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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2022

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: 001-41248

Knightscope, Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**46-2482575** **(I.R.S. Employer Identification Number)**

1070 Terra Bella Avenue
Mountain View, CA 94043
(Address of Principal Executive Offices)
(650) 924-1025
(Registrant's telephone number, including area code)

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

Title of Each Class	Trading symbol	Name of Exchange on which registered
Class A Common Stock, par value $0.001 per share	**KSCP**	**Nasdaq Global Market**

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

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

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

Large accelerated filer	☐	Accelerated filer	☐	
Non-accelerated filer	☒	Smaller reporting company	☒	Emerging growth company ☒

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

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

As of November 8, 2022, there were 27,210,824 shares of the registrant's Class A common stock outstanding.

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Cautionary Note on Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in 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"). All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including but not limited to, statements regarding our future operating results and financial position, including projections of our future financial performance, our business strategy and plans, market growth, our objectives for future operations, industry trends, anticipated trends in our business and other characterizations of future events or circumstances are forward-looking statements. Words such as "believe," "may," "will," "estimate," "potential," "continue," "anticipate," "intend," "expect," "could," "would," "project," "plan," "target," and similar expressions are intended to identify forward-looking statements.

Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- The success of our products and product candidates will require significant capital resources and years of development efforts;
- Our limited number of deployments and the risk of limited market acceptance of our products;
- Our ability to protect our intellectual property and to develop, maintain and enhance a strong brand;
- Our limited operating history by which performance can be gauged;
- Our ability to operate and collect digital information on behalf of our clients, which is dependent on the privacy laws of jurisdictions in which our Autonomous Security Robots ("ASR") operate, as well as the corporate policies of our clients, which may limit our ability to fully deploy our technologies in various markets;
- Our ability to raise capital and the availability of future financing; and
- Unpredictable events, such as the COVID-19 pandemic and a rise in the inflation rate resulting in supply chain constraints, increased operating costs, and associated business disruptions could seriously harm our future revenues and financial condition, delay our operations, increase our costs and expenses, and impact our ability to raise capital.

We have based these forward-looking statements on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward- looking statements are subject to a number of risks, uncertainties, and assumptions and other factors that could cause actual results to differ materially from those stated, including those described in "Risk Factors" in Part I, Item 1A of our most recent Annual Report on Form 10-K, in Part II, Item 1A of this Quarterly Report on Form 10-Q, as such factors may be updated in our filings with the Securities and Exchange Commission, ("the SEC"). Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. In particular, disruptions and delays with certain vendors in our supply chain, as a result of the COVID-19 pandemic as well as increased operating costs resulting from a rise in the inflation rate, may adversely impact component manufacturers' ability to meet our client demand timely. Additionally, the prioritization of shipments of certain products, as a result of the pandemic, could cause delays in our ability to deploy our ASRs. Such disruptions could result in a delay in our ability to recognize revenue on sales. The physical security industry in general and our financial position and operating results, in particular, have been material, are changing rapidly, and cannot be predicted.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance, or achievements. Our forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q, and we undertake no obligation to update any of these forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q or to conform these statements to actual results or revised expectations, except as required by applicable law.

In this Quarterly Report on Form 10-Q, the words “we,” “us,” “our,” and “Knightscope” refer to Knightscope, Inc., unless the context requires otherwise.

PART I —FINANCIAL INFORMATION

Item 1. Financial Statements

KNIGHTSCOPE, INC.
Condensed Balance Sheets
(In thousands, except share and per share data)

	September 30, 2022 (Unaudited)	December 31, 2021 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,069	$ 10,749
Restricted cash	—	100
Accounts receivable (net of allowance for doubtful accounts $229 as of September 30, 2022 and $250 as of December 31, 2021)	312	1,189
Prepaid expenses and other current assets	1,957	1,299
Total current assets	13,338	13,337
Autonomous security robots, net	4,605	2,971
Property, equipment and software, net	158	117
Operating lease right-of-use-assets	620	1,077
Other assets	78	78
Total assets	$ 18,799	$ 17,580
LIABILITIES, PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 1,702	$ 1,514
Accrued expenses	1,156	1,191
Deferred revenue	1,359	889
Debt obligations	—	7,109
Operating lease liabilities	657	648
Other current liabilities	553	893
Total current liabilities	5,427	12,244
Preferred stock warrant liabilities	12,006	30,566
Operating lease liabilities	—	485
Total liabilities	17,433	43,295
Commitments and contingencies (Note 8)		
Preferred stock, $0.001 par value; 43,405,324 shares authorized as of September 30, 2022 and December 31, 2021; 11,426,068 and 19,617,107 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively; aggregate liquidation preference of $38,041 as of September 30, 2022	36,072	57,218
Stockholders' deficit:		
Class A common stock, $0.001 par, 114,000,000 shares authorized as of September 30, 2022 and December 31, 2021; 27,152,912 and 5,936,929 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	27	6
Class B common stock, $0.001 par, 30,000,000 shares authorized as of September 30, 2022 and December 31, 2021, 10,319,884 and 13,131,197 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	10	13
Additional paid-in capital	92,921	30,745
Accumulated deficit	(127,664)	(113,697)
Total stockholders' deficit	(34,706)	(82,933)
Total liabilities, preferred stock and stockholders' deficit	$ 18,799	$ 17,580

(1) The condensed balance sheet as of December 31, 2021 was derived from the audited balance sheet as of that date.

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

KNIGHTSCOPE, INC.
Condensed Statements of Operations
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Revenue, net	$ 1,296	784	$ 3,281	2,561
Cost of revenue, net	2,195	1,309	5,420	3,826
Gross loss	(899)	(525)	(2,139)	(1,265)
Operating expenses:				
Research and development	2,070	1,238	5,983	3,894
Sales and marketing	1,907	697	6,905	7,327
General and administrative	2,899	1,534	8,185	3,199
Total operating expenses	6,876	3,469	21,073	14,420
Loss from operations	(7,775)	(3,994)	(23,212)	(15,685)
Other income (expense):				
Change in fair value of warrant liabilities	2,543	—	18,190	(10,737)
Interest income (expense), net	—	(858)	(8,910)	(1,992)
Other income (expense), net	(6)	(43)	(35)	778
Total other income (expense)	2,537	(901)	9,245	(11,951)
Net loss before income tax expense	(5,238)	(4,895)	(13,967)	(27,636)
Income tax expense	—	—	—	—
Net loss	(5,238)	(4,895)	(13,967)	(27,636)
Preferred stock dividends	—	(186)	—	(545)
Net loss attributable to common stockholders	$ (5,238)	(5,081)	$ (13,967)	(28,181)
Basic and diluted net loss per common share	$ (0.14)	$ (0.50)	$ (0.40)	$ (2.77)
Weighted average shares used to compute basic and diluted net loss per share	36,941,848	10,189,000	34,803,126	10,189,000

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

KNIGHTSCOPE, INC.
Condensed Statements of Preferred Stock and Stockholders' Deficit
(In thousands, except share and per share data)
(Unaudited)

	Series m Preferred stock		Series m-2 Preferred stock		Series m-3 Preferred stock		Series m-4 Preferred stock		Series S Preferred stock		Series A Preferred stock		Series B Preferred stock		Class B common stock		Additional Paid-in-capital	Accumulative Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance as of June 30, 2021	**5,339,215**	**$13,866**	**1,660,756**	**$ 4,982**	**16,757**	**$ 46**	**1,432,786**	**$ 6,185**	**5,567,171**	**$43,522**	**8,936,015**	**$ 3,865**	**4,653,583**	**$ 9,442**	**10,189,000**	**$ 10**	**$ 3,523**	**$ (92,346)**	**$ (88,813)**
Stock based compensation																	405		405
Issuance of Series s Preferred stock, net of issuance costs									19,981	164									—
Series m-4 accrued dividend								186										(186)	(186)
Net loss																		(4,895)	(4,895)
Balance as of September 30, 2021	**5,339,215**	**$13,866**	**1,660,756**	**$ 4,982**	**16,757**	**$ 46**	**1,432,786**	**$ 6,371**	**5,587,152**	**$43,686**	**8,936,015**	**$ 3,865**	**4,653,583**	**$ 9,442**	**10,189,000**	**$ 10**	**$ 3,928**	**$ (97,427)**	**$ (93,489)**

	Series m Preferred stock		Series m-2 Preferred stock		Series m-3 Preferred stock		Series m-4 Preferred stock		Series S Preferred stock		Series A Preferred stock		Series B Preferred stock		Class B common stock		Additional Paid-in-capital	Accumulative Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance as of December 31, 2020	**5,339,215**	**$13,866**	**1,660,756**	**$ 4,982**	**16,757**	**$ 46**	**1,432,786**	**$ 5,826**	**3,731,248**	**$27,135**	**8,936,015**	**$ 3,865**	**4,653,583**	**$ 9,442**	**10,189,000**	**$ 10**	**$ 3,051**	**$ (69,246)**	**$ (66,185)**
Stock based compensation																	863		863
Warrants expired																	14		14
Issuance of Series s Preferred stock, net of issuance costs									1,855,904	16,551									
Series m-4 accrued dividend								545										(545)	(545)
Net loss																		(27,636)	(27,636)
Balance as of September 30, 2021	**5,339,215**	**$13,866**	**1,660,756**	**$ 4,982**	**16,757**	**$ 46**	**1,432,786**	**$ 6,371**	**5,587,152**	**$43,686**	**8,936,015**	**$ 3,865**	**4,653,583**	**$ 9,442**	**10,189,000**	**$ 10**	**$ 3,928**	**$ (97,427)**	**$ (93,489)**

	Series m Preferred stock		Series m-1 Preferred stock		Series m-2 Preferred stock		Series m-3 Preferred stock		Series S Preferred stock		Series A Preferred stock		Series B Preferred stock		Class A common stock		Class B common stock		Additional Paid-in-capital	Accumulative Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
June 30, 2022	**1,932,021**	**$ 5,017**	**—**	**$ —**	**160,000**	**$ 480**	**—**	**$ —**	**2,783,404**	**$22,532**	**3,249,104**	**$ 1,406**	**3,541,767**	**$ 7,185**	**26,085,487**	**$ 26**	**10,362,170**	**$ 10**	**$ 89,314**	**$ (122,426)**	**$ (33,076)**
Stock based compensation																			1,119		1,119
Stock options exercised															221,686				330		330
Shares issued for consulting services															236,567				653		653
Share conversion to Class A common stock	(52,075)	(135)							(42,063)	(341)	(139,944)	(61)	(6,146)	(11)	285,874		(42,286)		548		548
Proceeds from equity sale, net of issuance costs															323,298	1			973		974
Share Conversion costs																			(16)		(16)
Net loss																				(5,238)	(5,238)
Balance as of September 30, 2022	**1,879,946**	**$ 4,882**	**—**	**$ —**	**160,000**	**$ 480**	**—**	**$ —**	**2,741,341**	**$22,191**	**3,109,160**	**$ 1,345**	**3,535,621**	**$ 7,174**	**27,152,912**	**$ 27**	**10,319,884**	**$ 10**	**$ 92,921**	**$ (127,664)**	**$ (34,706)**

