termination, expiration, forfeiture, or cancellation, shall again be available for grant under the Plan.

c. If shares of Stock are not delivered in connection with an Award because the Award is settled in cash rather than in Stock, no shares of Stock shall be counted against the limit set forth in Section 5.1. If an Award may be settled in cash or Stock, the rules set forth in Section 5.2(a) shall apply until the Award is settled, at which time, if the Award is settled in cash, the underlying shares of Stock shall be added back to the shares available for grant pursuant to Section 5.1.

d. The exercise of a stock-settled SAR or broker-assisted “cashless” exercise of an Option (or a portion thereof) shall reduce the number of shares of Stock available for grant under Section 5.1 by the entire number of shares of Stock subject to such SAR or Option (or applicable portion thereof), even though a smaller number of shares of Stock shall be issued upon such an exercise.

e. Shares of Stock tendered to pay the exercise price of an Option or tendered, withheld or otherwise relinquished by a Participant to satisfy a tax withholding obligation arising in connection with an Award shall again become available for grant under the Plan. Moreover, shares of Stock purchased on the open market with cash proceeds generated by the exercise of an Option or SAR shall increase or replenish the number of shares available for grant under Section 5.1.

f. If the provisions of this Section 5.2 are inconsistent with the requirements of any regulations issued pursuant to Section 422 of the Code, the provisions of such regulations shall control over the provisions of this Section 5.2, but only as this Section 5.2 relates to Incentive Stock Options.

**5.3** **Award limits.** Notwithstanding any other provision in the Plan, and subject to adjustment as provided in Section 5.4:

a. The maximum number of shares of Stock that may be issued as Incentive Stock Options under the Plan shall be the same numeric limit set forth in Section 5.1.

b. The sum of the total cash compensation earned and paid and the aggregate grant date fair value (calculated as of the Date of Grant in accordance with applicable accounting rules) of shares of Stock subject to Awards granted to any one Participant who is a Non-Employee Director during any one 12-month period shall not exceed \$750,000. For the avoidance of doubt, if a Non-Employee Director serves the Company in more than one capacity during any 12-month period, the total compensation limit described in this Section 5.3(b) shall only apply to the compensation paid for services performed as a Non-Employee Director. To the extent any Non-

Employee Director compensation is deferred, it shall be counted toward this total compensation limit for the year in which the compensation was first earned or granted.

c. The maximum number of shares of Stock that may be granted with respect to Awards that do not satisfy the minimum vesting requirement set forth in Section 12.9 shall be five percent (5%) of the numeric limit set forth in Section 5.1.

**5.4 Adjustment in Capitalization.** Except as otherwise provided in an applicable Award Agreement, in the event of any change in the outstanding shares of Stock by reason of a stock dividend or split, split-up or spin-off, extraordinary dividend or other extraordinary distribution (whether in the form of cash, Stock or other property), Change in Control, recapitalization, rights offering, liquidation, merger, consolidation, combination, exchange of shares, or other similar corporate change or event in respect of the Stock, the Committee shall equitably adjust, in the manner the Committee determines appropriate, any or all of: (a) the number and class of shares of Stock made available for grant pursuant to Section 5.1; (b) any numeric or share-based limit expressed in the Plan; (c) the number and class of and/or price of shares of Stock subject to then outstanding Awards; (d) the performance period, performance targets and/or other goals applicable to any outstanding Awards; or (e) any other terms of an Award that are affected by the event. Moreover, in the event of any such transaction described in the preceding sentence, except as otherwise provided in an applicable Award Agreement, the Committee, in its discretion, may provide in substitution for any or all outstanding Awards such alternative consideration (including cash) as it, in good faith, may determine, including (i) making provision for a cash payment to the holder of an outstanding Award in consideration for the cancelation of such Award, including, in the case of an outstanding Option or SAR, a cash payment to the holder of such Option or SAR in consideration for the cancelation of such Option or SAR in an amount equal to the excess, if any, of the Fair Market Value (as of a date specified by the Committee) of the shares of Stock subject to such Option or SAR over the aggregate exercise price of such Option or SAR, (ii) canceling and terminating any Option or SAR having a per-share exercise price equal to, or in excess of, the Fair Market Value of a share of Stock subject to such Option or SAR without any payment or consideration therefor or (iii) in the case of an outstanding Option or SAR, establishing a date upon which such Award will expire unless exercised prior thereto. Any action taken pursuant to this Section 5.4 shall be taken in a manner consistent with the requirements of Section 409A of the Code and, in the case of Incentive Stock Options, in accordance with the requirements of Section 424(a) of the Code. The adjustments permitted under this Section 5.4 shall be binding on all Participants without their consent or further action thereby.

**5.5 Replacement Awards.** In the event of any corporate transaction in which the Company or an Affiliate acquires a corporate entity which, at the time of such transaction, maintains an equity compensation plan pursuant to which awards of stock options, stock appreciation rights, restricted stock, or any other form of equity based compensation are then outstanding (the “Acquired Plan”), the Committee may make Awards to assume, substitute or convert such outstanding awards in such manner as may be determined to be appropriate and equitable by the Committee; provided, however, that the number of shares of Stock subject to any Award shall always be a whole number by rounding any fractional share to the nearest whole share. To the extent permitted by Section 409A of the Code, Options or SARs issued pursuant to this Section 5.5 shall not be subject to the requirement that the exercise price of such Award not be less than the Fair Market Value of Stock on the date the Award is granted. Shares used in connection with an Award granted in substitution for an award outstanding under an Acquired Plan under this Section 5.5 shall not be counted against the number of shares of Stock available for grant under Section 5.1. Any shares of Stock authorized and available for issuance under the Acquired Plan during its remaining term may, subject to adjustment as described in Section 5.4, be available for use in making Awards under the Plan with respect to persons eligible under such Acquired Plan, by virtue of the Company’s assumption of such Acquired Plan, consistent with NASDAQ Rules (or rules of any other exchange upon which the Stock is then traded), including NASDAQ Rule 5635(c), including IM-5635-1, as such Rules may be amended or replaced from time to time.

**5.6 Fractional Shares.** No fractional shares of Stock shall be issued pursuant to the Plan. Unless the Committee specifies otherwise in the Award Agreement, or pursuant to any policy adopted by the Committee, cash shall be given in lieu of fractional shares. In the event of adjustment as provided in Section 5.4 or the issuance of replacement awards as provided in Section 5.5, the total number of shares of Stock subject to any affected Award shall always be a whole number by rounding any fractional share to a whole share in a manner that complies with Section 409A.

## **SECTION 6**

### **STOCK OPTIONS**

**6.1 Options.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Options to one or more Participants upon such terms and conditions and in such amounts, as shall be determined by the Committee. Options are also subject to the following additional terms and conditions:

- a. **Exercise Price.** No Option shall be granted at an exercise price that is less than the Fair Market Value of one share of Stock on the Date of Grant.
- b. **Exercise of Option.** Options shall be exercisable at such times and in such manner, and shall be subject to such restrictions or conditions, as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant.
- c. **Term of Option.** Each Option shall expire at such time as determined by the Committee; provided, however, that no Option shall be exercisable later than the tenth (10th) anniversary of the Date of Grant.
- d. **Payment.** The exercise price for any Option shall be paid in cash or shares of Stock held for longer than six (6) months (through actual tender or by attestation). In the Award Agreement, the Committee also may prescribe other methods by which the exercise price of an Option may be paid and the form of payment including any net-issuance arrangement or other property acceptable to the Committee (including broker-assisted “cashless exercise” arrangements), and the methods by which shares of Stock shall be delivered or deemed to be delivered to Participants. The Committee, in consideration of applicable accounting standards and applicable law, may waive the six (6) month share holding period described in the first sentence of this Section 6.1(d) in the event payment of an Option is made through the tendering of shares.
- e. **Repricing of Options.** Except as otherwise provided in Section 5.4 with respect to an adjustment in capitalization, notwithstanding any other provision in the Plan to the contrary, without approval of the Company’s shareholders, an Option may not be amended, modified or repriced to reduce the exercise price after the Date of Grant. Except as otherwise provided in Section 5.4 with respect to an adjustment in capitalization, an Option also may not be surrendered in consideration of or exchanged for cash, other Awards or a new Option having an exercise price below the exercise price of the Option being surrendered or exchanged.
- f. **Nontransferability of Options.** No Option may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all Options granted to a Participant shall be exercisable during his or her lifetime only by such Participant or his or her legal representative. Notwithstanding the foregoing, the Committee may, in its discretion, permit the transfer of an Option to a Family Member, trust or partnership, or to a charitable organization, provided that no value or consideration is received by the Participant with respect to such transfer.
- g. **No Dividend Equivalents.** No dividend equivalents may be awarded in connection with any Option granted under the Plan.

**6.2 Incentive Stock Options.** Incentive Stock Options shall be granted only to Participants who are employees and the terms of any Incentive Stock Options granted pursuant to the Plan must comply with the following additional provisions of this Section 6.2:

- a. **Exercise Price.** Subject to Section 6.2(e), the exercise price per share of Stock granted pursuant to any Incentive Stock Option shall be set by the Committee, provided that the exercise price for any Incentive Stock Option shall not be less than the Fair Market Value of one share of Stock as of the Date of Grant.
- b. **Term of Incentive Stock Option.** In no event may any Incentive Stock Option be exercisable for more than ten (10) years from the Date of Grant. Incentive Stock Options shall not be granted more than ten (10) years after the earlier of the adoption of the Plan or the approval of the Plan by the Company’s shareholders.

- c. **Lapse of Option.** An Incentive Stock Option shall lapse in the following circumstances:
- i. The Incentive Stock Option shall lapse ten (10) years from the Date of Grant, unless an earlier time is set forth in the Award Agreement;
  - ii. The Incentive Stock Option shall lapse upon a Termination of Employment for any reason other than the Participant's death or Disability, unless otherwise provided in the Award Agreement; and
  - iii. If the Participant incurs a Termination of Employment on account of Disability or death before the Option lapses pursuant to paragraph (i) or (ii) above, the Incentive Stock Option shall lapse, unless it is previously exercised, on the earlier of: (A) the scheduled termination date of the Option; or (B) 12 months after the date of the Participant's Termination of Employment on account of death or Disability. Upon the Participant's death or Disability, any Incentive Stock Options exercisable at the Participant's death or Disability may be exercised by the Participant's legal representative or representatives, by the person or persons entitled to do so pursuant to the Participant's last will and testament in the case of death, or, if the Participant fails to make testamentary disposition of such Incentive Stock Option or dies intestate, by the person or persons entitled to receive the Incentive Stock Option pursuant to the applicable laws of descent and distribution.
- d. **Individual Dollar Limitation.** The aggregate fair market value (determined as of the time an Award is made and in accordance with Section 422 of the Code) of all shares of Stock subject to Incentive Stock Options are first exercisable by a Participant in any one calendar year may not exceed \$100,000 or such other limitation as may then be imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options.
- e. **Ten Percent Owners.** An Incentive Stock Option may be granted to any employee who, at the Date of Grant, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of Stock of the Company only if such Option is granted at a price that is not less than 110% of Fair Market Value on the Date of Grant and the Option is exercisable for no more than five (5) years from the Date of Grant.
- f. **Right to Exercise.** Except as provided in Section 6.2(c)(iii), an Incentive Stock Option may be exercised only by the Participant during the Participant's lifetime.
- g. **Limitation on Number of Shares Subject to Awards.** In accordance with Section 5.3(a), but subject to adjustment as provided in Section 5.4, the maximum number of shares of Stock that may be issued as Incentive Stock Options under the Plan shall be the same numeric limit set forth in Section 5.1.

## **SECTION 7**

### **STOCK APPRECIATION RIGHTS**

**7.1 Stock Appreciation Rights.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant SARs to one or more Participants upon such terms and conditions and in such amounts, as shall be determined by the Committee. SARs may be granted in connection with the grant of an Option, in which case the exercise of such SARs shall result in the surrender of the right to purchase the shares under the Option as to which the SARs were exercised. When SARs are granted in connection an Incentive Stock Option, the SARs shall have such terms and conditions as shall be required by Section 422 of the Code. Alternatively, SARs may be granted independently of Options. SARs are also subject to the following additional terms and conditions:

- a. **Base Value.** No SAR shall be granted at a base value that is less than the Fair Market Value of one share of Stock on the Date of Grant.
- b. **Exercise of SARs.** SARs shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall, in each instance approve, which need not be the same for all Participants.

