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Management Discussion Section

Operator

Good afternoon, and welcome to SoundThinking's Third Quarter 2025 Earnings Conference Call. My name is John, and I'll be your operator for today's call. Joining us from SoundThinking, CEO, Ralph Clark; and CFO, Alan Stewart.

Please note that certain information discussed on the call today will include forward-looking statements for our future events and SoundThinking's business strategy and future financial and operating performance. These forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict and may cause actual results to differ materially from those stated or implied by those statements.

Certain of these risks, uncertainties, and assumptions are discussed in SoundThinking's SEC filings, including its most recent Annual Report on Form 10-K and other SEC filings. These forward-looking statements reflect management's beliefs, estimates, and predictions as of the date of this live broadcast, November 12, 2025, and SoundThinking undertakes no obligation to revise or update any forward-looking statements to reflect events or circumstances after the date of this call.

In addition, our comments on the call today contain references to non-GAAP financial measures such as adjusted EBITDA and key business metrics such as annual recurring revenue. Non-GAAP measures should be viewed in addition to and not as an alternative for the company's reported GAAP results. A reconciliation of these non-GAAP measures to their most directly comparable GAAP measures, as well as definitions of the key business metrics referenced and management's reasons for including the non-GAAP measures and key business metrics referenced may be found in the press release.

And finally, I would like to remind everyone that this call will be recorded and made available for replay via a link available in the Investor Relations section of the company's website at ir.soundthinking.com.

And with that, I'll now turn the call over to Ralph. Thank you, Ralph. You may begin.

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

Good afternoon, and thank you for joining SoundThinking's Q3 2025 earnings call. I will start by providing some high-level commentary on our financial results, and then share exciting updates about our strategic investment and growth initiatives.

Our key highlights for this quarter include expanded deployments of our core ShotSpotter technology, accelerating adoption of our AI-powered investigative tools, and growing traction in the healthcare security market following California's AB 2975 weapons detection mandate. We've also seen meaningful progress in our international expansion efforts, with our Uruguay deployment serving as a compelling proof point for broader Latin American market opportunities.

Our third quarter revenues were lower than we had expected at \$25.1 million, due to the absence of our ShotSpotter renewal in Puerto Rico and the delay of a statewide CrimeTracer booking we had targeted to close early in the quarter. During the third quarter, we took ShotSpotter live in two new cities, one university, along with two expansions of existing customers. And while our pipeline continues to expand, reflecting healthy demand across both existing and new markets, we are not where we need to be in terms of sales execution.

Converting that demand into bookings remains a top priority. We've already begun realigning our sales organization, refreshing our go-to-market playbook, and tightening accountability around forecasting and conversion metrics. To ensure sales leadership continuity, we've asked our former senior vice president of sales to step back in on an interim basis, as we launch a national search for a permanent leader.

These steps are deliberate and necessary, and they're designed to translate a strong pipeline into sustained, predictable growth. Early indicators give us confidence that changes are taking hold. We're seeing stronger pipeline hygiene, better deal qualification, and clear visibility into near-term opportunities across ShotSpotter, SafePointe, and CrimeTracer.

Just as importantly, the field and customer success teams are much more aligned around a unified sales motion that emphasizes value realization and renewal momentum. We expect these operational improvements to drive more consistent conversion as we move through Q4 and into 2026.

We are seeing very encouraging signs in customer health and retention. Retention is coming in better than expected this quarter and year, and that's not luck. It's a direct result of being intentional around customer success, engagement, and measurable satisfaction. Our latest net promoter survey produced an NPS score of plus 70, up 4 points from last year, with over 90% satisfaction in critical partnership areas like data and analytics, customer success, and technical support.

Those numbers speak for themselves. Our customers trust us. They see SoundThinking not just as a technology vendor, but as a mission critical partner, helping them save lives, build community confidence, and deliver results they can defend publicly. That trust is also being strengthened by how we're using agentic AI inside the business.

We're not experimenting with AI for headlines. We're using it in practical, measurable ways. We've built an agentic customer success application that ingests and analyzes a wide range of internal and external data sources, everything from city council meeting minutes and local press coverage to community sentiment. This helps us anticipate what our customers are dealing with politically, socially, and operationally, and allows our customer success team to get ahead of issues before they become renewal challenges.

In simple terms, AI is helping us move from reactive to proactive partnership, in shortening response times, improving renewal predictability, and deepening alignment with each city's local context. That's the kind of disciplined innovation we're known for: Practical, ethical and measurable. It's one more way that we're differentiating SoundThinking as a trusted, data-driven partner delivering real-world impact and sustained loyalty over time.