	Series m Preferred stock		Series m-1 Preferred stock		Series m-2 Preferred stock		Series m-3 Preferred stock		Series S Preferred stock		Series A Preferred stock		Series B Preferred stock		Class A common stock		Class B common stock		Additional Paid-in-capital	Accumulative Deficit	Total Stockholder Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance as of December 31, 2021	**4,574,917**	**$11,881**	**186,872**	**$ 1,319**	**1,251,666**	**$ 3,755**	**16,757**	**$ 46**	**3,705,239**	**$29,995**	**6,155,564**	**$ 2,663**	**3,726,092**	**$ 7,559**	**5,936,929**	**$ 6**	**13,131,197**	**$ 13**	**$ 30,745**	**$ (113,697)**	**$ (82,93**
Stock based compensation																			2,571		2,57
Warrants exercised															156,483				370		37
Conversion of debt obligations to class A common stock															6,513,385	7			16,004		16,01
Stock options exercised															349,432		25,000		532		53
Offering proceeds, net of issuance costs															2,236,619	2			19,623		19,62
Share conversion to Class A common stock	(2,694,971)	(6,999)	(186,872)	(1,319)	(1,091,666)	(3,275)	(16,757)	(46)	(963,898)	(7,804)	(3,046,404)	(1,318)	(190,471)	(385)	11,205,577	11	(2,836,313)	(3)	21,138		21,14
Shares issued for consulting services															236,567				653		65
Proceeds from equity sale, net of issuance costs															517,920	1			1,351		1,35
Share conversion costs																			(66)		(6
Net loss																				(13,967)	(13,96
Balance as of September 30, 2022	**1,879,946**	**$ 4,882**	**—**	**$ —**	**160,000**	**$ 480**	**—**	**$ —**	**2,741,341**	**$22,191**	**3,109,160**	**$ 1,345**	**3,535,621**	**$ 7,174**	**27,152,912**	**$ 27**	**10,319,884**	**$ 10**	**$ 92,921**	**$ (127,664)**	**$ (34,70**

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

KNIGHTSCOPE, INC.
Condensed Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Cash Flows From Operating Activities		
Net loss	$ (13,967)	$ (27,636)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,157	1,141
Stock compensation expense	2,571	863
Change in fair value of warrant liabilities	(18,190)	10,737
Accrued interest	24	—
Amortization of debt discount	8,878	1,378
PPP loan and interest forgiveness	—	(832)
Common stock issued in exchange for consulting services	67	
Loss from damage of autonomous security robots	—	5
Changes in operating assets and liabilities:		
Accounts receivable, net	877	(97)
Prepaid expenses and other current assets	(72)	(352)
Other assets	—	142
Accounts payable	188	332
Accrued expenses	(35)	34
Deferred revenue	470	337
Other current and noncurrent liabilities	(359)	329
Net cash used in operating activities	(18,391)	(13,619)
Cash Flows From Investing Activities		
Purchases and related costs incurred for Autonomous Security Robots	(2,756)	(1,712)
Purchase of property and equipment	(76)	(107)
Net cash used in investing activities	(2,832)	(1,819)
Cash Flows From Financing Activities		
Proceeds from stock options exercised	532	—
Proceeds from issuance of Series S Preferred Stock, net of issuance costs	—	16,551
Offering proceeds, net of issuance costs	19,625	—
Proceeds for the issuance of convertible notes, net of issuance costs	—	1,500
Proceeds from equity sale, net of issuance costs	1,352	—
Share conversion costs	(66)	—
Net cash provided by financing activities	21,443	18,051
Net change in cash and cash equivalents and restricted cash	220	2,613
Cash, cash equivalents and restricted cash at beginning of the period	10,849	7,157
Cash, cash equivalents and restricted cash at end of the period	$ 11,069	$ 9,770
Supplemental Disclosure of Non-Cash Financing Activities		
Conversion of preferred stock to common stock	$ 21,146	$ —
Conversion of debt obligations to Class A common stock	$ 16,011	$ —
Series m-4 accrued dividend	$ —	$ 545
PPP Loan and interest forgiveness	$ —	$ 832
Issuance of series s preferred stock warrant	$ —	$ 1,654
Cashless exercise of warrants	$ 370	$ —
Common stock issued for consulting services	$ 586	$ —

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

KNIGHTSCOPE, INC.
Notes to Condensed Financial Statements
(Dollars in thousands, unless otherwise stated)
(Unaudited)

NOTE 1: The Company and Summary of Significant Accounting Policies

Description of Business

Knightscope, Inc. (the "Company"), was incorporated on April 4, 2013 under the laws of the State of Delaware.

The Company designs, develops, builds, deploys, and supports advanced physical security technologies. The Knightscope solution to reducing crime combines the physical presence of its proprietary Autonomous Security Robots ("ASRs") with real-time, on-site data collection and analysis coupled with a proprietary user interface. Two of the Company's ASRs, the outdoor/indoor "K5" and the indoor "K3", autonomously patrol client sites, without the need for remote control, to provide a visible, force multiplying, physical security presence to help protect assets, monitor changes in the environment, and deter crime. They gather real-time data using a large array of sensors. The data is accessible through the Knightscope Security Operations Center ("KSOC"), an intuitive, browser-based software interface that enables security professionals and law enforcement officers to review events generated, allowing them to have their eyes, ears, and voice on the ground 24/7/365 in multiple locations at the same time.

Basis of Presentation and Liquidity

The unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"), pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures have been condensed or omitted pursuant to such rules and regulations. The unaudited condensed financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair presentation of the period presented. The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022 or for other future periods. These condensed financial statements should be read in conjunction with the Company's audited financial statements and accompanying notes for the year ended December 31, 2021 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 31, 2022. The Company's significant accounting policies are described in Note 1 to those audited financial statements.

Since its inception, the Company has incurred significant operating losses and negative cash flows from operations which is principally the result of significant research and development activities related to the development and continued improvement of the Company's ASRs and KSOC (hardware and software) as well as fulfillment of client demand.

Cash and cash equivalents on hand were $11.1 million as of September 30, 2022, compared to $10.7 million as of December 31, 2021. The Company has historically incurred losses and negative cashflows from operations. As of September 30, 2022, the Company also had an accumulated deficit of approximately $127.7 million and stockholders' deficit of $34.7 million. These factors led to substantial doubt related to the Company's ability to continue as a going concern. The following factors alleviated the substantial doubt about the Company's ability to continue as a going concern. In connection with its listing on the Nasdaq Global Market on January 27, 2022, the Company completed its Regulation A Offering on January 26, 2022, issuing 2,236,619 shares of Class A common stock and generating net proceeds of approximately $19.6 million. Management plans to seek additional financing activities to support its operations, such as issuances of equity, issuances of debt and convertible debt instruments and other financing instruments. To address this plan, on April 4, 2022, the Company entered into a committed equity financing facility with B Riley Principal Capital, LLC ("B Riley Principal Capital") that provides the Company with the right, without obligation, to issue and sell up to $100 million of its Class A common stock over a period of 24 months (see Note 6 for details). The Company's projected cash flows related to its core operations as well as acquisition costs are subject to various risks and uncertainties, and the unavailability or inadequacy of financing to meet future capital needs could force it to modify, curtail, delay, or suspend some or all aspects of its planned operations. Sales of additional equity securities, convertible debt and/or warrants by the Company could result in the dilution of the interests of existing stockholders (See Note 9 – Subsequent Events for details).

Basic and Diluted Net Income (Loss) per Share

Net income (loss) per share of common stock is computed using the two-class method required for participating securities based on their participation rights. All series of convertible preferred stock are participating securities as the holders are entitled to participate in common stock dividends with common stock on an as converted basis. Holders of Series m-4 Preferred Stock were entitled to receive cumulative dividends payable semi-annually in arrears at the rate per share of Series m-4 Preferred Stock equal to the Dividend Rate for the Series m-4 Preferred Stock, in each case subject to compliance with applicable law. Dividends to holders of Series m-4 Preferred Stock were paid in kind as a dividend of additional shares of Series m-4 Preferred Stock for each Dividend Period on the applicable Dividend Payment Date using a price per share equal to the original issue price, provided that the Company shall not issue any fractional shares of Series m-4 Preferred Stock. The holders of the Company's preferred stock, other than m-4 preferred stock, are also entitled to noncumulative dividends prior and in preference, to our common stock and do not have a contractual obligation to share in the losses of the Company. During 2021, all shares of Series m-4 Preferred Stock were converted to Class A common stock, leaving no outstanding balance of the Series m-4 Preferred Stock as of September 30, 2022. In accordance with the two-class method, earnings allocated to these participating securities, which include participation rights in undistributed earnings with common stock, are subtracted from net income (loss) to determine net income (loss) attributable to common stockholders upon their occurrence.

Basic net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders (net adjusted for preferred stock dividends declared or accumulated) by the weighted average number of common shares outstanding during the period. All participating securities are excluded from basic weighted-average shares outstanding. In computing diluted net income (loss) attributable to common stockholders, undistributed earnings are re-allocated to reflect the potential impact of dilutive securities. Diluted net income (loss) per share attributable to common stockholders is computed by dividing net income (loss) attributable to common stockholders by diluted weighted-average shares outstanding, including potentially dilutive securities, unless anti-dilutive. Potentially dilutive securities that were excluded from the computation of diluted net income (loss) per share consist of the following:

	September 30, 2022	September 30, 2021
Series A Preferred Stock (convertible to Class B common stock)	3,109,160	8,936,015
Series B Preferred Stock (convertible to Class B common stock)	3,535,621	4,653,583
Series m Preferred Stock (convertible to Class A common stock)	1,879,946	5,339,215
Series m-2 Preferred Stock (convertible to Class B common stock)	160,000	1,660,756
Series m-3 Preferred Stock (convertible to Class A common stock)	—	16,757
Series m-4 Preferred Stock (convertible to Class A common stock)	—	1,432,786
Series S Preferred Stock (convertible to Class A common stock)	2,741,341	5,587,152
Warrants to purchase common stock (convertible to Class B common stock)	—	121,913
Warrants to purchase Series B (convertible to Class B common stock)	—	53,918
Warrants to purchase of Series m-1 (convertible to Class A common stock)	—	266,961
Warrants to purchase of Series m-3 (convertible to Class A common stock)	1,432,786	1,432,786
Warrants to purchase of Series s (convertible to Class A common stock)	4,441,814	2,825,714
Convertible Notes	—	2,651,428
Stock options	9,624,595	9,019,814
Total potentially dilutive shares	26,925,263	43,998,798

As all potentially dilutive securities are anti-dilutive as of September 30, 2022 and 2021, diluted net loss per share is the same as basic net loss per share for each period.

Comprehensive Loss

Comprehensive loss represents the changes in equity of an enterprise, other than those resulting from stockholder transactions. Net loss was equal to comprehensive loss for the three and nine month periods ended September 30, 2022 and 2021.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Specific accounts that require management estimates include, but are not limited to, estimating the useful lives of the Company's ASRs and property and equipment, certain estimates required within revenue recognition, estimating fair values of Company's common stock, share-based awards and warrant liabilities, inclusive of any contingent assets and liabilities. Actual results could differ from those estimates and such differences may be material to the financial statements.

Recent Accounting Pronouncements Not Yet Effective

In August 2020, the Financial Accounting Standards Board "(FASB)" issued Accounting Standards Update ("ASU") No. 2020-06, *Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40)*. The update simplifies the accounting for convertible instruments by removing certain separation models in Subtopic 470-20. This amendment is effective for fiscal years beginning after December 15, 2023, for SEC filers that are eligible to be smaller reporting companies under the SEC's definition, including interim periods within those fiscal years. The Company is currently in the process of evaluating the impact of adoption on its financial statements.

In September 2016, the FASB released ASU No. 2016-13, *Financial Instruments – Credit Losses ("ASU 2016-03")*. The amendment revises the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in more timely recognition of losses on financial instruments, including but not limited to available-for-sale debt securities and accounts receivable. ASU 2016-03 is effective for fiscal years beginning after December 15, 2022 for SEC filers that are eligible to be smaller reporting companies under the SEC's definition. The Company is currently in the process of evaluating the impact of adoption on its financial statements.

Autonomous Security Robots, net

ASRs consist of raw materials, ASRs in progress and finished ASRs. ASRs in progress and finished ASRs include materials, labor and other direct and indirect costs used in their production. Finished ASRs are valued using a discrete bill of materials, which includes an allocation of labor and direct overhead based on assembly hours. Depreciation expense on ASRs is recorded using the straight-line method over their estimated expected lives, which currently ranges from 3 to 4.5 years. Depreciation expense of finished ASRs included in research and development expense amounted to $52 and $61, depreciation expense of finished ASRs included in sales and marketing expense amounted to $37 and $53, and depreciation expense included in cost of revenue, net amounted to $1 million for the nine months ended September 30, 2022 and 2021, respectively.