- c. **Term of SARs.** Each SAR shall expire at such time as determined by the Committee; provided, however, that no SAR shall be exercisable later than the tenth (10th) anniversary the Date of Grant.
- d. **Payment of SAR Amount.** Upon the exercise of a SAR, the Participant shall be entitled to receive an amount determined by multiplying: (i) the excess, if any, of the Fair Market Value of a share of Stock on the date of exercise, over the base value fixed by the Committee on the Date of Grant; by (ii) the number of shares with respect to which the SAR is exercised. Payment for SARs shall be made in the manner and at the time specified by the Committee in the Award Agreement. At the discretion of the Committee, the Award Agreement may provide for payment of SARs in cash, shares of Stock of equivalent value, or in a combination thereof.
- e. **Repricing of SARs.** Except as otherwise provided in Section 5.4 with respect to an adjustment in capitalization, notwithstanding any other provision in the Plan to the contrary, without approval of the Company's shareholders, a SAR may not be amended, modified or repriced to reduce the base value after the Date of Grant. Except as otherwise provided in Section 5.4 with respect to an adjustment in capitalization, a SAR also may not be surrendered in consideration of or exchanged for cash, other Awards or a new SAR having a base value below the base value of the SAR being surrendered or exchanged.
- f. **Nontransferability of SARs.** No SAR may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all SARs granted to a Participant shall be exercisable during his or her lifetime only by such Participant or his or her legal representative. Notwithstanding the foregoing, the Committee may, in its discretion, permit the transfer of a SAR to a Family Member, trust or partnership, or to a charitable organization, provided that no value or consideration is received by the Participant with respect to such transfer.
- g. **No Dividend Equivalents.** No dividend equivalents may be awarded in connection with any SAR granted under the Plan.

## **SECTION 8**

### **RESTRICTED STOCK AND RESTRICTED STOCK UNITS**

**8.1 Restricted Stock.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Restricted Stock to one or more Participants upon such terms and conditions, and in such amounts, as shall be determined by the Committee. Restricted Stock Awards are also subject to the following additional terms and conditions:

- a. **Issuance and Restrictions.** Restricted Stock shall be subject to such conditions and/or restrictions as the Committee may impose (including limitations on transferability, the right to receive dividends, or the right to vote the Restricted Stock), which need not be the same for each grant or for each Participant. These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as determined by the Committee. To the extent that Restricted Stock includes the right to receive dividends, any dividends paid by the Company during the period of restriction shall accrue and shall not be paid to the Participant until and only to the extent the Restricted Stock vests and becomes nonforfeitable. Except as otherwise provided in the Award Agreement, Participants holding shares of Restricted Stock may not exercise voting rights with respect to the shares of Restricted Stock during the period of restriction.
- b. **Forfeiture.** Except as otherwise provided in the Award Agreement, upon a Termination of Employment (or Termination of Service) during the applicable period of restriction, Restricted Stock that is at that time subject to restrictions shall be forfeited.
- c. **Evidence of Ownership for Restricted Stock.** Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine, which may include an appropriate book entry credit on the books of the Company or a duly authorized transfer agent of the Company. If certificates representing shares of Restricted Stock are registered in the name of the Participant, the certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company

may, in its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

**8.2 Restricted Stock Units.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Restricted Stock Units to one or more Participants upon such terms and conditions, and in such amounts, as shall be determined by the Committee. Restricted Stock Units are also subject to the following additional terms and conditions:

a. **Issuance and Restrictions.** Restricted Stock Units grant a Participant the right to receive a specified number of shares of Stock, or a cash payment equal to the Fair Market Value (determined as of a specified date) of a specified number of shares of Stock, subject to such conditions and/or restrictions as the Committee may impose, which need not be the same for each grant or for each Participant. These restrictions may lapse separately or in combination at such times, in such circumstances, in such installments, or otherwise, as determined by the Committee.

b. **Forfeiture.** Except as otherwise provided in the Award Agreement, upon a Termination of Employment (or Termination of Service in the case of a Consultant or Non-Employee Director) during the applicable period of restriction, Restricted Stock Units that are at that time subject to restrictions shall be forfeited.

c. **Form and Timing of Payment.** Payment for vested Restricted Stock Units shall be made in the manner and at the time designated by the Committee in the Award Agreement. In the Award Agreement, the Committee may provide that payment shall be made in cash or Stock, or in a combination thereof.

## **SECTION 9**

### **STOCK GRANTS AND STOCK UNITS**

**9.1 Stock Grants.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Stock Grant Awards to one or more Participants upon such terms and conditions, and in such amounts, as shall be determined by the Committee. Subject to Section 5.3(c), a Stock Grant Award grants the Participant the right to receive (or purchase at such price as determined by the Committee) a designated number of shares of Stock free of any vesting restrictions. The purchase price, if any, for a Stock Grant Award shall be payable in cash or other form of consideration acceptable to the Committee. A Stock Grant Award may be granted or sold as described in the preceding sentence in respect of past services or other valid consideration, or in lieu of any cash compensation due to such Participant.

**9.2 Stock Units.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Stock Unit Awards to one or more Participants upon such terms and conditions, and in such amounts, as shall be determined by the Committee. Subject to Section 5.3(c), a Stock Unit Award grants the Participant the right to receive a designated number of shares of Stock, or a cash payment equal to the Fair Market Value (determined as of a specified date) of a designated number of shares of Stock, in the future free of any vesting restrictions. A Stock Unit Award may be granted as described in the preceding sentence in respect of past services or other valid consideration, or in lieu of any cash compensation due to such Participant.

## **SECTION 10**

### **PERFORMANCE SHARES, PERFORMANCE SHARE UNITS, AND PERFORMANCE CASH**

**10.1 Performance Shares.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Performance Shares to one or more Participants upon such terms and conditions, and in such amounts, as shall be determined by the Committee. A Performance Share grants the Participant the right to receive a specified number of shares of Stock depending on the satisfaction of any one or more Performance Goals. Performance may be measured on a specified date or dates or over any period or periods determined by the Committee. Unless otherwise provided in the Award Agreement, payment for vested Performance Shares shall be made in Stock. To the extent that an Award of Performance Shares includes the right to receive dividends, any dividends paid by the Company during the period of restriction shall accrue and shall not be paid to the Participant until and only to the extent the Performance Shares vest and become nonforfeitable.

**10.2 Performance Share Units.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Performance Share Units to one or more Participants upon such terms and conditions, and in such amounts, as shall be determined by the Committee. A Performance Share Unit grants the Participant the right to receive a specified number of shares of Stock or a cash payment equal to the Fair Market Value (determined as of a specified date) of a specified number of shares of Stock depending on the satisfaction of any one or more Performance Goals. Performance may be measured on a specified date or dates or over any period or periods determined by the Committee. At the discretion of the Committee, the Award Agreement may provide for payment for vested Performance Share Units in cash, shares of Stock of equivalent cash value, or in a combination thereof.

**10.3 Performance Cash.** Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Performance Cash to one or more Participants upon such terms and conditions, and in such amounts, as shall be determined by the Committee. An award of Performance Cash grants the Participant the right to receive an amount of cash depending on the satisfaction of any one or more Performance Goals. Performance may be measured on a specified date or dates or over any period or periods determined by the Committee.

**10.4 Performance Goals.** The Performance Goal or Goals applicable to any Performance Share, Performance Share Unit or Performance Cash awards shall be specified by the Committee in the Award Agreement. The Committee shall retain the power to adjust the Performance Goals, the level of attainment of the Performance Goals or otherwise increase or decrease the amount payable with respect to any Award made pursuant to this Section 10.

## **SECTION 11** **CHANGE IN CONTROL**

**11.1 Double Trigger Vesting.** Notwithstanding any other provision in the Plan to the contrary, and except as otherwise provided in an applicable Award Agreement, the applicable Change in Control transaction documents or any employment agreement between the Company and a Participant, in the event that an employee Participant incurs a Termination of Employment without Cause within 12 months following a Change in Control, any Awards that are still outstanding following such Change in Control shall become fully vested and exercisable and all restrictions on such Awards shall lapse as of the date of the Participant's Termination of Employment without Cause. To the extent that this provision causes Incentive Stock Options to exceed the dollar limitation set forth in Section 422(d) of the Code or any successor provision, the excess Options shall be deemed to be Non-Qualified Stock Options.

**11.2 Substitution or Assumption.** Notwithstanding Section 11.1 and except to the extent the Committee specifically established otherwise in an applicable Award Agreement, and except as provided in Section 11.4, in the event of a Change in Control, unless provision is made in connection with the Change in Control for assumption or continuation of Awards previously granted or substitution of such Awards for new awards covering shares of a successor corporation or its "parent corporation" (as defined in Section 424(e) of the Code) or "subsidiary corporation" (as defined in Section 424(f) of the Code) with appropriate adjustments as to the number and kinds of shares and, if applicable, exercise prices and Performance Goals, in each case, that the Committee determines shall preserve the material terms and conditions of such Awards as in effect immediately prior to the Change in Control (including with respect to the vesting schedules, the intrinsic value of the awards (if any) as of the Change in Control, the difficulty of achieving Performance Goals (if applicable) and transferability of the shares underlying such Awards), immediately upon the occurrence of a Change in Control, any Awards that are still outstanding following such Change in Control shall become fully vested and exercisable and all restrictions on such Awards shall lapse as of the date of the Change in Control.

**11.3 Participant Consent Not Required.** Nothing in this Section 11 or any other provision of the Plan is intended to provide any Participant with any right to consent to or object to any transaction that might result in a Change in Control and each provision of the Plan shall be interpreted in a manner consistent with this intent. Similarly, nothing in this Section 11 or any other provision of the Plan is intended to provide any Participant with any right to consent to or object to any action taken by the Board or Committee in connection with a Change in Control transaction.

**11.4 Awards Subject to Section 409A of the Code.** Notwithstanding any provision of the Plan to the contrary, unless otherwise provided in the applicable Award Agreement, if any amount payable pursuant to an Award constitutes deferred compensation (within the meaning of Section 409A of the Code), in the event of a Change in Control, to the extent provided

in this Section 11, any unvested but outstanding Awards shall automatically vest as of the date of such Change in Control and shall not be subject to the forfeiture restrictions following such Change in Control; provided that, in the event that such Change in Control does not qualify as an event described in Section 409A(a)(2)(A)(v) of the Code, such Awards (and any other Awards that constitute deferred compensation that vested prior to the date of such Change in Control but are outstanding as of such date) shall not be settled until the earliest permissible payment event under Section 409A of the Code following such Change in Control.

## **SECTION 12**

### **OTHER PROVISIONS APPLICABLE TO AWARDS**

**12.1 Award Agreements.** All Awards shall be evidenced by an Award Agreement. The Award Agreement shall include such terms and provisions as the Committee determines appropriate including non-solicitation provisions, non-competition provisions, confidentiality provisions and other restrictive covenants the Committee deems appropriate. The terms of the Award Agreement may vary depending on the type of Award, the employee or classification of the employee to whom the Award is made and such other factors as the Committee deems appropriate.

**12.2 Termination of Employment or Service.** Subject to the provisions of the Plan, the Committee shall determine and set forth in the applicable Award Agreement the extent to which a Participant shall have the right to retain and/or exercise an Award following a Termination of Employment or (Termination of Service). Such provisions need not be uniform among all types of Awards and may reflect distinctions based on the reasons for such terminations, including death, Disability, a termination for Cause or reasons relating to the breach or threatened breach of restrictive covenants.

**12.3 Form of Payment.** Subject to the provisions of the Plan, the Award Agreement and any applicable law, payments or transfers to be made by the Company or any Affiliate on the grant, exercise, or settlement of any Award made be made in such form as determined by the Committee including cash, Stock, other Awards, or other property, or any combination thereof, and may be made in a single payment or transfer, in installments, or any combination thereof, in each case determined by rules adopted by the Committee.

**12.4 Limits on Transfer.**

a. **General.** Except as provided in Section 6.1(f), Section 7.1(f), Section 12.4(b) or Section 12.5, no Award may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by shall or by the laws of descent and distribution or, if applicable, until the expiration of any period during which any restrictions are applicable or any Performance Period as determined by the Committee.

b. **Transfer to Family Members.** The Committee shall have the authority to adopt a written policy that is applicable to existing Awards, new Awards, or both, which permits a Participant to transfer Awards during his or her lifetime to any Family Member. In the event an Award is transferred as permitted by such policy, such transferred Award may not be subsequently transferred by the transferee (other than another transfer meeting the conditions set forth in the policy) except by shall or the laws of descent and distribution. A transferred Award shall continue to be governed by and subject to the terms and limitations of the Plan and relevant Award Agreement, and the transferee shall be entitled to the same rights as the Participant, as if the transfer had not taken place.

**12.5 Beneficiaries.** Notwithstanding Section 12.4(a), a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death, and in accordance with Section 6.2(c)(iii), upon the Participant's Disability. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is provided to the Committee.

**12.6 Evidence of Ownership.** Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates, make any book entry credits, or take any other action to evidence shares of Stock pursuant to the exercise of any Award, unless and until the Company has determined, with advice of counsel, that the issuance and delivery of such certificates, book entry credits, or other evidence of ownership is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange or quotation system on which the shares of Stock are listed, quoted or traded. All Stock certificates, book entry credits, or other evidence of ownership delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Company deems necessary or advisable to comply with Federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Stock is listed, quoted, or traded. The Company may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Company may require that a Participant make such reasonable covenants, agreements, and representations as the Company, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. No Participant shall, with respect to any Award, make the election described in Section 83(b) of the Code without the prior written consent of the Company.

**12.7 Clawback.** Every Award issued pursuant to the Plan is subject to potential forfeiture or recovery to the fullest extent called for by law, any applicable listing standard, or any current or future clawback policy that may be adopted by the Company from time to time, including any clawback policy adopted to comply with the final rules issued by the Securities and Exchange Commission and the final listing standards to be adopted by the NASDAQ Stock Market pursuant to Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. By accepting an Award, each Participant consents to the potential forfeiture or recovery of his or her Awards pursuant to applicable law, listing standard, and/or Company clawback policy, and agrees to be bound by and comply with the clawback policy and to return the full amount required by the clawback policy. As a condition to the receipt of any Award, a Participant may be required to execute any requested additional documents consenting to and agreeing to abide by the Company clawback policy as it may be amended from time to time.

**12.8 Stock Ownership Guidelines.** By accepting an Award, each Participant who is subject thereto agrees to be bound by and comply with the Company's stock ownership guidelines as such guidelines may be amended from time to time.

**12.9 Minimum Vesting Requirement.** Subject to Sections 4.2 and 5.3(c), no portion of any Award shall vest prior to the 12-month anniversary of the Date of Grant.

**12.10 Dividend Equivalents.** In no event shall any dividend equivalent award vest or be paid prior to the vesting of the corresponding Award and such dividend equivalent awards shall only be paid to the Participant if and to the extent that the Award vests and becomes nonforfeitable.

## **SECTION 13**

### **AMENDMENT, MODIFICATION, AND TERMINATION**

**13.1 Amendment, Modification and Termination of the Plan.** The Board may at any time, and from time to time, terminate, amend or modify the Plan; provided, however, that any such action of the Board shall be subject to approval of the shareholders to the extent required by law, regulation or any stock exchange rule for any exchange on which shares of Stock are listed. Notwithstanding the above, to the extent permitted by law and the Company's charters (including the charter of the Committee), the Board may delegate to the Committee or the CEO the authority to approve immaterial amendments to the Plan. Except as provided in Section 5.4, neither the Board, the CEO, nor the Committee may, without the approval of the shareholders: (a) reduce the exercise price or base value of any outstanding Award, including any Option or SAR; (b) increase the number of shares available under the Plan; (c) grant Options or SARs with an exercise price or base value that is below Fair Market Value on the Date of Grant; (d) reprice previously granted Options or SARs or take any action relative to any Options or SARs that would be treated as a repricing under applicable NASDAQ Listing Rules (or the rules of any exchange on which the Stock is then listed); (e) cancel any Option or SAR in exchange for cash or any other Award or in exchange for any Option or SAR with an exercise price or base value that is less than the exercise price or base value for the original Option or SAR; (f) extend the exercise period or term of any Option or SAR beyond

ten (10) years from the Date of Grant; (g) expand the types of Award available for grant under the Plan; or (h) expand the class of individuals eligible to participate in the Plan.

**13.2 Awards Previously Granted.** No amendment, modification, or termination of the Plan or any Award under the Plan shall in any manner adversely affect in any material way the rights of the holder under any Award previously granted pursuant to the Plan without the prior written consent of the holder of the Award. Such consent shall not be required if the change: (a) is required by law or regulation; (b) does not adversely affect in any material way the rights of the holder; (c) is required to cause the benefits under the Plan to comply with the requirements of Section 409A of the Code; or (d) is made pursuant to any adjustment described in Section 5.4.

#### **SECTION 14** **TAX WITHHOLDING**

The Company shall have the power to withhold, or require a Participant to remit to the Company, the value (in cash, Stock, other Awards or other property) of any applicable federal, state and local tax or other withholding amounts in respect of any Award, or to take such other action as may be necessary or appropriate in the opinion of the Committee or the Company to satisfy any obligation, in whole or in part, for the payment of such taxes. Such other actions may include the requirement that the Participant, or the Company on behalf of the Participant, execute a market sale of Shares or other consideration received pursuant to the Award. The Committee may permit the Participant to satisfy a tax withholding obligation by: (a) directing the Company to withhold shares of Stock to which the Participant is entitled pursuant to the Award in an amount sufficient to cover the amount of taxes to be withheld (as such withholding amount may be determined by the Committee or, if and to the extent the Committee may allow, elected by the Participant, based on a withholding rate no less than the Participant's minimum statutory tax withholding rate and no greater than the maximum statutory tax rate, in each case, applicable in the Participant's jurisdiction(s)) (in a manner limited so as to avoid adverse accounting treatment for the Company and permitted under applicable withholding rules promulgated by the U.S. Internal Revenue Service or other applicable governmental entity in a Participant's jurisdiction(s)); (b) tendering previously-owned shares of Stock held by the Participant for six (6) months or longer (in a manner limited so as to avoid adverse accounting treatment for the Company) to satisfy the Company's applicable federal, state, local, or foreign income and employment tax withholding obligations with respect to the Participant (which holding period may be waived in accordance with Section 6.1(d)); (c) a broker-assisted "cashless" transaction (in a manner limited so as to avoid adverse accounting treatment for the Company); or (d) personal check or other cash equivalent acceptable to the Company; provided that, in the event shares of Stock are withheld in connection with the vesting of an Award of Restricted Stock, such withheld shares of Stock shall be immediately canceled by the Company and shall not constitute treasury shares.

#### **SECTION 15** **INDEMNIFICATION**

Each person who is or shall have been a member of the Committee or of the Board shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his or her behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person may be entitled under the Company's articles of incorporation, bylaws, resolution or agreement, as a matter of law, or otherwise.

#### **SECTION 16** **GENERAL PROVISIONS**

**16.1 No Rights to Awards.** No Participant or other person shall have any claim to be granted any Award and neither the Company nor the Committee is obligated to treat Participants and other persons uniformly.

**16.2 Continued Employment.** Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Company or any Affiliate to terminate any Participant's employment or service at any time, nor confer upon any Participant any right to continue in the employ or service of the Company.

**16.3 Funding.** The Company shall not be required to segregate any of its assets to ensure the payment of any Award under the Plan. Neither the Participant nor any other persons shall have any interest in any fund or in any specific asset or assets of the Company or any other entity by reason of any Award, except to the extent expressly provided hereunder. The interests of each Participant and former Participant hereunder are unsecured and shall be subject to the general creditors of the Company.

**16.4 Expenses.** The expenses of administering the Plan shall be borne by the Company.

**16.5 No Stockholders Rights.** No Award gives the Participant any of the rights of a shareholder of the Company unless and until shares of Stock are in fact issued to such person in connection with such Award.

**16.6 Titles and Headings.** The titles and headings of the Sections in the Plan and any Award Agreement are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

**16.7 Successors and Assigns.** The Plan and any Award Agreement shall be binding upon and inure to the benefit of the successors and permitted assigns of the Company, including whether by way of merger, consolidation, operation of law, assignment, purchase, or other acquisition of substantially all of the assets or business of the Company, and any and all such successors and assigns shall absolutely and unconditionally assume all of the Company's obligations under the Plan.

**16.8 Survival of Provisions.** The rights, remedies, agreements, obligations and covenants contained in or made pursuant to the Plan, any Award Agreement, and any other notices or agreements in connection therewith, shall survive the execution and delivery of such notices and agreements and the delivery and receipt of such shares of Stock.

**16.9 Requirements of Law.** The granting of Awards and the issuance of shares and/or cash under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required. The Company shall be under no obligation to register pursuant to the Securities Act, any of the shares of Stock paid pursuant to the Plan. If the shares of Stock paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act, the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption. The Committee shall impose such restrictions on any Award as it may deem advisable, including restrictions under applicable federal securities law, under the requirements of the NASDAQ (or any other exchange upon which the Stock is then traded), and under any other blue sky or state securities law applicable to such Award.

**16.10 Governing Law.** The Plan shall be governed and construed in accordance with the laws of the State of Delaware, and the rights and obligations of any and all persons having or claiming to have had an interest under the Plan or any Award Agreement shall be governed by and construed exclusively and solely in accordance with the laws of the State of Delaware without regard to the conflict of laws provisions of any jurisdictions. All parties agree to submit to the jurisdiction of the state and federal courts of Arizona with respect to matters relating to the Plan and any Award and agree not to raise or assert the defense that such forum is not convenient for such party. The Plan is an unfunded performance-based bonus plan for a select group of management or highly compensated employees and is not intended to be either an employee pension or welfare benefit plan subject to ERISA.

**16.11 Securities Law Compliance.** With respect to any Participant who is, on the relevant date, obligated to file reports pursuant to Section 16 of the Exchange Act, transactions pursuant to the Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors pursuant to the Exchange Act. Notwithstanding any other provision of the Plan or any Award Agreement, the Committee may impose such conditions on the exercise of any Award as may be required to satisfy the requirements of Rule 16b-3 or its successors pursuant to the Exchange Act. To the extent any provision of

the Plan or Award Agreement or action by the Committee fails to so comply, it shall be void to the extent permitted by law and voidable as deemed advisable by the Committee.

**16.12 Section 409A of the Code.**

a. **General Compliance.** Some of the Awards that may be granted pursuant to the Plan (including Restricted Stock Units Awards, Performance Share Awards, Performance Share Unit Awards, Performance Cash and Stock Unit Awards) may be considered to be “non-qualified deferred compensation” subject to Section 409A of the Code. If an Award is subject to Section 409A of the Code, the Company intends (but cannot and does not guarantee) that the Award Agreement and the Plan comply with and meet all of the requirements of Section 409A of the Code or an exception thereto and the Award Agreement shall include such provisions, in addition to the provisions of the Plan, as may be necessary to assure compliance with Section 409A of the Code or an exception thereto. In any case, a Participant shall be solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on the Participant or for the Participant’s account in connection with any Award (including any taxes and penalties under Section 409A of the Code), and the Company shall have no obligation to indemnify or otherwise hold a Participant harmless from any or all of such taxes or penalties. The Company makes no representations concerning the tax consequences of receipt of any Award under Section 409A or any other U.S. federal, state or local tax law.

b. **Delay for Specified Employees.** If, at the time of a Participant’s “separation from service” (as defined in Treasury Regulation Section 1.409A-1(h)), the Company has any Stock which is publicly traded on an established securities market or otherwise, and if the Participant is considered to be a Specified Employee, to the extent any payment for any Award is subject to the requirements of Section 409A of the Code and is payable upon the Participant’s separation from service, such payment shall not commence prior to the first business day following the date which is six (6) months after the Participant’s separation from service (or the date of the Participant’s death if earlier than the end of the six (6) month period). Any amounts that would have been distributed during such six month period shall be distributed on the day following the expiration of the six (6) month period.

c. **Prohibition on Acceleration or Deferral.** Under no circumstances may the time or schedule of any payment for any Award that is subject to the requirements of Section 409A of the Code be accelerated or subject to further deferral except as otherwise permitted or required pursuant to regulations and other guidance issued pursuant to Section 409A of the Code. If the Company fails to make any payment pursuant to the payment provisions applicable to an Award that is subject to Section 409A of the Code, either intentionally or unintentionally, within the time period specified in such provisions, but the payment is made within the same calendar year, such payment shall be treated as made within the specified time period. In addition, in the event of a dispute with respect to any payment, such payment may be delayed in accordance with the regulations and other guidance issued pursuant to Section 409A of the Code.