ASRs, net, consisted of the following:

	September 30, 2022	December 31, 2021
Raw materials	$ 1,987	$ 1,041
ASRs in progress	553	427
Finished ASRs	9,678	7,695
	12,218	9,163
Accumulated depreciation on Finished ASRs	(7,613)	(6,192)
ASRs, net	$ 4,605	$ 2,971

The components of the Finished ASRs, net as of September 30, 2022 and December 31, 2021 are as follows:

ASRs on lease or available for lease	$ 8,331	$ 6,489
Demonstration ASRs	606	585
Research and development ASRs	380	320
Docking stations	361	301
	9,678	7,695
Less: accumulated depreciation	(7,613)	(6,192)
Finished ASRs, net	$ 2,065	$ 1,503

Convertible Preferred Warrant Liabilities and Common Stock Warrants

Freestanding warrants to purchase shares of the Company's preferred stock are classified as liabilities on the balance sheets at their estimated fair value because the underlying shares of preferred stock are contingently redeemable and, therefore, may obligate the Company to transfer assets at some point in the future. The preferred stock warrants are recorded at fair value upon issuance and are subject to remeasurement to their respective estimated fair values. At the end of each reporting period, changes in the estimated fair value of the preferred stock warrants are recorded in the statements of operations. The Company will continue to adjust the liability associated with the preferred stock warrants for changes in the estimated fair value until the earlier of the exercise or expiration of the preferred stock warrants, the completion of a sale of the Company or an initial public offering ("IPO"). Upon an IPO, the preferred stock warrants will convert into warrants to purchase common stock and any liabilities recorded for the preferred stock warrants will be reclassified to additional paid-in capital and will no longer be subject to remeasurement.

Common stock warrants that are not considered derivative liabilities are accounted for at fair value at the date of issuance in additional paid-in capital. The fair value of these common stock warrants is determined using the Black-Scholes option-pricing model.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASU 718, Compensation - Stock Compensation, which requires that the estimated fair value on the date of grant be recognized over the requisite service period of the awards, which is generally the option vesting period. Stock-based awards made to nonemployees are measured and recognized based on the estimated fair value on the vesting date and are re-measured at each reporting pricing model, is affected by the fair value of the Company's common stock as well as other assumptions regarding a number of highly complex and subjective variables. These variables include but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee option exercise behaviors. Because there is insufficient historical information available to estimate the expected term of the stock-based awards, the Company adopted the simplified method of estimating the expected term of options granted by taking the average of the vesting term and the contractual term of the option. For awards with graded vesting, the Company recognizes stock-based compensation expense over the service period using the straight-line method, based on shares ultimately expected to vest. The Company recognizes forfeitures as they occur when calculating stock-based compensation for its equity awards.

NOTE 2: Revenue and Deferred Revenue

Revenue Recognition

The Company derives its revenues primarily from lease of proprietary ASRs along with access to the browser-based interface KSOC through contracts under the lease accounting that typically have a twelve (12) month term. In addition, the Company derives non-lease revenue items such as professional services related to ASRs' deployments, special decals and training if any, recognized when control of these services is transferred to the Clients, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services.

The Company determines revenue recognition through the following steps:

- identification of the contract, or contracts, with a client;

- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, the Company satisfies a performance obligation.

The Company recognizes revenue as follows:

ASR subscription revenue

ASR subscription revenue is generated from lease of proprietary ASRs along with access to the browser-based interface KSOC through contracts that typically have 12-month terms. These revenue arrangements adhere to lease accounting guidance and are classified as leases for revenue recognition purposes. Currently, all revenue arrangements qualify as operating leases where consideration allocated to the lease deliverables is recognized ratably over the lease term.

Deferred revenue

In connection with the Company's Machine-as-a-Service ("MaaS") subscription for the Company's ASRs, the Company's standard billing terms are annual in advance. In these situations, the Company records the invoices as deferred revenue and amortizes the subscription amount when the services are delivered, which generally is a 12-month period. In addition, the Company refers certain transactions to Dimension, whereby Dimension advances the full value of the MaaS subscription to the Company, less a processing fee. The advanced payment is recorded in deferred revenue and amortized over the term of the subscription once the ASR is delivered to the deployment site. See "Liquidity and Capital Resources".

The Company derives its revenue from the lease subscription of its proprietary ASRs along with access to its browser and mobile based software interface, KSOC. MaaS subscription agreements typically have a twelve (12) month term.

The Company estimates its revenue in the periods in which the licensee uses the licensed technology. Payments are received in the subsequent period.

The following table summarizes revenue by timing of recognition:

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021
Point in time	$ 23	$ 16
Transferred over time	1,273	768
	$ 1,296	$ 784

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Point in time	$ 69	$ 2
Transferred over time	3,212	2,559
	$ 3,281	$ 2,561

Deferred revenue includes billings in excess of revenue recognized. Revenue recognized at a point in time generally does not result in significant increases in deferred revenue. Revenue recognized over a period generally results in a majority of the increases in deferred revenue as the performance obligations are fulfilled after the billing event. Deferred revenue was as follows for the period ended September 30, 2022 and December 31, 2021:

	September 30, 2022	December 31, 2021
Deferred revenue - short term	$ 1,359	$ 889
Revenue recognized in the nine months ended related to amounts included in deferred revenue as of the beginning of the year.	$ 803	

Deferred revenue represents amounts invoiced to customers for contracts for which revenue has yet to be recognized based for subscription services to be delivered to the Company's clients. Typically, the timing of invoicing is based on the terms of the contract.

Other revenue

Other non-ASR related revenue such as deployment services, decals, shipping, and training revenue is recognized when services are delivered.

NOTE 3: Fair Value Measurement

The Company determines the fair market values of its financial instruments based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following are three levels of inputs that may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. The Company considers a market to be active when transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The valuation of Level 3 investments requires the use of significant management judgments or estimation.

In certain cases where there is limited activity or less transparency around inputs to valuation, securities are classified as Level 3. Level 3 liabilities that are measured at fair value on a recurring basis consist of the convertible preferred stock warrant liabilities. The inputs used in estimating the fair value of the warrant liabilities are described in Note 6 -- *Capital Stock and Warrants*.

The following tables summarize, for each category of assets or liabilities carried at fair value, the respective fair value as of September 30, 2022 and December 31, 2021, and the classification by level of input within the fair value hierarchy:

September 30, 2022	Total	Level 1	Level 2	Level 3
Assets				
Cash equivalents:				
Money market funds	$ 9,024	$ 9,024	$ —	$ —
Liabilities				
Warrant liability – Series m-3 Preferred Stock	$ 1,756	$ —	$ —	$ 1,756
Warrant liability – Series S Preferred Stock	$ 10,250	$ —	$ —	$ 10,250

December 31, 2021	Total	Level 1	Level 2	Level 3
Assets				
Cash equivalents:				
Money market funds	$ 6,623	$ 6,623	$ —	$ —
Liabilities				
Warrant liability – Series B Preferred Stock	$ 370	$ —	$ —	$ 370
Warrant liability – Series m-3 Preferred Stock	$ 7,156	$ —	$ —	$ 7,156
Warrant liability – Series S Preferred Stock	$ 23,040	$ —	$ —	$ 23,040

During the nine month periods ended September 30, 2022 and 2021, there were no transfers between Level 1, Level 2, or Level 3 assets or liabilities reported at fair value on a recurring basis and the valuation techniques used did not change compared to the Company's established practice.

The following table sets forth a summary of the changes in the fair value of Company's Level 3 financial liabilities during the nine month periods ended September 30, 2022 and 2021, which were measured at fair value on a recurring basis:

Warrant liability	September 30, 2022	September 30, 2021
Beginning Balance	$ 30,566	$ 5,617
Initial fair value of Series S Preferred stock warrants issued	—	1,654
Warrants exercised	(370)	—
Revaluation of Series m-3 and S Preferred Stock warrants	(18,190)	10,737
Warrants expired	—	(14)
Ending Balance	$ 12,006	$ 17,994

NOTE 4: Debt Obligations

Term Loan Agreement

In May 2018, the Company entered into a term loan agreement which allowed for individual term loans to be drawn in amounts totaling up to $3.5 million until January 10, 2019 (the "Loan Agreement"). Each individual term loan called for 18 equal monthly payments of principal plus accrued interest which would fully amortize the term loan. Outstanding borrowings under the term loan agreement bear interest at 1.75% above the prime rate per annum. Only one individual term loan in the amount of $0.4 million was drawn by the Company in May 2018. The loan was fully repaid in February 2019.

A warrant for 77,413 shares of Class B common stock was also issued to the lender in conjunction with the Loan Agreement, which was fully exercised during the nine months period ended September 30, 2022.

Convertible Note Financing

On April 30, 2019, the Company signed a Note and Warrant Purchase Agreement under the form of which the Company can issue up to $15 million of convertible promissory notes and warrants to purchase up to 3,000,000 shares of Series S Preferred Stock (the "Convertible Note Financing"). Pursuant to the terms of the Convertible Note Financing, the Company became obligated, to the same group of Convertible Note Financing investors, to exchange their outstanding shares of Series m-3 Preferred Stock for newly authorized shares of Series m-4 Preferred stock upon the closing of at least $1 million in aggregate principal amount of convertible promissory notes under the Convertible Note Financing. These warrants to purchase shares of Series S Preferred Stock of the Company were also issued to investors who invested in the Convertible Note Financing. The warrants to purchase shares of Series S Preferred Stock have an exercise price of $4.50 per share and expire on the earlier of December 31, 2021 or 18 months after the closing of the Company's first firm commitment underwritten initial public offering of the Company's common stock pursuant to a registration statement filed under the Securities Act. The convertible promissory notes have a maturity date of January 1, 2022, provide for payment of accrued interest at a rate of 12% per annum upon the maturity date, are generally the most senior company security (subject to limited subordination carve-outs) and provide for significant discounts upon a qualified financing or an initial public offering, and for a premium upon a change of control. The convertible notes automatically convert under various scenarios including a qualified financing or IPO. As of January 1, 2020, the convertible notes became convertible at the investors' option at prices as follows: (i) on or before June 30, 2020, $4.50 per share; (ii) after June 30, 2020, but on or before December 31, 2020, $4.00 per share; (iii) after December 31, 2020, but on or before September 30, 2021, $3.50 per share; and (iv) after September 30, 2021, $2.50 per share.

On November 18, 2021, the Company agreed to amend the Note and Warrant Purchase Agreement and the convertible notes and warrants to purchase Series S Preferred Stock issued thereunder principally as follows: (i) the scheduled maturity date of the convertible notes was extended from January 1, 2022 to January 1, 2024, (ii) the interest rate of the convertible notes was reduced from 12% per annum to 3% per annum starting on January 1, 2022, (iii) the conversion terms of the convertible notes were revised so that the convertible notes would automatically convert into Class A common stock upon the listing of the Company's Class A common stock for trading on a nationally recognized securities exchange (e.g., the New York Stock Exchange) or inter-dealer quotation system (e.g., Nasdaq), (iv) the exercise period of the warrants was extended from December 31, 2021 to December 31, 2024 and will commence on January 1, 2023, and (v) the cashless exercise feature was removed from the warrants. The conversion price of the convertible notes for conversion into Class A common stock was not changed and remains at $2.50 per share and the exercise price of the warrants to purchase Series S Preferred Stock was not changed and remains at $4.50 per share.

As of December 31, 2021, the Company had issued convertible notes in the aggregate principal amount of approximately $14.7 million (out of $15 million). Warrants for the purchase of up to 2,941,814 shares of Series S Preferred Stock were also issued and accrued for, respectively, to the same convertible note holders. The warrants have an exercise price of $4.50 per share, originally set to expire on December 31, 2021. On January 5, 2022, all convertible notes and accumulated interest were converted into 6,513,385 shares of Class A Common Stock, leaving no outstanding convertible notes as of September 30, 2022.

All of the Company's outstanding convertible notes and accrued interest, totaling $16 million, net of $0.3 million of debt discount, were converted into Class A common stock during the nine months period ended September 30, 2022. The remaining debt discount related to the notes in the amount of $8.9 million was amortized and recorded as interest expense during the nine months period ended September 30, 2022.