**Axon Enterprise, Inc.**

By: Isaiah Fields

Its: Corporate Secretary

## GLOSSARY

- a. “Affiliate” means any member of a “controlled group of corporations” (within the meaning of Section 414(b) of the Code as modified by Section 415(h) of the Code) that includes the Company as a member of the group. In applying Sections 1563(a)(1), (2) and (3) of the Code for purposes of determining the members of a controlled group of corporations under Section 414(b) of the Code, the language “at least 50 percent” shall be used instead of “at least 80 percent” each place it appears in Sections 1563(a)(1), (2) and (3).
- b. “Award” means any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Stock Grant Award, Stock Unit, Performance Share, Performance Share Unit, or Performance Cash granted to a Participant under the Plan.
- c. “Award Agreement” means any written agreement, contract, or other instrument or document, including an electronic agreement or document, evidencing an Award, regardless of whether the Participant’s signature or acknowledgment is required.
- d. “Board” means the Board of Directors of the Company, as constituted from time to time.
- e. “Cause” unless otherwise defined in an employment agreement between the Participant and the Company or Award Agreement, means any of the following:
- i. the Participant’s commission of, or assistance to or conspiracy with others to commit, fraud, misrepresentation, theft or embezzlement of Company assets;
  - ii. the Participant’s violations, or assistance to or conspiracy with others to commit any violations, of applicable law or of Company policies;
  - iii. the Participant’s repeated insubordination or failure to substantially perform his or her employment duties or duties as a Non-Employee Director; or
  - iv. the Participant’s engagement in conduct that is injurious to the Company, any Affiliate or the Company’s customers or partners, or any employees, representatives or agents of any such parties.
- f. “CEO” means the Chief Executive Officer of the Company.
- g. “Change in Control” means any of the following:
- i. The consummation of (A) a merger, consolidation, statutory share exchange or similar form of transaction involving (x) the Company or (y) any of its Subsidiaries, but in the case of this clause (y), only if Company Voting Securities (as defined below) are issued or issuable (a “Reorganization”) or (B) the sale, transfer or other similar disposition of all or substantially all the assets of the Company to any Person or Persons, (other than (1) any disposition to an Affiliate or (2) any dividend or distribution of assets (including the stock of any Affiliate) to the shareholders of the Company) (a “Sale”) and immediately following such Reorganization or Sale, (1) all or substantially all the Persons who were the “beneficial owners” (as used in Rule 13d 3 under the Exchange Act (or a successor rule thereto)) of the securities eligible to vote for the election of the Board (“Company Voting Securities”) outstanding immediately prior to the consummation of such Reorganization or Sale continue to beneficially own, directly or indirectly, more than 50% of the combined voting power of the then outstanding voting securities of the corporation or other entity resulting from such Reorganization or Sale (including a corporation or other entity that, as a result of such transaction, owns the Company or all or substantially all the Company’s assets either directly or through one or more subsidiaries) (the “Continuing Company”) in substantially the same proportions as their ownership, immediately prior to the consummation of such Reorganization or Sale, of the outstanding Company Voting Securities (excluding, for such purposes, any outstanding voting securities of the Continuing Company that such beneficial owners hold immediately following the consummation of the Reorganization or Sale as a result of their ownership prior to such consummation of

voting securities of any corporation or other entity involved in or forming part of such Reorganization or Sale other than the Company), (2) no Person (excluding any employee benefit plan (or related trust) sponsored or maintained by the Continuing Company or any entity controlled by the Continuing Company) beneficially owns, directly or indirectly, 30% or more of the combined voting power of the then outstanding voting securities of the Continuing Company and (3) at least a majority of the members of the board of directors of the Continuing Company were Incumbent Directors (as defined below) at the time of the execution of the definitive agreement providing for such Reorganization or Sale or, in the absence of such an agreement, at the time at which approval of the Board was obtained for such Reorganization or Sale;

ii. any Person, corporation or other entity (other than (A) the Company or (B) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or an Affiliate) becomes the beneficial owner, directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company Voting Securities; provided, however, that for purposes of this subparagraph (ii), the following acquisitions shall not constitute a Change in Control: any acquisition (x) directly from the Company, (y) by an underwriter temporarily holding such Company Voting Securities pursuant to an offering of such securities or any acquisition by a pledgee of Company Voting Securities holding such securities as collateral or temporarily holding such securities upon foreclosure of the underlying obligation or (z) pursuant to a Reorganization or Sale that does not constitute a Change in Control for purposes of subparagraph (i) above;

iii. the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company, unless such liquidation or dissolution is part of a transaction or series of transactions described in subparagraph (i) above that does not otherwise constitute a Change in Control; or

iv. during any period of twenty-four (24) consecutive calendar months, individuals who were Directors on the first day of such period (the “Incumbent Directors”) cease for any reason to constitute a majority of the non-employee members of the Board, provided that any person becoming a Director subsequent to the first day of such period whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the Incumbent Directors shall be deemed to be an Incumbent Director; provided, further, however, that no such individual shall be an Incumbent Director if such individual’s initial assumption of office occurs as a result of, or in connection with, (A) an actual or threatened proxy contest with respect to the election or removal of Directors, (B) actual or threatened solicitation of proxies or consents by or on behalf of any person or persons (whether or not acting in concert) other than the Board or (C) agreement with any Person or Persons (whether or not acting in concert) to avoid or settle any such contest or solicitation.

h. “Code” means the Internal Revenue Code of 1986, as amended, including regulations thereunder and successor provisions and regulations thereto.

i. “Committee”, except as set forth in Section 4.1, means the Compensation Committee of the Board.

j. “Consultant” means a consultant or adviser that (i) provides bona fide services to the Company or an Affiliate as an independent contractor and not as an employee; (ii) is a natural person; and (iii) does not provide services in connection with the offer or sale of the Company’s securities in a capital-raising transaction and does not directly or indirectly promote or maintain a market for the Company’s securities.

k. “Date of Grant” means the date the Committee approves the Award or a date in the future on which the Committee determines the Award shall become effective.

l. “Director” means any non-employee member of the Board, but solely in his or her capacity as such a member of the Board.

m. “Disability” means the inability of a Participant to engage in any substantially gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months. The permanence and degree of impairment shall

be supported by medical evidence. For purposes of an Incentive Stock Option, “Disability” shall have the meaning ascribed to it in Section 22(e)(3) of the Code.

n. “ERISA” means the Employee Retirement Income Security Act of 1974, as amended, including regulations thereunder and successor provisions and regulations thereto.

o. “Exchange Act” means the Securities Exchange Act of 1934, as amended, including regulations thereunder and successor provisions and regulations thereto.

p. “Fair Market Value” means, as of any date, the closing price for one share of Stock as reported on the NASDAQ (or any other exchange on which the Stock is then listed) for that date or, if no prices are reported for that date, the closing price on the last day on which such prices were reported.

q. “Family Member” means a Participant’s spouse and any parent, stepparent, grandparent, child, stepchild, or grandchild, including adoptive relationships or a trust or any other entity in which these persons (or the Participant) have more than 50% of the beneficial interest.

r. “Incentive Stock Option” means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

s. “Non-Employee Director” means a member of the Board who is not a common-law employee of the Company.

t. “Non-Qualified Stock Option” means an Option that is not intended to be an Incentive Stock Option.

u. “Option” means a right granted to a Participant under Section 6. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

v. “Participant” means a person who has been granted an Award.

w. “Performance Cash” means a right granted to a Participant pursuant to Section 10.

x. “Performance Goals” means, for a Performance Period, the goals established by the Committee for such Performance Period. The Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit or an individual. The Performance Goals may be stated in terms of absolute levels or relative to another company or companies or to an index or indices.

y. “Performance Period” means one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals shall be measured for the purpose of determining a Participant’s right to, and the payment of, an Award.

z. “Performance Share” means a right granted to a Participant under Section 10.

aa. “Performance Share Unit” means a right granted to a Participant under Section 10.

bb. “Person” means a “person” or “group” within the meaning of Sections 3(a)(9), 13(d) and 14(d) of the Exchange Act.

cc. “Prior Plan” means the 2019 Plan, the Axon Enterprise, Inc. 2018 Stock Incentive Plan, the Taser International, Inc. 2016 Stock Incentive Plan] and any other similar plan adopted by the Company at any time in the past, which has not yet lapsed or expired.

dd. “Restricted Stock” means Stock granted to a Participant under Section 8.

- ee. “Restricted Stock Unit” means a right granted to a Participant under Section 8.
- ff. “Securities Act” means the Securities Act of 1933, as amended, including regulations thereunder and successor provisions and regulations thereto.
- gg. “Specified Employee” means certain officers and highly compensated employees of the Company as defined in Treasury Regulation Section 1.409A-1(i).
- hh. “Stock” means the common stock of the Company, par value \$0.00001 per share, and such other securities of the Company that may be substituted for Stock pursuant to Section 5.
- ii. “Stock Appreciation Right” or “SAR” means a right granted to a Participant under Section 7.
- jj. “Stock Grant Award” means a right granted to a Participant under Section 9.
- kk. “Stock Unit” means a right granted to a Participant under Section 9.
- ll. “Termination of Employment” or “Termination of Service” means the cessation of performance of services for the Company. For this purpose, the transfer of a Participant among the Company and any Affiliate, or transfer from a position as a member of the Board to Employee, shall not be considered a Termination of Service or a Termination of Employment with the Company. In the context of an Award that is subject to the requirements of Section 409A of the Code, the terms “Termination of Service” and “Termination of Employment” mean a “separation from service” (as defined in Treasury Regulation Section 1.409A-1(h)).

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2021

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-16391

**Axon Enterprise, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**17800 North 85th Street  
Scottsdale, Arizona**

(Address of principal executive offices)

**86-0741227**

(I.R.S. Employer  
Identification No.)

**85255**

(Zip Code)

Registrant's telephone number, including area code:

(480) 991-0797

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

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

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

None

(Title of Class)

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

Yes  No

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

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

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

**DOCUMENTS INCORPORATED BY REFERENCE**

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

**AXON ENTERPRISE, INC.  
INDEX TO ANNUAL REPORT ON FORM 10-K  
FOR THE YEAR ENDED DECEMBER 31, 2021**

		<u>Page</u>
<b>PART I</b>		
Item 1.	Business	4
Item 1A.	Risk Factors	11
Item 1B.	Unresolved Staff Comments	25
Item 2.	Properties	25
Item 3.	Legal Proceedings	25
Item 4.	Mine Safety Disclosures	25
<b>PART II</b>		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	26
Item 6.	[Reserved]	27
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	46
Item 8.	Financial Statements and Supplementary Data	47
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	91
Item 9A.	Controls and Procedures	91
Item 9B.	Other Information	93
Item 9C.	Disclosure Regarding Foreign Jurisdictions that Prevent Inspection	93
<b>PART III</b>		
Item 10.	Directors, Executive Officers and Corporate Governance	93
Item 11.	Executive Compensation	93
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	93
Item 13.	Certain Relationships and Related Transactions, and Director Independence	94
Item 14.	Principal Accountant Fees and Services	94
<b>PART IV</b>		
Item 15.	Exhibits, Financial Statement Schedules	94
Item 16.	Form 10-K Summary	96

## **PART I**

Statements contained in this report that are not historical are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including statements regarding our expectations, beliefs, intentions and strategies regarding the future. We intend that such forward-looking statements be subject to the safe-harbor provided by the Private Securities Litigation Reform Act of 1995. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Words such as “may,” “will,” “should,” “could,” “would,” “predict,” “potential,” “continue,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “estimate,” and similar expressions, as well as statements in future tense, identify forward-looking statements. However, not all forward-looking statements contain these identifying words.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. Many events beyond our control may determine whether results we anticipate will be achieved. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements. This report lists various important factors that could cause actual results to differ materially from expected and historical results. These factors are intended as cautionary statements for investors within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act. Readers can find them under the heading “Risk Factors” in this Annual Report on Form 10-K, and investors should refer to them. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

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

## Item 1. *Business*

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

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

### Overview

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

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

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

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

Axon’s operations comprise two reportable segments:

1. **TASER:** Axon is the market leader in the development, manufacture and sale of conducted energy devices (“CEDs”), which we sell under our brand name, TASER.
2. **Software and Sensors:** We develop, manufacture and sell fully integrated hardware and cloud-based software solutions that enable law enforcement to capture, securely store, manage, share and analyze video and other digital evidence.