The amortized carrying amount of the Company's debt obligations consists of the following:

	September 30, 2022	December 31, 2021
Convertible notes, net of fees and discount	$ —	$ 7,109
Total debt	—	7,109
Less: current portion of debt obligations	—	(7,109)
Non-current portion of debt obligations	$ —	$ —

NOTE 5: Stock-Based Compensation

Equity Incentive Plans

In April 2014, the Company adopted the 2014 Equity Incentive Plan (the "2014 Plan") allowing for the issuance of up to 2,000,000 shares of common stock through grants of options, stock appreciation rights, restricted stock or restricted stock units. In December 2016, the 2014 Plan was terminated, and the Company adopted a new equity incentive plan, the 2016 Equity Incentive Plan (the "2016 Plan") in which the remaining 1,936,014 shares available for issuance under the 2014 Plan at that time were transferred to the Company's 2016 Plan. Awards outstanding under the 2014 Plan at the time of the 2014 Plan's termination will continue to be governed by their existing terms. The shares underlying any awards that are forfeited, canceled, repurchased or are otherwise terminated by the Company under the 2014 Plan will be added back to the shares of common stock available for issuance under the Company's 2016 Plan. The 2016 Plan provides for the granting of stock awards such as incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock or restricted stock units to employees, directors and outside consultants as determined by the Board of Directors.

The Board may grant stock options under the 2016 Plan at a price of not less than 100% of the fair market value of the Company's common stock on the date the option is granted. The option exercise price generally may not be less than the underlying stock's fair market value at the date of grant and generally have a term of ten years. Incentive stock options granted to employees who, on the date of grant, own stock representing more than 10% of the voting power of all of the Company's classes of stock, are granted at an exercise price of not less than 110% of the fair market value of the Company's common stock. The maximum term of incentive stock options granted to employees who, on the date of grant, own stock having more than 10% of the voting power of all the Company's classes of stock, may not exceed five years. The Board of Directors also determines the terms and conditions of awards, including the vesting schedule and any forfeiture provisions. Options granted under the 2016 Plan may vest upon the passage of time, generally four years, or upon the attainment of certain performance criteria established by the Board of Directors. The Company may from time-to-time grant options to purchase common stock to nonemployees for advisory and consulting services The amounts granted each calendar year to an employee or non-employee is limited depending on the type of award. Stock options comprise all of the awards granted since the Plan's inception.

On June 23, 2022, following approval by the Board of Directors, the Company's stockholders adopted the 2022 Equity Incentive Plan (the "2022 Plan") allowing for the issuance of up to 5,000,000 shares of Class A common stock through grants of options, stock appreciation rights, restricted stock awards, restricted stock units, performance awards, and other stock or cash-based awards. In connection with the adoption of the 2022 Plan, shares previously available for new grants under the 2016 Plan are available for new grants under the 2022 Plan, and shares subject to outstanding stock options under the prior plans as of the date of stockholder approval of the 2022 Plan, subsequently cease to be subject to such stock options (other than by reason of exercise of such stock options). As of September 30, 2022, 9,624,595 shares of Class A common stock and Class B common stock were subject to outstanding stock options under all plans. The number of shares authorized under the 2022 Plan will be increased each January 1st, beginning January 1, 2023 and ending on (and including) January 1, 2032, by an amount equal to the lesser of (a) 5% of our outstanding Class A common stock and Class B common stock outstanding on December 31st of the immediately preceding calendar year (rounded up to the nearest whole share) and (b) a number of shares determined by the committee. Shares subject to awards that lapse, expire, terminate, or a re canceled prior to the issuance of the underlying shares or that are subsequently forfeited to or otherwise reaquired by us will be added back to the shares of common stock available for issuance under the 2022 Plan.

The Board of Directors also determines the terms and conditions of awards, including the vesting schedule and any forfeiture provisions. Options granted under the 2022 Plan may vest upon the passage of time, generally four years, or upon the attainment of certain performance criteria established by the Board of Directors. The Company may from time-to-time grant options to purchase common stock to nonemployees for advisory and consulting services. The amounts granted each calendar year to an employee or non-employee is limited depending on the type of award. Stock options comprise all of the awards granted since the Plan's inception.

Stock option activity under all of the Company’s equity incentive plans for the nine month period ended of September 30, 2022 is as follows:

	Shares Available for Grant	Number of Shares Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value(000's)
Available and outstanding as of December 31, 2021	216,003	8,799,415	$ 3.07	8.12	$ 60,924
2022 Equity incentive plan	5,000,000				
Granted	(1,717,299)	1,717,299	3.48		
Exercised		(374,432)	1.42		
Expired	11,666	(11,666)	2.34		
Forfeited	506,021	(506,021)	3.81		
Available and outstanding as of September 30, 2022	4,016,391	9,624,595	$ 3.17	7.74	$ 6,689
Vested and exercisable as of September 30, 2022		4,505,212	$ 1.49	6.51	$ 5,181
Awards expected to vest as of September 30, 2022		5,119,383	$ 4.66	8.83	$ 1,508

The weighted average grant date fair value of options granted during the nine month period ended September 30, 2022 was $2.20 per share. The fair value of the options that vested during the nine months ended September 30, 2022 and 2021 was $1.4 million and $489, respectively. All options available and outstanding at September 30, 2022 are vested or expected to vest.

As of September 30, 2022, the Company had unamortized stock-based compensation expense of $10,390 that will be recognized over the average remaining vesting term of options of 2.64 years.

The assumptions utilized for option grants during the three and nine months ended September 30, 2022 and 2021 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Risk-free interest rate	3.13 %	0.77 %	8.54 %	0.39 %
Expected dividend yield	— %	— %	— %	— %
Expected volatility	52.76 %	51.84 %	52.82 %	25.92 %
Expected term (in years)	5.99	6.03	6.00	5.05

A summary of stock-based compensation expense recognized in the Company’s statements of operations is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Cost of revenue, net	$ 85	$ 50	$ 247	$ 151
Research and development	311	82	781	257
Sales and marketing	52	53	184	114
General and Administrative	671	220	1,359	341
Total	$ 1,119	$ 405	$ 2,571	$ 863

NOTE 6: Capital Stock and Warrants

Preferred Stock

In connection with the Convertible Note Financing, later amended on November 18, 2021, William Santana Li, Chairman and Chief Executive Officer of the Company, was granted a voting proxy to vote substantially all of the shares of the Company's Series m-4 Preferred Stock, the stock issued upon the conversion of warrants to purchase all of the shares of the Company's Series m-3 Preferred Stock, the stock issued upon the conversion of warrants to purchase shares of the Company's Series S Preferred Stock, and the stock issued upon conversion of the convertible promissory notes issued as part of the Convertible Note Financing, in each case to the extent that such shares are held by participants in the Convertible Note Financing (the "Voting Proxy"). The votes held by Mr. Li, as a result of the Voting Proxy and related to the outstanding securities to which the Voting Proxy applies, represents approximately 0.86% of the Company's aggregate voting power as of September 30, 2022.

The Series S Preferred Stock has a right to convert at any time into Class A common stock. The initial conversion rate was 1:1, which conversion rate will continue to be adjusted pursuant to the broad-based weighted average anti-dilution adjustment provisions provided for in the Company's amended and restated certificate of incorporation, including without limitation as a result of the issuance of warrants to purchase Series S Preferred Stock in connection with the Convertible Note Financing referenced in the paragraph above, which may continue to have closings simultaneously with the Regulation D Offering of Series S Preferred Stock. As of December 31, 2021, the conversion rate has been adjusted to approximately 1.1069 shares of Class A common stock for every 1 share of Series S Preferred Stock, and remains subject to further adjustment.

In connection with the placement of the Series m-3 Preferred Stock during the years ended December 31, 2017 and 2018, the Company issued to the purchasers warrants to purchase an aggregate of 1,432,786 shares of Series m-3 Preferred Stock. These warrants have an exercise price of $4.00 per share. Pursuant to a second amendment to the Warrants to Purchase Shares of Series M-3 Preferred Stock Agreement dated November 18, 2021, the exercise period of the warrants was extended from December 31, 2021 to December 31, 2024 and shall be exercisable, in whole or in part, beginning January 1, 2023. In addition, the cashless exercise feature was removed from the warrants.

Common Stock

Each share of Class B Common Stock is convertible into one fully paid and non-assessable share of Class A common stock at the option of the holder at any time. Each share of Class B Common Stock will automatically convert into one fully paid and non-assessable share of Class A Common Stock upon the sale, assignment, transfer or disposition of the share or any interest in the share, except for certain permitted transfers to related persons.

On October 15, 2021, the Company filed an offering statement in connection with a proposed offering of up to $40 million of its Class A common stock pursuant to Regulation A of the Securities Act, to raise additional capital for operations (the "2021 Regulation A Offering"). The offering statement was qualified by the SEC on November 29, 2021, and the Company commenced the 2021 Regulation A Offering shortly thereafter, and terminated on January 26, 2022, issuing 2,236,619 shares of Class A common stock with net proceeds generated through this offering of $19.6 million. Outstanding Class A common stock will increase as the various classes of Preferred Stock elect to convert from preferred stock to Class A common stock.

On April 4, 2022, the Company entered into a Common Stock Purchase Agreement (as amended to date, the "***Purchase Agreement***") and a Registration Rights Agreement (the "***Registration Rights Agreement***") with B. Riley Principal Capital. Pursuant to the Purchase Agreement, the Company has the right to sell to B. Riley Principal Capital, up to the lesser of (i) $100,000,000 of newly issued shares of the Company's Class A common stock, and (ii) the Exchange Cap (as defined in the Purchase Agreement) (subject to certain conditions and limitations), from time to time during the term of the Purchase Agreement. Sales of Class A common stock pursuant to the Purchase Agreement, and the timing of any sales, are solely at the option of the Company, and the Company is under no obligation to sell any securities to B. Riley Principal Capital under the Purchase Agreement. The per share purchase price for the shares of Class A common stock that B. Riley Principal Capital is required to purchase pursuant to the Purchase Agreement, if any, will be determined by reference to the volume weighted average price of the Class A common stock calculated in accordance with the Purchase Agreement, and subject to the terms and conditions set forth in the Purchase Agreement.

As consideration for B. Riley Principal Capital's commitment to purchase shares of Class A common stock at the Company's direction upon the terms and subject to the conditions set forth in the Purchase Agreement, upon execution of the Purchase Agreement, the Company issued 98,888 shares of Class A common stock to B. Riley Principal Capital as initial commitment shares. In addition, (i) upon the Company's receipt of total aggregate gross cash proceeds equal to $25,000,000 as payment by B. Riley Principal Capital for all shares of Class A common stock purchased under the Purchase Agreement, the Company will issue 59,333 additional shares of Class A common stock to B. Riley Principal Capital as additional commitment shares, and (ii) upon the Company's receipt of total aggregate gross cash proceeds equal to $50,000,000 from B. Riley Principal Capital under the Purchase Agreement, the Company will issue an additional 39,555 shares of Class A common stock to B. Riley Principal Capital as additional commitment shares, totaling 98,888 additional commitment shares (in addition to the 98,888 initial commitment shares the Company issued to B. Riley Principal Capital upon execution of the Purchase Agreement).

Pursuant to the Registration Rights Agreement, the Company filed a registration statement on Form S-1 to register the resale of 12,197,776 shares of Class A common stock by B. Riley Principal Capital, which was declared effective by the SEC on May 11, 2022.

During the three and nine months ended September 30, 2022, we sold 323,298 and 419,032 shares, respectively, of Class A common stock under the Purchase Agreement. Net proceeds from such sales for the three and nine months ended September 30, 2022 totaled $1.0 million and $1.4 million, respectively.