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

## Key Product Category Revenue Drivers: What We Offer

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

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

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

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

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

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

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

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

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

## Resources

### Manufacturing and Supply Chain

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

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

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

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

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

### Intellectual Property

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

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

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

### **Competition**

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

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

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

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

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

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

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

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

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

## **Seasonality**

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

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

## **Governmental Regulation**

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

These U.S. federal and state and foreign laws and regulations, which in some cases can be enforced by private parties in addition to government entities, are constantly evolving and can be subject to significant change. As a result, the application, interpretation, and enforcement of these laws and regulations are often uncertain and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices.

### *TASER and Axon Devices*

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

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

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

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

*Federal regulation of international sales:* Our CEDs are considered a “crime control” product by the U.S. Department of Commerce (“DOC”) for export directly from the U.S. Consequently, we must obtain an export license from the DOC for the export of our CED devices from the U.S. to any country other than Canada.

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

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

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

*U.S. and International regulation of component movements globally:* We rely on a global supply chain of components across our product lines with most final assembly occurring in the U.S. Export of these components from abroad is subject to shifting regulatory landscapes imposed by both the foreign government and U.S. authorities upon import.

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

### Radio Spectrum Devices

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

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

### Environmental Regulations

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

The European Union (“EU”) has published Directives on the restriction of certain hazardous substances in electronic and electrical equipment (the “RoHS Directive”) and on electronic and electrical waste management (the “WEEE Directive”). The RoHS Directive restricts the use of a number of substances, including lead. The WEEE Directive directs members of the EU to enact laws, regulations, and administrative provisions to ensure that producers of electric and electronic equipment are financially responsible for the collection, recycling, treatment and environmentally responsible disposal of certain products sold into the EU. In addition, similar environmental legislation has been enacted in other jurisdictions, including the U.S. (under federal and state laws) and other countries.

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

Other countries have adopted chemical restrictions regulations, including the U.S., Canada, and Australia.

## Privacy Regulations

We are subject to laws and regulations that dictate whether, how, and under what circumstances we can collect, transfer, process and/or receive certain data that is critical to our operations, including data shared between countries or regions in which we operate and data shared among our products and services. We continue to monitor and assess for compliance as the regulatory environment evolves both within the United States and in relevant international markets.

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

## **Human Capital Resources**

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

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

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

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

## Diversity and Inclusion

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

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

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

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

### Health and Safety

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

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

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

### **Available Information**

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

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

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

## Strategic Risks

**We are materially dependent on acceptance of our products by law enforcement markets, throughout the world. If law enforcement agencies do not continue to purchase and use our products, our revenues will be adversely affected.**

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

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

In the years ended December 31, 2021, 2020 and 2019, we derived a significant portion of our revenues from sales of TASER brand devices and related cartridges, and expect to depend on sales of these products for a significant portion of our revenue for the foreseeable future. A decrease in the selling prices of, or demand for these products, or their failure to maintain broad market acceptance, would significantly harm our growth prospects, operating results and financial condition.

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

Our future success will depend on our ability to develop new products or new product features that achieve market acceptance in a timely and cost-effective manner. These products include, but are not limited to, Axon Records, Axon Respond, and future generations of the TASER CED and Axon Body Cameras. The development of new products and new product features is complex, time consuming and expensive, and we may experience delays in completing the development and introduction of new products. We may choose to carry higher level of inventories to mitigate the risk of production delays, which may in turn expose us to an increased risk of obsolescence.

We are devoting significant resources to develop and deploy our cloud-based productivity and real-time operations SaaS solutions, which we intend to broadly deploy to a large number of customers. Customer requirements for these products are complex and varied. If we are unable to develop scalable solutions that can be consistently configured for customers with minimal effort, or if we are unable to grow a professional services team that can consistently configure our products to meet the requirements of large numbers of customers in a timely and cost-effective manner, our ability to broadly scale our cloud-based productivity and real-time operations SaaS solutions could be negatively impacted, and our deployment costs could negatively impact our operating results.

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

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

The technology associated with law enforcement devices and software is receiving significant attention and is rapidly evolving. While we have some patent protection in certain key areas of our CED, Axon device and SaaS technology, new technology may result in competing products that operate outside our patents and could present significant competition for our products, which could adversely affect our business, financial results and competitive position.

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

Our distribution strategy is to pursue sales through multiple channels with an emphasis on direct sales and independent distributors. We are focusing on direct sales to larger agencies through our regional sales managers and our inability to grow sales to these agencies in this manner could adversely affect our sales. Our inability to establish relationships with and retain law enforcement equipment distributors, who we believe can successfully sell our products, would adversely affect our sales. If we do not competitively price our products, meet the requirements of

our distributors or end-users, provide adequate marketing support, or comply with the terms of our distribution arrangements, our distributors may fail to aggressively market our products or may terminate their relationships with us. These developments would likely have a material adverse effect on our sales. Our reliance on the sales of our products by others also makes it more difficult to predict our revenues, cash flow and operating results.

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

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

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

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

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

Operational Risks

**Catastrophic events may disrupt our business.**

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

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

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

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

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

These events have had and could continue to have an impact on our operations. If our backup and mitigation plans are not sufficient to minimize business disruption, our financial results could be adversely affected. We are continuously monitoring our operations and intend to take appropriate actions to mitigate the risks arising from the COVID-19 pandemic, but there can be no assurances that we will be successful in doing so.

**Higher costs or unavailability of materials could adversely affect our financial results.**

We depend on certain domestic and international suppliers for the delivery of components used in the assembly of our products. Our reliance on third-party suppliers creates risks related to our potential inability to obtain an adequate supply of components or sub-assemblies and reduced control over pricing and timing of delivery of components and sub-assemblies. Specifically, we depend on suppliers of sub-assemblies, machined parts, injection molded plastic parts, printed circuit boards, custom wire fabrications and other miscellaneous customer parts for our products. Although we have and are implementing additional long-term agreements with strategic suppliers to mitigate the risk of supply continuity, there remains risk across our supply chain while we extend our supplier contract program, and there is no guarantee that supply will not be interrupted.

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

A significant number of our raw materials or components are comprised of petroleum-based products or incur some form of landed cost associated with transporting the raw materials or components to our facility. Our freight and import costs and the timely delivery of our products could be adversely impacted by a number of factors which could reduce the profitability of our operations, including: higher fuel costs; potential port closures; customs clearance issues; increased government regulation or regulatory changes for imports of foreign products into the U.S.; delays created by terrorist attacks or threats, public health issues, national disasters or work stoppages; and other matters. Any interruption of supply for any material components of our products could significantly delay the shipment of our products and have a material adverse effect on our revenues, profitability and financial condition. For example, other industries are experiencing a significant shortage of semiconductors in their supply chains. We are tracking second-and third-level constraints and have taken steps to mitigate the potential impacts by building in buffers in our raw materials inventory and ensuring our suppliers have adequate access to raw material levels aligned to our forecasts. Disruptions in the semi-conductor supply chain could cause a disruption in our ability to make our products.

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

**To the extent demand for our products increases, our future success will be dependent upon our ability to manage our growth and to increase manufacturing production capacity, which may be accomplished by the implementation of customized manufacturing automation equipment.**

To the extent demand for our products increases significantly in future periods, one of our key challenges will be to increase our production capacity to meet sales demand while maintaining product quality. Our primary strategies to accomplish this include introducing additional shifts, increasing the physical size of our assembly facilities, the hiring of additional production staff, and the implementation of additional customized automation equipment. The investments we make in this equipment may not yield the anticipated labor and material efficiencies. Our inability to meet any future increase in sales demand or effectively manage our expansion could have a material adverse effect on our revenues, financial results and financial condition.

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

The development of CEDs, devices, sensors and software is a complex and time-consuming process. New products and enhancements to existing products can require long development and testing periods. Our focus on our SaaS platform also presents complex development issues. Significant delays in new product or service releases or significant problems in creating new products or services could adversely affect our business, financial results and competitive position.

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

Generally, law enforcement and corrections agencies consider a wide range of issues before committing to purchase our products, including product benefits, training costs, the cost to use our products in addition to, or in place of, other products, budget constraints and product reliability, safety and efficacy. The length of our sales cycle may range from a few weeks to as long as several years. Adverse publicity surrounding our products or the safety of such products has in the past, and could in the future, lengthen our sales cycle with customers. In the past, we believe that our sales were adversely impacted by negative publicity surrounding our products or the use of our products. We may incur substantial selling costs and expend significant effort in connection with the evaluation of our products by potential customers before they place an order. If these potential customers do not purchase our products, we will have expended significant resources and received no revenue in return.

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

Some of our customers use funds seized through civil forfeiture proceedings to fund the purchase of our products. Legislative changes could impact our customers' ability to seize funds or use seized funds to fund purchases. Changes in civil forfeiture statutes or regulations are outside of our control and could limit the amount of funds available to our customers, which could adversely affect the sale of our products.

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

Our service involves the storage and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss of information or the total or partial deletion or encryption of all stored customer data, litigation and possible liability. We devote significant resources to engineer secure products and ensure security vulnerabilities are mitigated, and we require our third-party service providers to do so as well. Despite these efforts, security measures may be breached as a result of third-party action, employee error, and malfeasance or otherwise. Breaches could occur during transfer of data to data centers or at any time, and result in unauthorized access to our data or our customers' data. Third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as usernames, passwords or other information in order to gain access to our data or our customers' data. Additionally, hackers may develop and deploy viruses, worms, and other malicious software programs that attack or gain access to our networks and data centers.

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

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

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

We currently serve our Axon Evidence customers from third-party cloud storage providers based in the U.S. and other countries. Interruptions in our service, or loss or corruption of digital evidence, may reduce our revenue, cause us to issue credits or pay penalties, cause customers to file litigation against us, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

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

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

Complex components and assemblies used in our products may contain undetected defects that are subsequently discovered at any point in the life of the product. Defects in our products could result in a loss of sales, delay in market acceptance, damage to our reputation and increased warranty costs, which could adversely affect our business, financial results and competitive position.

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

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

- Restrictions on foreign ownership and investments, and stringent foreign exchange controls that might prevent us from repatriating cash earned in countries outside the U.S.
- Import and export requirements, tariffs, trade disputes and barriers, product certification requirements, and customs classifications that may prevent us from offering products or providing services to a particular market or obtaining necessary parts and components to manufacture products, which may lead to decreased sales and may increase our operating costs.
- Longer payment cycles in some countries, increased credit risk, and higher levels of payment fraud.

- Uncertainty regarding liability for our products and services, including uncertainty as a result of local laws and lack of legal precedent.
- Different labor laws and customs, existence of workers' councils and labor unions, and other challenges caused by distance, language, and cultural differences, making it harder to do business in certain jurisdictions.

Additionally, changes in international local political, economic, regulatory, tax, social, and labor conditions may adversely harm our business and compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business. These numerous and sometimes conflicting laws and regulations include, among others, environmental regulations, internal control and disclosure rules, privacy and data protection requirements, anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act, and other local laws prohibiting corrupt payments to governmental officials, and competition regulations, among others.

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

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

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

Our success depends upon the continued service of our key management personnel. Our success also depends on our ability to continue to attract, retain and motivate qualified technical employees. Although we have employment agreements with our officers and other members of our executive management team, the employment of such persons is "at-will" and either we or the employee can terminate the employment relationship at any time, subject to the applicable terms of the employment agreements.

We have unique equity incentives designed to attract and retain long-term employees. We utilize these plans to align pay and performance and drive shareholder returns while reducing near-term cash expenditures. Our equity incentives and ongoing stock and option grants are subject to having sufficient shares approved by our shareholders. If we are unable to obtain shareholder approval, we may be unable to attract and retain top talent. The competition for our key employees is intense and market competition for top talent has increased since our introduction of our innovative performance-based stock compensation plans in 2018. The loss of the service of one or more of our key personnel could adversely impact our business, prospects, financial condition and operating results.

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

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

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

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

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

### Financial Risks

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

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

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

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

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

Our SaaS service revenue is generally recognized ratably over the terms of the contracts, which generally range from one to five years. As a result, most of the SaaS revenue we report each quarter is the result of agreements entered into during previous quarters. Consequently, current positive or negative trends in this portion of our business may not be fully reflected in our revenue results for several periods.

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

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

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

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

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

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

We could suffer losses with respect to the uninsured balances if the depository institutions failed and the institution's assets were insufficient to cover its deposits and/or the governments did not take actions to support deposits in excess of existing insurance limits. Any such losses could have a material adverse effect on our liquidity, financial condition and results of operations.

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

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

For awards containing multiple service, performance and market conditions, where all conditions must be satisfied prior to vesting, compensation expense is recognized over the requisite service period, which is defined as the longest explicit, implicit or derived service period, based on management's estimate of the probability and timing of the performance criteria being satisfied, adjusted at each balance sheet date. Changes in the subjective and probability-based assumptions can materially affect the estimates of the fair value of the awards and timing of recognition of stock-based compensation expense and consequently, the related amount recognized in our statements of operations and comprehensive income.

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

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

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

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

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

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

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

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

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

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

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

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

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

- budgetary cycles of municipal, state and federal law enforcement and corrections agencies;
- market acceptance of our products and services;
- the timing of large domestic and international orders;
- the outcome of any existing or future litigation;
- adverse publicity surrounding our products, the safety of our products, or the use of our products;
- changes in our sales mix;
- new product introduction costs;
- increased raw material expenses;
- changes in our operating expenses, including stock-based compensation expense;
- changes in foreign currency exchange rates and
- regulatory changes that may affect the marketability of our products.

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

### Legal and Compliance Risks

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

Our CED products are often used in aggressive confrontations that may result in serious, permanent bodily injury or death to those involved. Our CED products may be associated with these injuries. A person, or the family members of a person, injured in a confrontation or otherwise in connection with the use of our products, may bring legal action against us to recover damages on the basis of theories including wrongful death, personal injury, negligent design, defective product or inadequate warning. We are currently subject to a number of such lawsuits and we have been subject to significant adverse judgments and settlements. We may also be subject to lawsuits involving allegations of misuse of our products. If successful, wrongful death, personal injury, misuse and other claims could have a material adverse effect on our operating results and financial condition and could result in negative publicity about our products. We incur significant legal expenses in defending these cases, and significant litigation could also result in a diversion of management's attention and resources, negative publicity and a potential award of monetary damages in excess of our insurance coverage. The outcome of any litigation is inherently uncertain and there can be no assurance that our existing or any future litigation will not have a material adverse effect on our business, financial condition or operating results.

#### **Other litigation may subject us to significant litigation costs and judgments and divert management attention from our business.**

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

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

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

If our products, services, or technologies were found to infringe a third-party's proprietary rights, we could be forced to discontinue use of the protected technology or enter into costly royalty or licensing agreements in order to be able to sell our products. Such royalty and licensing agreements may not be available on terms acceptable to us or at all. We could also be required to pay substantial damages, fines or other penalties, indemnify customers or distributors, cease the manufacture, use, or sale of infringing products or processes, make proprietary source code

publicly available, and/or expend significant resources to develop or acquire non-infringing technologies. Our suppliers may not provide, or we may not be able to obtain, intellectual property indemnification sufficient to offset all damages, fines or other penalties resulting from any claims of intellectual property infringement brought against us or our customers. There is no guarantee that our use of conventional technology searching and brand clearance searching will identify all potential rights holders. Rights holders may demand payment for past infringements and/or force us to accept costly license terms or discontinue use of protected technology and/or works of authorship that may include, for example, photos, videos, and software. Our current research and development focus on developing software-based products, including that which is related to artificial intelligence or virtual reality, increases this risk.

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

Our future success depends upon our proprietary technology. Our protective measures for this proprietary technology include patents, trademarks, copyrights, and trade secret protection. However, these protective measures, as well as our efforts to pursue such protective measures, may prove inadequate. For example, the value of intellectual property protection in certain countries may not be apparent until after such protection can no longer be pursued. As such, our intellectual property protection may not extend to all countries in which our products are distributed or will be distributed in the future. Though we work to protect our innovations, we may not be able to obtain protection for certain innovations. For example, we may be unable to patent some software-based products. The scope of any patent protection we have obtained, or may obtain, may not prevent others from developing and selling competing products. Despite our efforts, any intellectual property protection we obtain may be later determined to be insufficient or ineffective.

Our protective measures may prove inadequate for reasons outside of our control. Different intellectual property laws between different countries may lead to differences in protection between such countries. In certain countries in which our products are distributed, the ability to effectively enforce intellectual property rights may not exist. Patent requirements differ by country and certain domestic or foreign laws may prohibit us from satisfying these requirements, creating a risk that some of our international patents may become unenforceable. Patents for older technologies, such as our M26 and X26E models of CEDs, have expired or will expire due to statutory limits on patent term. Despite policies and efforts to maintain secrecy, trade secrets and other confidential information we maintain, or may choose to maintain in the future, could be compromised by employees, partners, or other third parties.

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

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

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

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

Our U.S. patents protect us from imported infringing products coming into the U.S. from abroad. We have made applications for patents in a few foreign countries; however, these may be inadequate to protect markets for our products in other foreign countries. Each patent is examined and granted according to the law of the country where it was filed independent of whether a U.S. patent on similar technology was granted. A patent in a foreign country may be subject to cancellation if the claimed invention has not been sold in that country. Meeting the requirements of working invention differs by country and ranges from sales in the country to manufacturing in the country. U.S. export law, or the laws of some foreign countries, may prohibit us from satisfying the requirements for working the invention, creating a risk that some of our international patents may become unenforceable.

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

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

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

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

*TASER and Axon Devices*

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

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

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

*Federal regulation of international sales:* Our CEDs are considered a “crime control” product by the U.S. DOC for export directly from the U.S. which requires us to obtain an export license from the DOC for the export of our CED devices from the U.S. to any country other than Canada. Future products and services may require classifications from the DOC before they may be shipped internationally. Our inability to obtain DOC export licenses or classifications on a timely basis for sales of our products to our international customers could significantly and adversely affect our international sales.

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

*State and local regulation:* Our CEDs are controlled, restricted or, less frequently, prohibited by a number of state and local governments. Other jurisdictions may ban or restrict the sale of our CED products, or restrict their use through changes to use-of-force laws or regulations, and our product sales may be significantly affected by additional state, county and city governmental regulation.

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

*U.S. and International regulation of component movements globally:* We rely on a global supply chain of components across our product lines with most final assembly occurring in the U.S. Export of these components from abroad is subject to shifting regulatory landscapes imposed by both the foreign government and U.S. authorities upon import. Abrupt changes to these regulations can result in delays or interruptions to final product supplies.

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

#### Radio Spectrum Devices

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

Axon body worn cameras, docks, fleet vehicle cameras and signal devices are subject to FCC’s rules and regulations. These regulations affect CEDs with Signal technology, including the TASER 7, SPPM, and future CEDs implementing wireless technology. Compliance with government regulations could increase our operations and product costs and impact our future financial results.

#### Environmental Regulations

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

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

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

### Privacy Regulations

We are subject to laws and regulations that dictate whether, how, and under what circumstances we can transfer, process and/or receive certain data that is critical to our operations, including data shared between countries or regions in which we operate and data shared among our products and services. If one or more of the legal mechanisms for transferring data from other countries to the U.S. is invalidated, if we are unable to transfer data between and among countries and regions in which we operate, or if we are prohibited from sharing data among our products and services, it could affect the manner in which we provide our services or adversely affect our financial results. Additional countries may pass legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services and expose us to significant penalties for non-compliance.

### **Item 1B. *Unresolved Staff Comments***

None.

### **Item 2. *Properties***

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

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

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

### **Item 3. *Legal Proceedings***

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

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

None.

## **PART II**

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

#### **Market Information**

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

#### **Holders**

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

#### **Dividends**

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

#### **Issuer Purchases of Equity Securities**

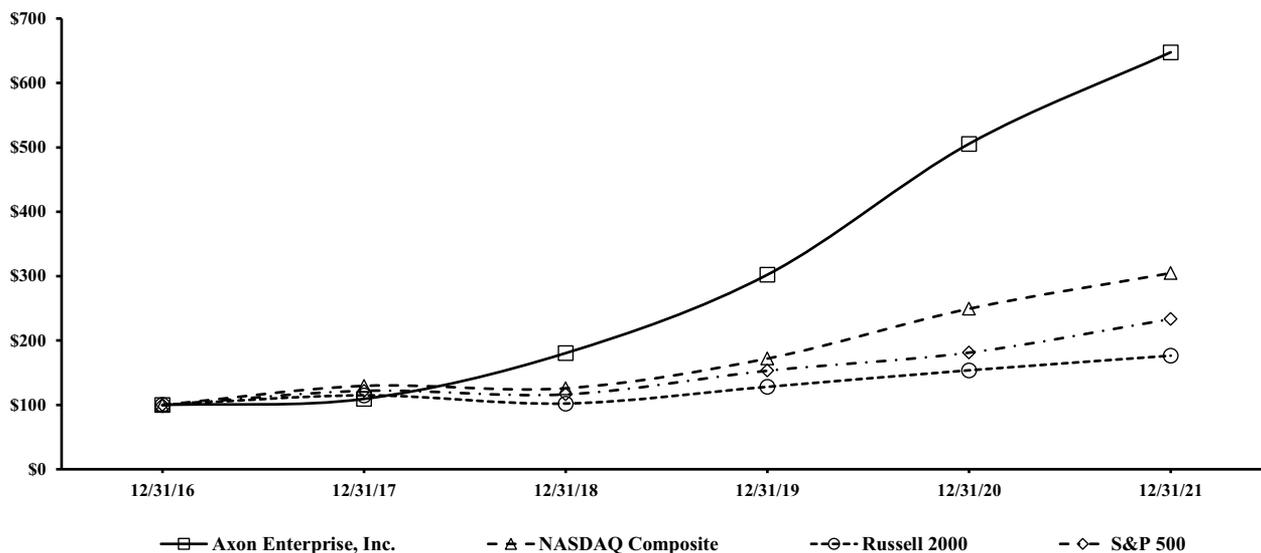
In February 2016, our Board of Directors authorized a stock repurchase program to acquire up to \$50.0 million of our outstanding common stock subject to stock market conditions and corporate considerations. The stock repurchase program does not have a stated expiration date. During the year ended December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

## Stock Performance Graph

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

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

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN**  
Among Axon Enterprise, Inc., the NASDAQ Composite Index, the Russell 2000 Index and the S&P 500 Index



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

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

**Item 6. [Reserved]**

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

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

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

### **Overview**

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

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

### **2022 Outlook**

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

### **COVID-19**

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

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

#### *Employee safety and manufacturing:*

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

#### *Supply chain:*

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

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

*Shareholder engagement:*

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

## Results of Operations

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

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

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

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

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

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

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

**For the Years Ended December 31, 2021 and 2020**

**Net Sales**

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

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

Net unit sales were as follows:

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

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

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

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

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

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

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

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

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

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

### Cost of Product and Service Sales

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

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

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

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

### Gross Margin

Gross Margin (dollars in thousands):

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

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

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

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

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

### **Sales, General and Administrative Expenses**

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

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

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

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

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

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

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

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

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

### ***Research and Development Expenses***

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

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

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

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

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

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

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

### ***Interest and Other Income, Net***

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

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

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

### ***Provision for Income Taxes***

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

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

### ***Net Income***

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

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

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

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

Net unit sales were as follows:

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

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

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

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

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

### **Non-GAAP Financial Measures**

To supplement our financial results presented in accordance with accounting principles generally accepted in the U.S. ("GAAP"), we present the non-GAAP financial measures of EBITDA and Adjusted EBITDA (CEO Performance Award). Our management uses these non-GAAP financial measures in evaluating our performance in comparison to prior periods. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance, and when planning and forecasting our future periods. A reconciliation of GAAP to the non-GAAP financial measures is presented below.

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

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

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

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

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

## Liquidity and Capital Resources

### Summary

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

### Cash Flows

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

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

#### *Operating activities*

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

### *Investing activities*

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

### *Financing activities*

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

### ***Liquidity and Capital Resources***

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

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

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

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

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

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

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

### **Contractual Obligations**

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

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

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

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

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

### **Critical Accounting Estimates**

We have identified the following accounting estimates as critical to our business operations and the understanding of our results of operations. The preparation of this Annual Report on Form 10-K requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. While we do not believe that a change in these estimates is reasonably likely, there can be no assurance that our actual results will not differ from these estimates. The effect of these estimates on our business operations is discussed below.