Warrants

On April 30, 2019, the Company entered into the "Convertible Note Financing". Pursuant to the terms of the Convertible Note Financing, the Company became obligated to exchange its outstanding shares of Series m-3 Preferred Stock for the newly authorized shares of Series m-4 Preferred stock upon the closing of at least $1 million in aggregate principal amount of convertible promissory notes under the Convertible Note Financing. Warrants to purchase shares of Series S Preferred Stock of the Company were also issued to investors who invested in the Convertible Note Financing. The warrants to purchase shares of Series S Preferred Stock have an exercise price of $4.50 per share and expire on the earlier of December 31, 2024, or 18 months after the closing of the Company's first firm commitment underwritten initial public offering of the Company's common stock pursuant to a registration statement filed under the Securities Act. As of September 30, 2022, the Company had issued warrants to purchase up to 2,941,814 shares of Series S Preferred Stock. These warrants issued qualify as liability instruments as the warrants are exercisable into Series S Preferred Stock which are redeemable upon a change of control or any liquidation or winding up of the Company whether voluntary or involuntary. The warrants have been classified as a current liability on the Company's balance sheets and were recorded as a component of the issuance costs related to Convertible Note. The Series S warrant is valued at market at the end of every reporting period until the warrant is exercised or expires with the change in fair value being recorded in other income (expense), net on the Company's condensed statements of operations.

Pursuant to the terms of the Convertible Note Financing, the Company became obligated to exchange certain of its outstanding shares of Series m-3 Preferred Stock for the newly authorized shares of Series m-4 Preferred Stock. On September 10, 2019, the Company issued 1,432,786 shares of its Series m-4 Preferred Stock in exchange for 1,432,786 shares of its shares of Series m-3 Preferred Stock, which remained outstanding as of September 30, 2022.

On July 23, 2019, the Company issued a warrant to purchase 1,500,000 shares of its Series S Preferred Stock, (the "Warrant"), to Proud Productions LLC ("Proud") pursuant to the terms of a Distribution Assignment and Warrant Purchase Agreement, dated as of July 22, 2019 (the "Purchase Agreement"). The Warrant is exercisable at $8.00 per share beginning July 24, 2021 and expiring on July 31, 2024. The Warrant was issued in connection with an upcoming television series to be produced by Proud featuring the Company's products.

During the nine months ended September 30, 2022, warrants to purchase 121,913 shares of Class B common stock and 53,919 warrants to purchase Series B Preferred Stock were cashless exercised resulting in the issuance of 156,483 shares of Class A common stock and the reclassification of $370 from the warrant liability to additional paid-in capital.

A summary of the Company's outstanding warrants as of September 30, 2022 is as follows:

Class of shares	Number of Warrants	Exercise Price	Expiration Date
Series m-3 Preferred Stock	1,432,786	$ 4.0000	December 31, 2024
Series S Preferred Stock	2,941,814	$ 4.5000	December 31, 2024
Series S Preferred Stock	1,500,000	$ 8.0000	July 31, 2024

Common Stock Reserved for Future Issuance

Shares of common stock reserved for future issuance relate to outstanding preferred stock, warrants and stock options as follows:

	September 30, 2022
Series A Preferred Stock	3,109,160
Series B Preferred Stock	3,535,621
Series m Preferred Stock	1,879,946
Series m-2 Preferred Stock	160,000
Series S Preferred Stock	2,741,341
Stock options to purchase common stock	9,624,595
Warrants outstanding for future issuance of convertible preferred stock and common stock	5,874,600
Stock options available for future issuance	4,016,391
Total shares of common stock reserved	30,941,654

NOTE 7: Related parties and related-party transactions

One of the Company's vendors, Konica Minolta, Inc. ("Konica Minolta"), is a stockholder of the Company. Konica Minolta provides the Company with repair services to its ASRs. The Company paid Konica Minolta $127 and $114 and $319 and $254 in service fees for the three and nine-month periods ended September 30, 2022 and 2021, respectively. The Company had payables of $31 and $29 owed to Konica Minolta as of September 30, 2022 and December 31, 2021, respectively.

NOTE 8: Commitments and contingencies

Leases

The Company leases facilities for office space under non-cancelable operating lease agreements. The Company leases space for its corporate headquarters in Mountain View, California through August 2023.

Lease costs for the three and nine month periods ended September 30, 2022 are as follows:

	Three months ended September 30, 2022	Nine months ended September 30, 2022
Operating lease costs		
Operating lease right-of-use assets	$ 204	$ 576

As of September 30, 2022, future minimum operating lease payments for each of the next three years and thereafter is as follows:

Years ending December 31,	Amount
2022 (remaining)	$ 190
2023	507
Total future minimum lease payments	697
Less — Interest	(40)
Present value of lease liabilities	$ 657

Weighted average remaining lease term is 0.9 years as of September 30, 2022 and the weighted average discount rate is 12.0%.

Legal Matters

The Company may be subject to pending legal proceedings and regulatory actions in the ordinary course of business; however, no such claims have been identified as of September 30, 2022 that would have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company from time to time enters into contracts that contingently require the Company to indemnify parties against third party claims. These contracts primarily relate to: (i) arrangements with Clients which generally include certain provisions for indemnifying Clients against liabilities if the services infringe a third party's intellectual property rights, (ii) the Regulation A Issuer Agreement where the Company may be required to indemnify the placement agent for any loss, damage, expense or liability incurred by the other party in any claim arising out of a material breach (or alleged breach) as a result of any potential violation of any law or regulation, or any third party claim arising out of any investment or potential investment in the offering, and (iii) agreements with the Company's officers and directors, under which the Company may be required to indemnify such persons from certain liabilities arising out of such persons' relationships with the Company. The Company has not incurred any material costs as a result of such obligations and has not accrued any liabilities related to such obligations in the financial statements as of September 30, 2022 and December 31, 2021.

Sales Tax Contingencies

The Company has historically not collected state sales tax on the sale of its "MaaS" product offering but has paid sales tax and use tax on all purchases of raw materials and in conjunction with the Financing Arrangement of the Company's ASRs with Farnam. The Company's MaaS product offering may be subject to sales tax in certain jurisdictions. If a taxing authority were to successfully assert that the Company has not properly collected sales or other transaction taxes, or if sales or other transaction tax laws or the interpretation thereof were to change, and the Company was unable to enforce the terms of their contracts with Clients that give the right to reimbursement for the assessed sales taxes, tax liabilities in amounts that could be material may be incurred. Based on the Company's assessment, the Company has recorded a use tax liability of $0.4 million and $0.5 million as of September 30, 2022 and December 31, 2021, respectively, which has been included in other current liabilities on the accompanying condensed balance sheets. The Company continues to analyze possible sales tax exposure but does not currently believe that any individual claim or aggregate claims that might arise will ultimately have a material effect on its results of operations, financial position or cash flows.

NOTE 9: Subsequent Events

Acquisition

On October 10, 2022, the Company entered into an Asset Purchase Agreement (the "APA") with Case Emergency Systems, a California corporation (the "Seller"), pursuant to which the Company agreed to purchase and assume from the Seller substantially all the assets and certain specified liabilities of the Seller's emergency call box and communications business, subject to the terms and conditions set forth in the APA (the "Closing").

Pursuant to the APA, the purchase price paid at the Closing consisted of (i) $6.16 million in cash, subject to a working capital and indebtedness adjustment, less the Indemnification Holdback Amount (as defined below), and (ii) $560,000 in the form of an unsecured, non-negotiable promissory note that (a) bears simple interest at the applicable federal rate per annum, (b) will mature on the 6-month anniversary of the Closing, with principal and accrued interest to be paid on the maturity date, and (c) is subordinated to all senior indebtedness of the Company to the extent required by the holders thereof.

In addition, $672,000 (the "Indemnification Holdback Amount") was held back from the purchase price paid at the Closing and retained by the Company as security (but not the sole source of recovery) for the performance of the indemnification and other covenants, obligations and agreements of the Seller arising under the APA, any other transaction agreement or otherwise. Any portion of the Indemnification Holdback Amount not used to satisfy indemnification claims will be released to the Seller on the 12-month anniversary of the Closing.

The Company funded a portion of the cash consideration payable at Closing with the net proceeds of the 2022 Notes (as defined and described below), and the remainder from cash on hand.

2022 Convertible Notes Offering

On October 10, 2022, the Company entered into a Securities Purchase Agreement (the “SPA”) with an accredited investor (the “Buyer”), pursuant to which the Company issued and sold to the Buyer in a private placement (i) senior secured convertible notes in an aggregate principal amount of $6.075 million (the “2022 Notes”), at an initial conversion price of $5.00 per share of the Company's Class A common stock, subject to adjustment upon the occurrence of specified events described in the 2022 Notes, and (ii) warrants to purchase up to 1,138,446 shares of Class A common stock with an initial exercise price of $3.25 per share of Class A common stock, exercisable immediately and expiring five years from the date of issuance (the “2022 Warrants” and, together with the 2022 Notes, the “2022 Notes Offering”), for $5.0 million of gross proceeds.

The 2022 Notes are senior secured obligations of the Company and issued with an original issue discount of approximately 17.65%. The 2022 Notes bear no interest until an event of default has occurred, upon which interest will accrue at 12.5% per annum. The 2022 Notes mature on September 15, 2024 unless earlier converted (upon the satisfaction of certain conditions) (the “2022 Notes Maturity Date ”). The 2022 Notes are secured by a first priority security interest in substantially all of the Company’s assets.

Principal payments under the 2022 Notes are payable in equal monthly installments beginning on April 5, 2023 and ending on the 2022 Notes Maturity Date. Amortization payments are payable, at the Company’s election, in cash or, subject to certain limitations, in shares of Class A common stock valued at the lower of (i) the Conversion Price (as defined in the 2022 Notes) then in effect, and (ii) the greater of (x) $0.496, subject to adjustment as described in the 2022 Notes, (y) 92% of the VWAP (as defined in the 2022 Notes) of the Class A common stock as of the trading day immediately preceding the applicable installment payment date and (z) 92% of the quotient of (A) the sum of the VWAP of the Class A common stock for each of the three trading days with the lowest VWAP of the Class A common stock during the 20 consecutive trading day period ending and including the trading day immediately prior to the applicable installment payment date, divided by (B) 3, subject to adjustment as described in the 2022 Notes.

The Company may, subject to certain conditions, redeem all, or any portion not less than $1.0 million (or such lesser amount then outstanding thereunder), of the Conversion Amount (as defined in the 2022 Notes) then remaining under the 2022 Notes (the “Company Optional Redemption Amount”) on the applicable redemption date (a “Company Optional Redemption”) in cash at a price equal to 100% (or 115% if an event of default exists) of the greater of (i) the Conversion Amount being redeemed, and (ii) the sum of (A) the product of (1) the Conversion Rate with respect to the Conversion Amount being redeemed multiplied by (2) the highest closing sale price of the Class A common stock during the period commencing the trading day that is immediately prior to the date on which the Company delivers a notice of redemption and ending upon the Company’s payment of the applicable redemption amount in full. The 2022 Notes can also be redeemed by either the Company or the Buyer, as applicable, under various other circumstances, such as a change of control, events of default, subsequent financings, or at the option of the Buyer under certain circumstances, with any such redemption subject to certain terms and conditions as set forth in the 2022 Notes.

Furthermore, the 2022 Notes provide that the holders thereof are entitled to, among other things, effectuate an Alternate Conversion (as defined in the 2022 Notes), defer or accelerate certain installment payments, participate in certain future offerings of the Company’s securities, in each case, subject to various limitations and conditions and at the prices set forth in the 2022 Notes, as applicable. The 2022 Notes contain certain conversion limitations, providing that no conversion may be made if, after giving effect to the conversion, the holder, together with any of its affiliates, would own in excess of 4.99% of the Company’s outstanding shares of Class A common stock.

The 2022 Notes contain certain customary affirmative and negative covenants regarding the incurrence of indebtedness, the existence of liens, the repayment of indebtedness, the payment of cash in respect of dividends, distributions or redemptions and the transfer of assets, among other matters, as well as a financial covenant to maintain available cash at all times of $3.0 million. The 2022 Notes also contain certain customary events of default, including, among other things, the failure to file and maintain an effective registration statement covering the Registrable Securities (as defined below), subject to certain exceptions.

The 2022 Warrants contain certain conversion limitations, providing that a holder thereof may not exercise such 2022 Warrant to the extent (but only to the extent) that, if after giving effect to such conversion, the holder or any of its affiliates would beneficially own in excess of 4.99% of the outstanding shares of the Class A common stock immediately after giving effect to such conversion or exercise.