#### ***Product Warranties***

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

warranty costs are estimated based on historical data related to warranty claims on a quarterly basis and this rate is applied to current product sales. Historically, reserve amounts have been increased if management becomes aware of a component failure or other issue that could result in larger than anticipated warranty claims from customers. The warranty reserve is reviewed quarterly to verify that it sufficiently reflects the remaining warranty obligations based on the anticipated expenditures over the balance of the warranty obligation period, and adjustments are made when actual warranty claim experience differs from estimates. As of December 31, 2021 and 2020, our warranty reserve was approximately \$2.8 million and \$0.8 million, respectively. Warranty expense for the years ended December 31, 2021, 2020 and 2019 was \$2.9 million, \$0.0 million and \$1.6 million, respectively. Warranty expense for the year ended December 31, 2021 was impacted by higher battery degradation resulting in shorter battery lives for the Axon Body 3 on-officer body camera and warranty claims for TASER 7 handles. Warranty expense for the year ended December 31, 2020, was impacted by lower than expected warranty claims for the Axon Body 3 on-officer body camera. Warranty expense for the year ended December 31, 2019 was impacted by higher than initially expected warranty claims for the Axon Flex 2 on-officer body camera.

Revenue related to separately-priced extended warranties is initially recorded as deferred revenue at its allocated amount and subsequently recognized as net sales on a straight-line basis over the warranty service period. Costs related to extended warranties are charged to cost of product and service sales when incurred.

### ***Inventory***

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

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

### ***Revenue Recognition, Deferred Revenue and Accounts and Notes Receivable***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### ***Valuation of Goodwill, Intangible and Long-lived Assets***

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

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

### ***Income Taxes***

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

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

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

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

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

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

### ***Stock-Based Compensation***

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

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

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

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

### ***Contingencies and Accrued Litigation Expense***

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

### ***Reserve for Expected Credit Losses***

We are exposed to the risk of credit losses primarily through sales of products and services. Our expected credit loss allowance for accounts receivable, notes receivable, and contract assets represents management's best estimate and application of judgment considering a number of factors, including historical collection experience, published or estimated credit default rates for entities that represent our customer base, current and future economic and market conditions and a review of the current status of customers' trade accounts receivables. Additionally, specific reserve amounts are established to record the appropriate provision for customers that have a higher probability of default. Our monitoring activities include account reconciliation, dispute resolution, payment confirmation, consideration of customers' financial condition and macroeconomic conditions. Balances are written off when determined to be uncollectible.

We review receivables for U.S. and international customers separately to better reflect different published credit default rates and economic and market conditions.

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

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

## **Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

### **Interest Rate Risk**

We typically invest in a limited number of financial instruments, consisting principally of investments in money market accounts, certificates of deposit, corporate and municipal bonds with a typical long-term debt rating of “A” or better by any nationally recognized statistical rating organization, denominated in U.S. dollars. All of our cash equivalents and investments are treated as “available-for-sale”. We report available-for-sale investments at fair value as of each balance sheet date and record any unrealized gains or losses as a component of stockholders’ equity. The cost of securities sold is determined on a specific identification basis, and realized gains and losses are included in interest and other income, net within the consolidated statements of operations. When the fair value is below the amortized cost of a marketable security, an estimate of expected credit losses is made. The credit-related impairment amount is recognized in the consolidated statements of operations. Credit losses are recognized through the use of an allowance for credit losses account in the consolidated balance sheet and subsequent improvements in expected credit losses are recognized as a reversal of an amount in the allowance account. If we have the intent to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, then the allowance for the credit loss is written-off and the excess of the amortized cost basis of the asset over its fair value is recorded in the consolidated statements of operations. Based on investment positions as of December 31, 2021, a hypothetical 100 basis point increase in interest rates across all maturities would result in a \$0.5 million decline in the fair market value of the portfolio. Such losses would only be realized if we sold the investments prior to maturity.

Additionally, we have access to a \$50.0 million line of credit borrowing facility which bears interest at LIBOR plus 1.0 to 1.5% per year determined in accordance with a pricing grid based on our funded debt to EBITDA ratio. Under the terms of the line of credit, available borrowings are reduced by outstanding letters of credit, which totaled \$6.1 million at December 31, 2021. At December 31, 2021, there was no amount outstanding under the line of credit, and the available borrowing under the line of credit was \$43.9 million. We have not borrowed any funds under the line of credit since its inception; however, should we need to do so in the future, such borrowings could be subject to adverse or favorable changes in the underlying interest rate.

### **Exchange Rate Risk**

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

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

**Item 8. *Financial Statements and Supplementary Data***

<b><u>Index to Consolidated Financial Statements</u></b>	<b><u>Page</u></b>
Consolidated Balance Sheets as of December 31, 2021 and 2020	48
Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2021, 2020 and 2019	49
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2021, 2020 and 2019	50
Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019	51
Notes to Consolidated Financial Statements	52
Report of Grant Thornton LLP, Independent Registered Public Accounting Firm (PCAOB ID No. 248)	89

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

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

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

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

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

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

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

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

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

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

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

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

**AXON ENTERPRISE, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 - Organization and Summary of Significant Accounting Policies**

Axon Enterprise, Inc. ("Axon", the "Company", "we", or "us") is a market-leading provider of law enforcement technology solutions. Our core mission is to protect life. We fulfill that mission through developing hardware and software products that advance the long term objectives of a) obsoleting the bullet, b) reducing social conflict, and c) enabling a fair and effective justice system.

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

***Basis of Presentation and Use of Estimates***

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

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

Actual results could differ materially from those estimates.

***Cash, Cash Equivalents and Investments***

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

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

We report available-for-sale investments at fair value as of each balance sheet date and record any unrealized gains or losses as a component of stockholders' equity. The cost of securities sold is determined on a specific identification basis, and realized gains and losses are included in interest and other income, net within the consolidated statements of operations. When the fair value is below the amortized cost of a marketable security, an estimate of expected credit losses

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

is made. The credit-related impairment amount is recognized in the consolidated statements of operations. Credit losses are recognized through the use of an allowance for expected credit losses account in the consolidated balance sheet and subsequent improvements in expected credit losses are recognized as a reversal of an amount in the allowance account. If we have the intent to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, then the allowance for the credit loss is written-off and the excess of the amortized cost basis of the asset over its fair value is recorded in the consolidated statements of operations. We do not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost bases. There were no credit losses recorded on our investment portfolio during the year ended December 31, 2021.

***Restricted Cash***

Restricted cash balances of \$0.1 million and \$0.1 million as of December 31, 2021 and 2020, respectively, primarily relate to funds held in an international bank account for a country in which we are required to maintain a minimum balance to operate. Approximately half of the balance was included in prepaid expenses and other current assets on our consolidated balance sheets, with the remainder included in other assets.

***Inventory***

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

***Property and Equipment***

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

***Software Development Costs***

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

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

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

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

***Valuation of Goodwill, Intangible and Long-lived Assets***

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

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

***Customer Deposits***

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

***Revenue Recognition, Deferred Revenue and Accounts and Notes Receivable***

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

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

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

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

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

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

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

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

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

Sales are typically made on credit, and we generally do not require collateral. We are exposed to credit losses primarily through sales of products and services. Our expected loss allowance methodology for accounts receivable, notes receivable, and contract assets is developed using historical collection experience, published or estimated credit default rates for entities that represent our customer base, current and future economic and market conditions and a review of the current status of customers' trade accounts receivables. We review receivables for U.S. and international customers separately to better reflect different published credit default rates and economic and market conditions. Additionally, specific reserve amounts are established to record the appropriate provision for customers that have a higher probability of default. Our monitoring activities include account reconciliation, dispute resolution, payment confirmation, consideration of customers' financial condition and macroeconomic conditions. Balances are written off when determined to be uncollectible. Accounts and notes receivable and contract assets are presented net of a reserve for expected credit losses, which totaled \$3.3 million and \$3.4 million as of December 31, 2021 and 2020, respectively. This reserve represents management's best estimate and application of judgment considering a number of factors, including those listed above. In the event that actual uncollectible amounts differ from our estimates, additional expense could be necessary.

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

***Cost of Product and Service Sales***

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

***Advertising Costs***

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

***Standard Warranties***

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

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

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

***Research and Development Expenses***

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

***Income Taxes***

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

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

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

***Concentration of Credit Risk and Major Customers / Suppliers***

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

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

No customer represented more than 10% of total net sales for the years ended December 31, 2021, 2020 or 2019. At December 31, 2021, and 2020, no customer represented more than 10% of the aggregate balance of accounts and notes receivable and contract assets.

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

***Fair Value of Financial Instruments***

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

- Level 1 – Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.

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

- Level 2 – Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.
- Level 3 – Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect our own assumptions about inputs that market participants would use in pricing an asset or liability.

We have cash equivalents and investments, which at December 31, 2021 and 2020, were comprised of money market funds, agency bonds, certificates of deposit, commercial paper, corporate bonds, municipal bonds, U.S. Treasury bills, U.S. Treasury repurchase agreements, and U.S. Treasury inflation-protected securities. See additional disclosure regarding the fair value of our cash equivalents and investments in Note 3. Included in the balance of other assets as of December 31, 2021 and 2020 was \$5.3 million and \$4.7 million, respectively, related to corporate-owned life insurance policies which are used to fund our deferred compensation plan. We determine the fair value of our insurance contracts by obtaining the cash surrender value of the contracts from the issuer, a Level 2 valuation technique.

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

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

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

***Segment and Geographic Information***

Our operations are comprised of two reportable segments: the manufacture and sale of CEDs, batteries, accessories, extended warranties and other products and services (the “TASER” segment); and the development, manufacture and sale of software and sensors, which includes the sale of devices, wearables, applications, cloud and mobile products, and services (collectively, the "Software and Sensors" segment). Reportable segments are determined based on discrete financial information reviewed by our Chief Executive Officer who is our chief operating decision maker ("CODM"). We organize and review operations based on products and services, and currently there are no operating segments that are aggregated. We perform an analysis of our reportable segments at least annually. Additional information related to our business segments is summarized in Note 19.

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

***Stock-Based Compensation***

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

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

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

*eXponential Stock Performance Plan*

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

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

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

*Stock Options*

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

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

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

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

***Income (Loss) per Common Share***

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

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

***Recently Issued Accounting Guidance***

*Recently Adopted Accounting Pronouncements*

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

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

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

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

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

***Reclassification of Prior Year Presentation***

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

***Risks and Uncertainties***

COVID-19 related risks have had and continue to have an impact on our operations. If our backup and mitigation plans are not sufficient to minimize business disruption, our financial results could be adversely affected. We are continuously monitoring our operations and intend to take appropriate actions to mitigate the risks arising from the COVID-19 pandemic, but there can be no assurances that we will be successful in doing so.

**Note 2 - Revenues**

**Nature of Products and Services**

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

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

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

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

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

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

**Contract Balances**

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

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

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

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

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

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

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

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

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

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

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

### Remaining Performance Obligations

As of December 31, 2021, we had approximately \$2.80 billion of remaining performance obligations, which included both recognized contract liabilities as well as amounts that will be invoiced and recognized in future periods. The remaining performance obligations are limited only to arrangements that meet the definition of a contract under Topic 606 as of December 31, 2021. We expect to recognize between 15% - 20% of this balance over the next twelve months, and expect the remainder to be recognized over the following five to seven years, subject to risks related to delayed deployments, budget appropriation or other contract cancellation clauses.

### Costs to Obtain a Contract

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

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

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

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

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

- (1) Current deferred commissions are included within prepaid expenses and other current assets on the accompanying consolidated balance sheet.
- (2) Deferred commissions, net of current portion, are included in other assets on the accompanying consolidated balance sheet.

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

**Significant Judgments**

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

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

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

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

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

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

**Note 3 - Cash, Cash Equivalents and Investments**

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

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

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

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

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

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

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

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

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

**Note 4 - Expected Credit Losses**

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

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

We review receivables for U.S. and international customers separately to better reflect different published credit default rates and economic and market conditions.

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

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

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

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

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

**Note 5 - Inventory**

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

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

**Note 6 - Property and Equipment**

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

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

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

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

**Note 7 - Goodwill and Intangible Assets**

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

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

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

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

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

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

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

**Note 8 – Strategic Investments**

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

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

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

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

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

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

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

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

***Subsequent Event***

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

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

**Note 9 - Other Long-Term Assets**

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

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

<sup>(1)</sup> Represents the incremental costs of obtaining contracts with customers, which consist primarily of sales commissions. These costs are ascribed to or allocated to the underlying performance obligations in the contracts and amortized consistent with the recognition timing of the revenue for the underlying performance obligations. See Note 2 “Costs to Obtain a Contract”.

<sup>(2)</sup> During the year ended December 31, 2021, we completed an implementation of several software-as-a-service applications supporting our internal operations. Following the implementation, we placed \$4.3 million of deferred implementation costs assets related to these applications into service.

<sup>(3)</sup> During the year ended December 31, 2021, we recorded a government grant receivable totaling \$0.9 million in connection with the Arizona Qualified Facility Tax Credit (“QFTC”). Because U.S. GAAP does not contain authoritative accounting standards on this topic, we determined it most appropriate to account for the QFTC by analogy to International Accounting Standards 20 (“IAS 20”), Accounting for Government Grants and Disclosure of Government Assistance. Under IAS 20, the grant is initially recorded as other assets on the balance sheet and other income is recognized on a systematic basis over the periods in which the qualifying expenses are incurred when we determine that grant assets are no longer contingent. As of December 31, 2021, approximately \$0.5 million was recorded in other assets with the remainder recorded in prepaid expenses and other current assets on our consolidated balance sheets.

**Note 10 - Accrued Liabilities**

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

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

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

**Note 11 - Commitments and Contingencies**

***Data Storage Purchase Commitment***

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

***Purchase commitments***

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

***Subsequent Event***

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

***Product Litigation***

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

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

***U.S. Federal Trade Commission Litigation***

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

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

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

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

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

***General***

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

Based on our assessment of outstanding litigation and claims as of December 31, 2021, we have determined that it is not reasonably possible that these lawsuits will individually, or in the aggregate, materially affect our results of operations, financial condition or cash flows. However, the outcome of any litigation is inherently uncertain and there can be no assurance that any expense, liability or damages that may ultimately result from the resolution of these matters will be covered by our insurance or will not be in excess of amounts recognized or provided by insurance coverage and will not have a material adverse effect on our operating results, financial condition or cash flows.

***Off-Balance Sheet Arrangements***

Under certain circumstances, we use letters of credit and surety bonds to guarantee our performance under various contracts, principally in connection with the installation and integration of Axon cameras and related technologies. Certain of our letters of credit and surety bonds have stated expiration dates with others being released as the contractual performance terms are completed. At December 31, 2021, we had outstanding letters of credit of \$6.1 million that are expected to expire in June 2022. We also had outstanding letters of credit and bank guarantees of \$1.3 million that do not draw against our credit facility. These outstanding letters of credit and bank guarantees are expected to expire May 2022. Additionally, we had \$21.5 million of outstanding surety bonds at December 31, 2021, with \$3.5 million expiring in 2022, \$7.5 million expiring in 2023 and the remaining \$10.5 million expiring in 2024.

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

**Note 12 - Income Taxes**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We complete R&D tax credit studies for each year that an R&D tax credit is claimed for federal and state income tax purposes. Management has made the determination that it is more likely than not that the full benefit of the R&D tax credit will not be sustained on examination and recorded a liability for unrecognized tax benefits of \$18.2 million as of December 31, 2021. Should the unrecognized tax benefit of \$18.2 million be recognized, our effective tax rate would be favorably impacted.

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

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

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

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

**Note 13 - Line of Credit**

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

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

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

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

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

**Note 14 - Stockholders' Equity**

***At-the-Market equity offering***

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

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

***Common Stock and Preferred Stock***

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

***Stock-based Compensation Plans***

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

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

***Performance-based stock awards***

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

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

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

***CEO Performance Award***

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

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

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

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

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

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

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

***eXponential Stock Performance Plan***

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

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

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

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

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

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

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

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

***Restricted Stock Units***

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

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

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

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

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

***Performance Stock Units***

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

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

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

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

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

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

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

On December 3, 2021, the Compensation Committee approved a modification to allow for the transfer of certain shares from vested XSUs to a qualified charitable organization, including donor-advised funds. This one-time waiver of the post-vesting holding period requirement allowed for the transfer of up to one tranche of after-tax shares from vested XSUs through December 31, 2022, and allows for the charitable organization or donor-advised fund to sell the transferred shares. Award agreements were only modified with respect to the after-tax vested shares with which employees elected to participate in the charitable contribution initiative. The waiver was accounted for as a Type 1 modification under ASC 718, since there was no impact on attainment of the operational or market capitalization goals. The company recognized approximately \$3.4 million in additional stock-based compensation expense for the year ended December 31, 2021 because of this modification.

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

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

**Stock Option Activity**

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

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

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

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

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

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

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

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

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

***Stock-based Compensation Expense***

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

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

***Stock Inducement Plan***

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

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

***Stock Repurchase Plan***

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

**Note 15 – Accumulated Other Comprehensive Income (loss)**

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

	Unrealized Gains (Losses)		Foreign Currency	Total
	on Available-for-Sale Investments	Translation		
<b>Balance, December 31, 2019</b>	\$ —	\$ (1,096)	\$ (1,096)	
Other comprehensive income	—	1,237	1,237	
<b>Balance, December 31, 2020</b>	<u>\$ —</u>	<u>\$ 141</u>	<u>\$ 141</u>	
Other comprehensive loss	(207)	(1,251)	(1,458)	
<b>Balance, December 31, 2021</b>	<u>\$ (207)</u>	<u>\$ (1,110)</u>	<u>\$ (1,317)</u>	

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

**Note 16 - Leases**

***Lease Obligations***

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

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

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

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

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

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

<sup>(1)</sup> Includes short-term leases, which are immaterial.

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

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

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

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

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

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

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

**Note 17 - Employee Benefit Plans**

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

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

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

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

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

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

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

**Note 18 - Business Acquisitions**

***Occam Video Solutions, LLC***

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

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

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

**Note 19 - Segment Data**

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

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

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

	<b>For the year ended December 31, 2021</b>		
	<b>TASER</b>	<b>Software and Sensors</b>	<b>Total</b>
Net sales from products	\$ 426,916	\$ 181,609	\$ 608,525
Net sales from services	10,011	244,845	254,856
Net sales	436,927	426,454	863,381
Cost of product sales	149,739	110,359	260,098
Cost of service sales	145	62,228	62,373
Cost of sales	149,884	172,587	322,471
Gross margin	\$ 287,043	\$ 253,867	\$ 540,910
Research and development	\$ 46,136	\$ 147,890	\$ 194,026
	<b>For the year ended December 31, 2020</b>		
	<b>TASER</b>	<b>Software and Sensors</b>	<b>Total</b>
Net sales from products	\$ 362,649	\$ 137,601	\$ 500,250
Net sales from services	3,903	176,850	180,753
Net sales	366,552	314,451	681,003
Cost of product sales	136,925	87,206	224,131
Cost of service sales	—	40,541	40,541
Cost of sales	136,925	127,747	264,672
Gross margin	\$ 229,627	\$ 186,704	\$ 416,331
Research and development	\$ 15,380	\$ 107,815	\$ 123,195
	<b>For the year ended December 31, 2019</b>		
	<b>TASER</b>	<b>Software and Sensors</b>	<b>Total</b>
Net sales from products	\$ 280,554	\$ 118,920	\$ 399,474
Net sales from services	1,107	130,279	131,386
Net sales	281,661	249,199	530,860
Cost of product sales	107,188	83,495	190,683
Cost of service sales	—	32,891	32,891
Cost of sales	107,188	116,386	223,574
Gross margin	\$ 174,473	\$ 132,813	\$ 307,286
Research and development	\$ 14,469	\$ 86,252	\$ 100,721

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

**Note 20 - Supplemental Disclosure to Cash Flows**

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

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

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Axon Enterprise, Inc.

### Opinion on the financial statements

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

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

### Basis for opinion

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

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

### Critical audit matters

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

#### *Revenue Recognition – Bundled Arrangements with Multiple Performance Obligations*

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

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

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

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

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

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

/s/ GRANT THORNTON LLP

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

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

None.

### **Item 9A. *Controls and Procedures***

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

#### **Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer are responsible for the evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Our disclosure controls and procedures are designed to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of December 31, 2021 our disclosure controls and procedures were effective.

#### **Management Report on Internal Control over Financial Reporting**

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

#### **Changes in Internal Control over Financial Reporting**

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

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Axon Enterprise, Inc.

### Opinion on internal control over financial reporting

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

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

### Basis for opinion

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

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

### Definition and limitations of internal control over financial reporting

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

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

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

## Item 9B. *Other Information*

### Item 1.01 Entry into a Material Definitive Agreement

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

### Item 9C. *Disclosure Regarding Foreign Jurisdictions that Prevent Inspections*

None.

## PART III

### Item 10. *Directors, Executive Officers and Corporate Governance*

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

### Item 11. *Executive Compensation*

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

### Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

#### Equity Compensation Plan Information

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

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

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

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

Listing Rules, awards under the Inducement Plan may only be made to individuals not previously employees or non-employee directors of the Company (or following such individuals' bona fide period of non-employment with the Company), as an inducement material to the individuals' entry into employment with the Company.

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

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

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

**Item 14. *Principal Accountant Fees and Services***

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

**PART IV**

**Item 15. *Exhibits, Financial Statement Schedules***

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

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

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

<b>Exhibit Number</b>	<b>Description</b>
10.8+	Axon Enterprise, Inc. 2019 Stock Incentive Plan Exponential Stock Unit Grant Notice (incorporated by reference to Annex B of the Company's Proxy Statement, filed on December 31, 2018)
10.9	Amended and Restated Credit Agreement dated December 31, 2018 between the Company and JP Morgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed January 7, 2019)
10.10+	Executive Employment Agreement by and between Axon Enterprise, Inc. and Jawad A. Ahsan (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed June 4, 2019)
10.11+	Executive Employment Agreement by and between Axon Enterprise, Inc. and Luke S. Larson (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed June 4, 2019)
10.12+	Executive Employment Agreement by and between Axon Enterprise, Inc. and Joshua M. Isner (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K, filed June 4, 2019)
10.13+	Executive Employment Agreement by and between Axon Enterprise, Inc. and Jeffrey C. Kunins, dated September 23, 2019 (incorporated by reference to Exhibit 10.16 to the Annual Report on Form 10-K, filed February 28, 2020)
10.14+	Axon Enterprise, Inc. 2019 Stock Inducement Plan (incorporated by reference to Exhibit 99.1 to the registration statement on Form S-8, filed September 23, 2019)
10.15	Auction Statement from the Company to the Arizona State Land Department (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q, filed November 6, 2020)
10.16	Amendment to the Amended and Restated Credit Agreement between the Company and JP Morgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed February 3, 2021)
10.17	Letter Amendment to the Amended and Restated Credit Agreement between the Company and JPMorgan Chase Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q, filed November 15, 2021)
10.18	Distribution Agreement, dated August 10, 2021, by and between Axon Enterprise, Inc. and J.P. Morgan Securities LLC (incorporated by reference to Exhibit 1.1 to the Current Report on Form 8-K, filed August 10, 2021)
10.19*±	Construction Management Agreement, dated February 23, 2022, by and between Axon Enterprise, Inc. and Okland Construction Company, Inc.
21.1*	List of Subsidiaries
23.1*	Consent of Grant Thornton, LLP, independent registered public accounting firm
24.1*	Powers of attorney (see signature page)
31.1*	Principal Executive Officer Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Principal Financial Officer Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32**	Principal Executive Officer and Principal Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Calculation Linkbase Document
101.LAB*	Inline XBRL Taxonomy Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Presentation Linkbase Document
104	The cover page from the Company's Annual Report for the year ended December 31, 2021, formatted in Inline XBRL

+ Management contract or compensatory plan or arrangement

\* Filed herewith

\*\* Furnished herewith

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

**Item 16. *Form 10-K Summary***

Not applicable.



## POWER OF ATTORNEY

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

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

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



IMAGES FROM THE 2021 ROADSHOW

Top: VR Training aboard the Voyager. Left Middle: Voyager arriving on site. Left Bottom: Meeting with customers at the Fort Worth, Texas Roadshow. Right: Taser Training at the North Colorado Law Enforcement Training Center Roadshow stop.