The Company agreed to seek stockholder approval for the issuance of all of the Securities (as defined in the SPA), and, under certain circumstances, to allow for additional shares of Class A common stock to be issued under a Permitted Equity Line (as defined in the SPA), in each case in accordance with the rules and regulations of the Principal Market (as defined in the SPA).

In connection with the entry into the SPA, the Company agreed that until 90 calendar days after the effective date of the registration statement referred to below, the Company will be subject to a customary lock-up period, subject to certain exceptions, including, among other things, issuances of shares of Class A common stock in connection with the Permitted Equity Line or a Permitted ATM, or the issuance of equity awards under the Company's equity incentive plans.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with the (1) unaudited condensed financial statements and the related notes thereto included elsewhere in of this report, and (2) the audited financial statements and the related notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2021 included in our Annual Report on Form 10-K for the year ended December 31, 2021.

The historical results presented below are not necessarily indicative of the results that may be expected for any future period.

Overview

Knightscope, Inc. was founded in Mountain View, California in April 2013 and has since developed revolutionary Autonomous Security Robots ("ASR") with real-time on-site data collection and analysis and an interface, primarily through funding from both strategic and private investors. Knightscope currently offers three products: (1) the K5 ASR ("K5") for outdoor and indoor usage, (2) the K3 ASR ("K3") for indoor usage, and (3) the K1 ASR ("K1") for stationary usage indoors or outdoors. In June 2022, the Company announced a new model, the K1 Hemisphere ("Hemisphere"), which includes the majority of capabilities Knightscope clients already enjoy today with its existing suite of technologies, but in a much more compact size, and is currently accepting pre-orders for this new model. The Company also provides access to the Knightscope Security Operations Center ("KSOC") to all its clients, a proprietary, browser-based interface that allows clients real-time data access. The Company works continuously to improve and upgrade the ASR and KSOC, and their precise specifications may change over time.

The Company operates on a Machine-as-a-Service ("MaaS") business model. The Company's standard subscription term is twelve months and includes the ASR rental as well as maintenance, service, support, data transfer, KSOC access docking stations and unlimited software, firmware and select hardware upgrades. In 2021, the Company added "Knightscope+" remote monitoring services as an optional service that can be bundled into its MaaS subscriptions, primarily for clients that operate without a fully staffed 24/7 Security Operation Center ("SOC").

Our current primary focus is on the deployment and marketing of our core technologies. We continue to receive client orders for K1, K3 and K5 ASRs, and production of machines is expected to continue out of our corporate headquarters in Mountain View, California.

Recent Developments

Acquisition

On October 10, 2022, the Company entered into an Asset Purchase Agreement (the "APA") with Case Emergency Systems (the "Seller"), pursuant to which the Company agreed to purchase and assume from the Seller substantially all the assets and certain specified liabilities of the Seller's emergency call box and communications business, subject to the terms and conditions set forth in the APA (the "Acquisition"). On October 14, 2022, the Company completed the Acquisition pursuant to the APA (the "Closing").

Pursuant to the APA, the purchase price paid at the Closing consisted of (i) $6.16 million in cash, subject to a working capital and indebtedness adjustment, less the Indemnification Holdback Amount (as defined below), and (ii) $560,000 in the form of an unsecured, non-negotiable promissory note that (a) bears simple interest at the applicable federal rate per annum, (b) will mature on the 6-month anniversary of the Closing, with principal and accrued interest to be paid on the maturity date, and (c) is subordinated to all senior indebtedness of the Company to the extent required by the holders thereof.

The Company funded a portion of the cash consideration payable at Closing with the net proceeds of the 2022 Notes (as defined and described below), and the remainder from cash on hand.

2022 Convertible Notes Offering

On October 10, 2022, the Company entered into a Securities Purchase Agreement with an accredited investor (the "Buyer"), pursuant to which the Company issued and sold to the Buyer in a private placement (i) senior secured convertible notes in an aggregate principal amount of $6.075 million (the "2022 Notes"), at an initial conversion price of $5.00 per share of the Company's Class A common stock, subject to adjustment upon the occurrence of specified events described in the 2022 Notes, and (ii) warrants to purchase up to 1,138,446 shares of Class A common stock with an initial exercise price of $3.25 per share of Class A common stock, exercisable immediately and expiring five years from the date of issuance (the "2022 Warrants" and, together with the 2022 Notes, the "2022 Notes Offering"), for $5.0 million of gross proceeds.

The 2022 Notes are senior secured obligations of the Company and issued with an original issue discount of approximately 17.65%. The 2022 Notes bear no interest until an event of default has occurred, upon which interest will accrue at 12.5% per annum. The 2022 Notes mature on September 15, 2024 unless earlier converted (upon the satisfaction of certain conditions). The 2022 Notes are secured by a first priority security interest in substantially all of the Company's assets.

See Note 9 — Subsequent Events in the accompanying notes to the condensed financial statements included in Part I - Item 1. Financial Statements of this Quarterly Report on Form 10-Q for additional information.

Critical Accounting Estimates

There have been no changes to our critical accounting estimates from what was reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Known or Anticipated Trends

Our primary goal remains meeting client demand for additional orders of our technology, attracting new client orders, and ensuring consistent performance in the field. The Company is focused on scaling its business to meet incoming orders. Increasing demand through various marketing efforts, including our nationwide Robot Roadshow and media coverage, has driven and continues to drive an increase in orders and client inquiries.

Sales trends for the nine months ended September 30, 2022 showed demand across all of Knightscope's product service lines. The sales pipeline continues to grow and is strong, though similar to many business-to-business transactions, the enterprise sales cycle is lengthy. Although we have executed contracts in less than 30 days, notionally these negotiations can range up to several years, taking into account the client's budget, finance, legal, cyber security, human resources, facilities and other reviews. The sales process for this brand-new technology requires significant streamlining and improvements, and we are taking steps to ensure our sales processes are robust, repeatable, and can enable our products to move through the sales pipeline quicker.

During the first nine months of 2022, both limited resources, including supply chain delays, increased minimum order requirements of raw materials and components, increased costs attributed to rising inflation, cash on-hand, as well as the COVID-19 pandemic had a negative impact on the Company's performance. Additionally, a portion of clients hardest hit by COVID-19 restrictions have had to terminate or place their service on hold due to budget constraints, and numerous others have had to delay deployments due to accessibility to their premises resulting from uncertainty regarding state and local guidelines related to granting facility access. However, the Company has continued to sign on new clients during the pandemic and throughout the first nine months of 2022. With the recent influx of new capital in January 2022 and continued use of the B Riley committed equity facility, the Company has continued to fund and build inventory, as well as recruit additional employees, which we believe will partially offset the negative impact on our performance.

Due to numerous geopolitical events, new safety requirements and supply chain delays resulting from the COVID-19 pandemic, as well as various high-profile incidents of violence across the United States, we believe that the market for our technologies will continue to grow. At the same time, we expect that competing products may be introduced in the near future, creating pressure on us to improve on our production methods, cost, quality and product features.

As our business scales and becomes more streamlined, management expects gross loss to decrease, once a critical mass has been achieved. We are focusing our resources on growing the business to be able to generate both a gross profit and overall net income. We are continually evaluating and taking a number of near-term actions to facilitate this result, and expect that as the Company matures, we should obtain expertise, economies of scale and efficiency that would increase revenue and reduce costs over the medium to long-term. For example, we continued to refine our sales strategy in 2021 and into the first nine months of 2022, which is expected to increase and enhance our revenue streams. The addition of new sales representatives during 2022 coupled with improvements to our sales process have positively impacted order rates during 2022. Our ASR materials sourcing, production, assembly, and manufacturing are expected to become more efficient over time, and the costs associated with these processes reduced as we grow. However, with global supply chain constraints resulting from the COVID-19 pandemic and the conflict in Ukraine, the Company experienced increased minimum order requirements, higher prices, and extended lead times for certain components used in our production during 2021 and throughout the first three quarters of 2022. The Company expects this to continue throughout the remainder of 2022 and 2023, which may impact timely delivery of ASRs and our ability to begin recognizing revenue. As operations scale, we believe we will be in a better position to negotiate volume-based pricing terms with suppliers as well as optimize our designs for design-for-assembly and design-for-service. We are also focused on controlling general overhead costs, such as expenditures for real estate leases and optimizing team composition and size. We believe that with the building of new internal tools, the Company will be able to streamline procedures and manage deployments more efficiently through the deployment of automation, alleviating the need for a dramatic increase in headcount. Additionally, new service cost reduction initiatives are underway to further reduce our ongoing repair and maintenance costs. Our overall strategy is to try to keep our fixed costs as low as possible and minimize variable costs while achieving our overall growth objectives.

On October 14, 2022, the Company closed its acquisition of CASE Emergency Systems as a first step in executing upon a growth strategy that includes pursuing opportunities to improve the overall financial performance of the Company and long-term mission (See Note 9 – Subsequent Events). The Company typically seeks acquisition targets with strong top line revenue and synergistic technologies.

Results of Operations

Comparison of the Three Months Ended September 30, 2022 and 2021

The following table sets forth selected statements of operations data (in thousands, other than share data) and such data as a percentage of total revenues.

	Three months ended September 30,			
	2022	% of Revenue	2021	% of Revenue
Revenue, net	$ 1,296	100	$ 784	100
Cost of revenue, net	2,195	169	1,309	167
Gross loss	(899)	(69)	(525)	(67)
Research & development	2,070	160	1,238	158
Sales & marketing	1,907	147	697	89
General & administrative	2,899	224	1,534	196
Total operating expenses	6,876	531	3,469	442
Loss from operations	(7,775)	(600)	(3,994)	(509)
Interest income (expense), net	—	—	(858)	(109)
Change in fair value of warrant liabilities	2,543	196	—	—
Other income (expense), net	(6)	—	(43)	(5)
Total other income (expense)	2,537	196	(901)	(115)
Net income (loss) before income tax	(5,238)	404	(4,895)	(624)
Income tax expense	—	—	—	—
Net income (loss)	(5,238)	404	$ (4,895)	(624)

Revenue, net

Revenue, net increased by approximately $0.5 million to $1.3 million, or by 65%, in the three months ended September 30, 2022 from $0.8 million for the three months ended September 30, 2021. Despite the impact of COVID-19, which affected our existing client base, causing some contracts to be placed on hold or postponed during 2021 and into the first half of 2022, coupled with supply chain constraints, recently exacerbated by the conflict in Ukraine and global economic downturn, causing delays in our ability to source components to assemble and deploy ASRs during the third quarter of 2022, the Company was able to offset some of the financial impact with the addition of new clients later in 2021 and through September 30, 2022. As of November 2, 2022, the Company has a total backlog of orders, including orders attributed to CASE Emergency Systems (See Note 9 – Subsequent Events), to ship 289 units representing aggregated revenue of approximately $3.9 million. Of the 289 units, 240 are CASE units representing $1.4M of revenue and 49 are ASRs, representing an aggregate annual subscription value of approximately $2.5 million. While the Company believes the current backlog of work remains firm, prolonged delays in the receipt of critical supplies and materials or continued increases in costs related to the rise in inflation, could result in clients seeking to delay or terminate existing or pending agreements. Factors noted in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2021 can cause revenues to be realized in periods and at levels that are different from originally projected.

Cost of revenue, net

Cost of revenue, net for the three months ended September 30, 2022 increased by approximately $0.9 million to $2.2 million, compared to $1.3 million for the three months ended September 30, 2021, primarily due to personnel costs related to increased headcount and increased costs attributed to service and ongoing support of the ASRs. The cost of revenue, net is primarily related to the depreciation and service costs for machines, including but not limited to the cost of ASR production, ASR related services, and ongoing maintenance and repairs, partially due to the impact of rising inflation.

Gross Loss

The revenue, net and cost of revenue, net described above resulted in a gross loss for the three months ended September 30, 2022 of approximately $0.9 million compared to $0.5 million for the three months ended September 30, 2021.

Research and Development

	Three Months Ended September 30,			
	2022	2021	$ Change	% Change
Research and development	$ 2,070	$ 1,238	$ 832	67 %
Percentage of total revenue	160 %	158 %		

Research and development expenses increased by approximately $0.8 million, or 67%, for the three months ended September 30, 2022 as compared to the respective period of the prior year. The increase is primarily due to increase in headcount and personnel related costs, continued investment in the FedRamp process, and investment in technology development relating to new and improved versions of our ASR models, such as the K1 Hemisphere and new version of the K5, currently being beta tested in the field.

Sales and Marketing

	Three Months Ended September 30,			
	2022	2021	$ Change	% Change
Sales and marketing	$ 1,907	$ 697	$ 1,210	174 %
Percentage of total revenue	147 %	89 %		

Sales and marketing expenses increased by $1.2 million, or 174%, for the three months ended September 30, 2022 as compared to the prior year. The increase was primarily attributed to $1.0 million in commercial advertising expenses, designed to increase public awareness of the Company and its products to potential customers and investors as well as its continued investment in the Robot Roadshow during 2022, which has continued to be well received and has resulted in new ASR orders. In addition, increased headcount, as compared to the same quarter in 2021, resulted in higher personnel related costs of approximately $0.1 million for the three months ended September 30, 2022.

General and Administrative

	Three Months Ended September 30,			
	2022	2021	$ Change	% Change
General and administrative	$ 2,899	$ 1,534	$ 1,365	89 %
Percentage of total revenue	224 %	196 %		

General and administrative expenses increased by $1.4 million, or approximately 89%, for the three months ended September 30, 2022, as compared to the respective period of the prior year. The increase was primarily driven by an increase in insurance costs resulting from the public listing of $0.4 million, $0.2 million in legal expenses, and approximately $0.9 million of personnel related costs resulting from an increase in headcount and $0.5 million of which relates to stock based compensation expense relating to new stock option grants.

Other Income (Expense), Net

	Three Months Ended September 30			
	2022	2021	$ Change	% Change
Change in fair value of warrant liability	$ 2,543	$ —	$ 2,543	100 %
Interest income (expense), net	—	(858)	858	100 %
Other income (expenses), net	(6)	(43)	37	86 %
Total other income (expense)	$ 2,537	$ (901)	$ 3,438	382 %

Total other income (expense), net increased by approximately $3.4 million, or 382%, for the three months ended September 30, 2022, as compared to the respective period of the prior year due primarily to the change in fair value of warrant liability.

Comparison of the Nine Months Ended September 30, 2022 and 2021

The following table sets forth selected statements of operations data (in thousands, other than share data) and such data as a percentage of total revenues.

	Nine months ended September 30,			
	2022	% of Revenue	2021	% of Revenue
Revenue, net	$ 3,281	100	$ 2,561	100
Cost of revenue, net	5,420	165	3,826	149
Gross loss	(2,139)	(65)	(1,265)	(49)
Research & development	5,983	182	3,894	152
Sales & marketing	6,905	210	7,327	286
General & administrative	8,185	249	3,199	125
Total operating expenses	21,073	642	14,420	563
Loss from operations	(23,212)	(707)	(15,685)	(612)
Interest expense, net	(8,910)	(272)	(1,992)	(78)
Change in fair value of warrant liabilities	18,190	554	(10,737)	(419)
Other income (expense), net	(35)	(1)	778	30
Total other income (expense)	9,245	282	(11,951)	(467)
Net loss before income tax	(13,967)	426	(27,636)	(1,079)
Income tax expense	—	—	—	—
Net loss	(13,967)	426	$ (27,636)	(1,079)

Revenue, net

Revenue, net increased by approximately $0.7 million to $3.3 million, or by 28% in the nine months ended September 30, 2022, from $2.6 million for the nine months ended September 30, 2021. Despite the impact of COVID-19, which affected our existing client base, causing some contracts to be placed on hold or postponed during 2021 and into 2022, coupled with supply chain constraints and increased costs resulting from rising inflation, recently exacerbated by the conflict in Ukraine and global economic downturn, causing delays in our ability to source components to assemble and deploy ASRs during the nine months ended September 30, 2022, the Company was able to offset some of the financial impact with deployments to a number of new clients later in 2021 and through September 30, 2022.

Cost of revenue, net

Cost of revenue, net for the nine months ended September 30, 2022 was $5.4 million, compared to $3.8 million for the nine months ended September 30, 2021, an increase of 42%, primarily due to personnel costs related to increased headcount and increased cost attributed to the production and service of the ASRs, partially due to increased costs resulting from rising inflation. The cost of revenue, net is primarily related to the depreciation and service costs for machines.

Gross Loss

The revenue, net and cost of revenue, net described above resulted in a gross loss for the nine months ended September 30, 2022 of approximately $2.1 million compared to $1.3 million for the nine months ended September 30, 2021.

Research and Development

	Nine Months Ended September 30,			
	2022	2021	$ Change	% Change
Research and development	$ 5,983	$ 3,894	$ 2,089	54 %
Percentage of total revenue	182 %	152 %		

Research and development expenses increased by approximately $2.1 million, or 54%, for the nine months ended September 30, 2022 as compared to the respective period of the prior year. The increase is primarily due to an increase in headcount and personnel related costs focused on technology development, including but not limited to upgrades to the KSOC platform and existing ASR models, as well as development of brand new ASR models, like the K1 Hemisphere announced in June 2022, as well as a continued focus on FedRamp. Beta versions of the upgraded K5 ASR and the new K1 Hemisphere are currently being tested in the field.

Sales and Marketing

	Nine Months Ended September 30,			
	2022	2021	$ Change	% Change
Sales and marketing	$ 6,905	$ 7,327	$ (422)	(6)%
Percentage of total revenue	210 %	286 %		

Sales and marketing expenses decreased by $0.4 million, or 6%, for the nine months ended September 30, 2022, as compared to the respective period of the prior year. The decrease in 2022 was primarily due to a reduction of approximately $1.0 million in spending on commercial advertising in 2022 designed to increase public awareness of the Company and its products to potential customers and investors, partially offset by continued investment in the Robot Roadshow during 2022, which has continued to be well received and has resulted in new ASR orders, as well as an increase in personnel related costs of $0.4 million in the nine months ended September 30, 2022.

General and Administrative

	Nine Months Ended September 30,			
	2022	2021	$ Change	% Change
General and administrative	$ 8,185	$ 3,199	$ 4,986	156 %
Percentage of total revenue	249 %	125 %		

General and administrative expenses increased by $5.0 million, or 156%, for the nine months ended September 30, 2022, as compared to the respective period of the prior year. The increase was primarily driven by an increase of approximately $2.7 million relating to professional service fees associated with legal, corporate, insurance, and financial service expenses related to the Company’s public listing on Nasdaq, regulatory filings, the Acquisition and associated Notes Offering (See Note 9 – Subsequent Events) and $2.0 million in personnel related costs in 2022 compared to the prior year, as a result of an increase in headcount and an increase in stock-based compensation expense of $1.0 million.

Other Income (Expense), Net

	Nine Months Ended September 30			
	2022	2021	$ Change	% Change
Change in fair value of warrant liabilities	$ 18,190	$ (10,737)	$ 28,927	269 %
Interest expense, net	(8,910)	(1,992)	(6,918)	(347)%
Other income (expense), net	(35)	778	(813)	(104)%
Total other income (expense)	$ 9,245	$ (11,951)	$ 21,196	177 %

Total other income (expense), net increased by $21.2 million, or 177%, for the nine months ended September 30, 2022, as compared to the respective period of the prior year. The increase is primarily due to the change in fair value of warrant liability partially offset by an increase in interest expense, net of $6.9 million resulting from the write off of the remaining debt discount upon the conversion of the convertible notes on January 5, 2022.

Liquidity and Capital Resources

As of September 30, 2022 and December 31, 2021, we had $11.1 million and $10.7 million of cash and cash equivalents, respectively. As of September 30, 2022, the Company also had an accumulated deficit of approximately $127.7 million, working capital of $7.9 million and stockholders' deficit of $34.7 million.

On April 4, 2022, the Company entered into a Common Stock Purchase Agreement (as amended to date, the "Purchase Agreement") and a Registration Rights Agreement with B. Riley Principal Capital, LLC ("B. Riley Principal Capital"). Pursuant to the Purchase Agreement, the Company has the right to sell to B. Riley Principal Capital, up to the lesser of (i) $100,000,000 of newly issued shares of the Company's Class A common stock and (ii) the Exchange Cap (as defined in the Purchase Agreement) (subject to certain conditions and limitations), from time to time during the term of the Purchase Agreement. Sales of Class A common stock pursuant to the Purchase Agreement, and the timing of any sales, are solely at the option of the Company, and the Company is under no obligation to sell any securities to B. Riley Principal Capital under the Purchase Agreement. During the three and nine months ended September 30, 2022, we sold 323,298 and 419,032 shares, respectively, of Class A common stock under the Purchase Agreement. Net proceeds from such sales totaled $1.0 and $1.4 million, respectively.

On April 20, 2021, the Company entered into a Referral Agreement with Dimension Funding, LC ("Dimension"), whereby the Company can generate up to $10 million of immediate cash flow by referring its clients to Dimension for financing of their annual fees over the MaaS subscription term. This agreement enables the Company to quickly offset the up-front costs associated with building and deploying ASR's by accelerating collection of its accounts receivable.

As of the date of this report, the Company has sufficient working capital and access to cash via the committed equity facility to fund at least twelve months of operations.

Cash Flow

The table below, for the periods indicated, provides selected cash flow information:

	Nine Months Ended September 30,	
	2022	2021
Net cash used in operating activities	$ (18,391)	$ (13,619)
Net cash used in investing activities	(2,832)	(1,819)
Net cash provided by financing activities	21,443	18,051
Net increase in cash and cash equivalents	$ 220	$ 2,613

Net Cash Used in Operating Activities

Net cash used in operating activities is influenced by the amount of cash we invest in personnel, marketing, and infrastructure to support the anticipated growth of our business, the number of clients to whom we lease our ASRs, the amount and timing of accounts receivable collections, as well as the amount and timing of disbursements to our vendors.

Net cash used in operating activities was approximately $18.4 million for the nine months ended September 30, 2022. Net cash used in operating activities resulted from a net loss of $14.0 million, adjusted by changes in working capital and non-cash charges, such as the change in the fair value of warrants partially offset by the amortization of the debt discount written off upon the conversion of the convertible notes in January 2022, stock compensation expense, and depreciation and amortization.

Net cash used in operating activities for the nine months ended September 30, 2022 increased by $4.8 million as compared to the respective period of the prior year. The increase was primarily due to the reduction in the fair value of warrants of $28.9 million partially offset by a decrease in net loss of $13.7 million, an increase in amortization of debt discount of $7.5 million upon the conversion of convertible notes in January 2022, an increase in stock compensation expense of $1.7 million, a decrease of $0.8 million of forgiveness of the Paycheck Protection Program loan and interest.

Net Cash Used in Investing Activities

Our primary investing activities have consisted of capital expenditures and investment in ASRs. As our business grows, we expect our capital expenditures to continue to increase.

Net cash used in investing activities for the nine months ended September 30, 2022 was approximately $2.8 million compared to $1.8 million in the respective period last year, or $1.0 million higher. The increase was primarily a result of higher investment in ASRs.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was approximately $21.4 million for the nine months ended September 30, 2022, an increase of approximately $3.4 million as compared to the respective period of the prior year. Our financing activities for the nine months ended September 30, 2022, consisted primarily of net proceeds resulting from issuing stock in connection with our 2021 Regulation A Offering that terminated on January 26, 2022, immediately prior to the Company's listing on Nasdaq on January 27, 2022. In addition, the Company received net proceeds from the issuance and sale of shares of Class A common stock to B. Riley Principal Capital under the Purchase Agreement of approximately $1.4 million during the nine months ended September 30, 2022.

Class A Common Stock Regulation A Offering

On October 15, 2021, the Company filed an offering statement in connection with a proposed offering of up to $40 million for its Class A Common Stock pursuant to Regulation A of the Securities Act, to raise additional capital for operations (the "2021 Regulation A Offering"). The offering statement was qualified by the SEC on November 29, 2021, and the Company commenced the 2021 Regulation A Offering shortly thereafter, and terminated on January 26, 2022. Gross proceeds generated through this offering was $22.4 million.

Convertible Promissory Notes and Series S Preferred Stock Warrants, and the Related Conversion of Certain Series m-3 Preferred Stock into Series m-4 Preferred Stock

On April 30, 2019 the Company signed a Note and Warrant Purchase Agreement under the form of which the Company can issue up to $15 million of convertible promissory notes and warrants to purchase up to 3,000,000 shares of Series S Preferred Stock (the "Convertible Note Financing"). Pursuant to the terms of the Convertible Note Financing, the Company became obligated to exchange certain of its outstanding shares of Series m-3 Preferred Stock for the newly authorized shares of Series m-4 Preferred Stock upon the closing of at least $1 million in aggregate principal amount of convertible promissory notes under the Convertible Note Financing. On September 10, 2019, the Company issued, to the same group of Convertible Note Financing investors, 1,432,786 shares of its Series m-4 Preferred Stock in exchange for 1,432,786 shares of its shares of Series m-3 Preferred Stock held by such investors. The Series m-4 Preferred Stock has a senior liquidation preference to all other Preferred Stock and Common Stock of the Company, has an accruing payment in kind dividend in the form of Series m-4 Preferred Stock of 12%, and has certain other preferential rights, including voting rights, as further explained in the Company's amended and restated certificate of incorporation. Exchange of Series m-3 Preferred Stock for Series m-4 Preferred Stock was inclusive of inducement expenses of $0.9 million (see Note 4 to the audited financial statements for details). The convertible promissory notes had a maturity date of January 1, 2022, provide for interest at a rate of 12% per annum payable upon the maturity date, are generally the most senior company security (subject to limited subordination carve-outs) and provide for significant discounts upon a qualified financing or an initial public offering, and for a premium upon a change of control. As of September 30, 2022, the Company had issued convertible notes in the aggregate principal amount of approximately $14.7 million (out of $15 million), all of which have converted during the nine months ended September 30, 2022. Warrants for the purchase of up to 2,941,814 shares of Series S Preferred Stock were also issued and accrued for, respectively, to the same convertible note holders. The warrants have an exercise price of $4.50 per share and expire on the earlier of December 31, 2024 or 18 months after the closing of the Company's first firm commitment underwritten initial public offering of the Company's common stock pursuant to a registration statement filed under the Securities Act (the "IPO").

On November 18, 2021, the Company agreed to amend the Note and Warrant Purchase Agreement and the convertible notes and warrants to purchase Series S Preferred Stock issued thereunder principally as follows: (i) the scheduled maturity date of the convertible notes was extended from January 1, 2022 to January 1, 2024, (ii) the interest rate of the convertible notes was reduced from 12% per annum to 3% per annum starting on January 1, 2022, (iii) the conversion terms of the convertible notes were revised so that the convertible notes will automatically convert into Class A Common Stock upon the listing of the Company's common stock for trading on a nationally recognized securities exchange (e.g., the New York Stock Exchange) or inter-dealer quotation system (e.g., Nasdaq), (iv) the exercise period of the warrants was extended from December 31, 2021 to December 31, 2024 and will commence on January 1, 2023, and (v) the cashless exercise feature was removed from the warrants. The conversion price of the convertible notes for conversion into Class A common stock was not changed and remains at $2.50 per share and the exercise price of the warrants to purchase Series S Preferred Stock was not changed and remains at $4.50 per share.

Common Stock Purchase Agreement

On April 4, 2022, the Company entered into the Purchase Agreement and a Registration Rights Agreement with B. Riley Principal Capital. Pursuant to the Purchase Agreement, the Company has the right to sell to B. Riley Principal Capital, up to the lesser of (i) $100,000,000 of newly issued shares of the Company's Class A common stock and (ii) the Exchange Cap (as defined in the Purchase Agreement) (subject to certain conditions and limitations), from time to time during the term of the Purchase Agreement. Sales of Class A common stock pursuant to the Purchase Agreement, and the timing of any sales, are solely at the option of the Company, and the Company is under no obligation to sell any securities to B. Riley Principal Capital under the Purchase Agreement. The per share purchase price for the shares of Class A common stock that B. Riley Principal Capital is required to purchase pursuant to the Purchase Agreement, if any, will be determined by reference to the volume weighted average price of the Class A common stock calculated in accordance with the Purchase Agreement, and subject to the terms and conditions set forth in the Purchase Agreement.

As consideration for B. Riley Principal Capital's commitment to purchase shares of Class A common stock at the Company's direction upon the terms and subject to the conditions set forth in the Purchase Agreement, upon execution of the Purchase Agreement, the Company issued 98,888 shares of Class A common stock to B. Riley Principal Capital as initial commitment shares. In addition, (i) upon the Company's receipt of total aggregate gross cash proceeds equal to $25,000,000 as payment by B. Riley Principal Capital for all shares of Class A common stock purchased under the Purchase Agreement, the Company will issue 59,333 additional shares of Class A common stock to B. Riley Principal Capital as additional commitment shares, and (ii) upon the Company's receipt of total aggregate gross cash proceeds equal to $50,000,000 from B. Riley Principal Capital under the Purchase Agreement, the Company will issue an additional 39,555 shares of Class A common stock to B. Riley Principal Capital as additional commitment shares, totaling 98,888 additional commitment shares (in addition to the 98,888 initial commitment shares the Company issued to B. Riley Principal Capital upon execution of the Purchase Agreement). Pursuant to the Registration Rights Agreement, the Company filed a registration statement on Form S-1 to register the resale of 12,197,776 shares of Class A common stock by B. Riley Principal Capital, which was declared effective by the SEC on May 11, 2022.

During the three and nine months ended September 30, 2022, we sold 323,298 and 419,032 shares of Class A common stock, respectively, under the Purchase Agreement. Net proceeds from such sales totaled $1.0 million and $1.4 million, respectively.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we are not required to provide this information.

Item 4. Controls and Procedures[1]

As required by Rule 13a-15 under the Exchange Act, our management has carried out an evaluation, with the participation and under the supervision of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2022. Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon their evaluation of these disclosure controls and procedures, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were not effective as of September 30, 2022 due to a material weakness in our internal control over financial reporting as described below.

Material Weakness in Internal Control Over Financial Reporting

In connection with the audit of our financial statements for the year ended December 31, 2021, we and our independent registered public accounting firm identified a material weakness in our internal control over financial reporting. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses related to certain corporate finance and accounting oversight functions specifically related to the need for technical accounting and SEC expertise, which was primarily the result of the accounting for the preferred stock warrant liability, evaluation of the features of the convertible notes payable and other equity accounting items, due to lack of sufficient accounting and finance resources throughout 2021. Commencing in the quarter ended December 31, 2020, the Company hired a full-time, in-house accounting team, including a chief financial officer ("CFO"), who has the requisite U.S. GAAP and SEC Commission reporting expertise, to transition the Company from private to publicly listed. To fully address this material weakness and to continue our implementation of new controls and procedures to address this material weakness in 2022, the Company intends to augment its accounting team with additional technical accounting professionals. As of September 30, 2022, the Company has hired additional accounting staff and has continued its efforts to implement process improvements to ensure the effectiveness of internal controls over financial reporting.

Evaluation of Changes in Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting is a process designed by, or under the supervision of, our president (our principal executive officer and our principal accounting officer and principal financial officer), to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. 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 our company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of our company are being made only in accordance with authorizations of management and directors of our company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our 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 provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

As noted above, the Company intends to augment its in-house accounting team and continues to address the controls related to the material weakness, including corporate finance and accounting oversight functions. Except for these continued actions, there were no changes in our internal control over financial reporting during the quarter ended September 30, 2022 that have materially affected, or reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We may be subject to litigation from time to time in the ordinary course of business. We are not currently party to any legal proceedings that we believe would reasonably have a material adverse impact on its business, financial results, and cash flows.

Item 1A. Risk Factors

You should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021, which could materially affect our business, financial condition, cash flows or future results. Except as set forth below, there have been no material changes in our risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2021. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2021 are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

We may be unable to successfully integrate the businesses and personnel of acquired companies and businesses, and may not realize the anticipated synergies and benefits of such acquisitions.

From time to time, we may complete acquisitions of companies and certain businesses of companies, and we may not realize the expected benefits from such acquisitions because of integration difficulties or other challenges. For example, in October 2022, we completed the acquisition of Case Emergency Systems.

The success of any acquisition will depend, in part, on our ability to realize all or some of the anticipated synergies and other benefits from integrating the acquired businesses with our existing business. The integration process may be complex, costly and time-consuming. The potential difficulties we may face in integrating the operations of our acquisitions include, among others:

- failure to implement our business plan for the combined businesses;
- unexpected losses of key employees, customers or suppliers of acquired companies and businesses;
- unanticipated issues in conforming our acquired companies’ and businesses’ standards, processes, procedures and internal controls with our operations;
- coordinating new product and process development;
- increasing the scope, geographic diversity and complexity of our operations;
- diversion of management’s attention from other business concerns;
- adverse effects on our or acquired companies’ and businesses’ existing business relationships;
- unanticipated changes in applicable laws and regulations;
- unanticipated expenses and liabilities; and
- other difficulties in the assimilation of acquired companies and businesses operations, technologies, products and systems.

We may not be able to maintain or increase the levels of revenue, earnings or operating efficiency that any acquired company and business and us had historically achieved or might achieve separately. In addition, we may not accomplish the integration of any acquired company and business smoothly, successfully or within the anticipated costs or timeframe. If we experience difficulties with the integration process or if the business of any acquired company or business deteriorates, the anticipated cost savings, growth opportunities and other synergies of any acquired company and business may not be realized fully or at all, or may take longer to realize than expected. If any of the above risks occur, our business, financial condition, results of operations and cash flows may be materially and adversely impacted, we may fail to meet the expectations of investors or analysts, and our stock price may decline as a result.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
2.1*	Asset Purchase Agreement, dated as of October 10, 2022, by and between Knightscope, Inc. and Case Emergency Systems (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed on October 11, 2022).
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 2.1 to Knightscope, Inc.'s Regulation A Offering Statement on Form 1-A (File No. 024-11004)).
3.2	Bylaws (incorporated by reference to Exhibit 2.2 to Knightscope, Inc.'s Regulation A Offering Statement on Form 1-A (File No. 024-11004)).
4.1	Form of Senior Secured Convertible Note (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on October 11, 2022).
4.2	Form of Warrant to Purchase Common Stock (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on October 11, 2022).
10.1**	Securities Purchase Agreement, dated as of October 10, 2022, by and between Knightscope, Inc. and each purchaser identified on the signature pages thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 11, 2022).
10.2*	Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 11, 2022).
31.1†	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2†	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1+	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2+	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS†	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†	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document
104†	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

† Filed herewith.
\+ Furnished herewith.

* Certain exhibits and schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted exhibits or schedules upon request; provided that the Company may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended

** Certain exhibits and schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted exhibits or schedules upon request

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto, duly authorized.

Date: November 14, 2022

KNIGHTSCOPE, INC.

By:	/s/ William Santana Li
Name:	William Santana Li
Title:	Chairman and Chief Executive Officer (Principal Executive Officer)
By:	/s/ Mallorie Burak
Name:	Mallorie Burak
Title:	Executive Vice President, Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William Santana Li, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Knightscope, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 14, 2022

By: /s/ William Santana Li
Name: William Santana Li
Title: Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Mallorie Burak, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Knightscope, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: November 14, 2022

By: /s/ Mallorie Burak
Name: Mallorie Burak
Title: EVP, Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Knightscope, Inc. (the “Company”) hereby certifies, to the best of my knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2022

By: /s/ William Santana Li
Name: William Santana Li
Title: Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Knightscope, Inc. (the “Company”) hereby certifies, to the best of my knowledge, that:

(i) the accompanying Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended September 30, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2022

By: /s/ Mallorie Burak
Name: Mallorie Burak
Title: EVP, Chief Financial Officer
(Principal Financial Officer)