Looking at our strategic initiatives and key developments during Q3 2025, I'm excited to share several significant milestones that underscores our position as a leading integrated public safety technology platform.

First, let me highlight a major product advancement with the upcoming launch of CrimeTracer Gen3, scheduled for general availability next week. This next-generation investigative platform represents a quantum leap in AI-powered law enforcement technology, integrating over 1 billion law enforcement and public records and documents across 2,000-plus agencies. The platform's revolutionary features include voice-enabled AI chatbot capabilities for natural language searches, AI document summarization that condenses lengthy reports into actionable insights, and enhanced case folder functionality that creates a centralized collaborative workspace for investigations.

Early customer feedback has been exceptionally positive, with agencies particularly excited about the platform's ability to transform fragmented data systems into unified actionable intelligence. SafePointe continues to gain tremendous momentum following California's AB 2975 mandate, which requires automated weapons detection systems in all general acute care and psychiatric hospitals by March 1, 2027. This legislation has created a substantial addressable market opportunity, and we're seeing accelerated interest in our SafePointe weapons detection technology as a result.

We've been actively supporting hospitals through the compliance planning process, providing comprehensive risk assessment frameworks and implementation roadmaps. The responses then also overwhelmingly positive with multiple pilot programs already underway and a robust pipeline of opportunities developed as hospitals prepare for the 2027 deadline. And we recently successfully booked another 26 lane opportunity with a non-profit hospital in Florida just this past month demonstrating the strong product market fit our SafePointe solution represents.

Our Data for Good initiative has expanded significantly and is now actively operating across multiple cities, including Miami-Dade County, Springfield, Illinois, and San Francisco. This program enables secure sharing of gunfire and crime data with community violence intervention groups, public health departments, and local non-profits addressing the critical gap where up to 80% of gunfire incidents go unreported to 911.

This program has been instrumental in building community trust and demonstrating our commitment to holistic public safety solutions that extend beyond traditional law enforcement applications. Our Data for Good platform is a perfect extension to our work in New York City and complement Mayor-elect Mamdani's vision on elevating community response, including community violence interruption resources to bring to bear in New York City.

On the Drone as First Responder integration front, we've made solid progress partnering with several drone providers as we enable drones as first responder capabilities in response to ShotSpotter alerts. The integration ensures that drones can be automatically dispatched to the exact location of a gunfire incident, delivering real-time aerial intelligence to officers on the ground, such as identifying victims who needed EMS intervention, along with providing valuable situational awareness to arriving officers.

We've seen the real-world impact firsthand with a recent incident in Pueblo, Colorado, where a ShotSpotter alert initiated a drone response that led to the quick recovery of shell casings that were still warm enough to be seen thermally. The combination of ShotSpotter and drones extends the value of ShotSpotter by delivering a powerful use case demanded by forward-leaning law enforcement agencies.

Our PlateRanger ALPR technology, a partnership we began about a year ago now, has already evolved beyond simple license plate recognition to become a comprehensive vehicle intelligence platform. Enhanced features include a smartphone-based plate capture for mobile deployments, interdiction analytics that identify suspicious movement patterns, and retrospective search capabilities that enable investigators to track vehicle histories across multiple jurisdictions. When integrated with CrimeTracer, this creates a powerful investigative workflow that can uncover criminal networks and accelerate case resolution.

Let me close by addressing the status of the Chicago gunshot detection RFP, which we bid on in April. Since our last earnings call, we participated in a live fire demonstration in early September for the shortlisted RFP respondents. This is a great opportunity to put an exclamation point on what we believe was a strong RFP response that perfectly matches our demonstrated capabilities with the technical and operational needs of the City of Chicago as reflected in their published RFP.

In addition, we were pleased to note the subject of acoustic gunshot detection was actively discussed over two days during the recent Chicago budget hearings. Superintendent Snelling once again publicly reaffirmed his support for any technology and tool that enhance CPD's ability to respond to gunfire incidents. It was also highlighted that a specific line item is included in the mayor's budget proposal for 2026 for gunfire detection technology and follow-on remarks confirmed that the RFP process is coming to a conclusion.

As we focus on closing 2025 with growing momentum into 2026, we'll continue to focus on driving deeper penetration into existing customer accounts, expanding to mid-size and smaller municipalities, growing non-ShotSpotter SafetySmart recurring software revenue, and delivering operational leverage as we scale.

As a result of our temporary sales execution challenges and resulting sales motion headwinds that have unexpectedly impacted a few of the consequentially large contracts to be pushed out, we are lowering our full-year revenue guidance range from \$111 million to \$113 million to approximately \$104 million in lowering our adjusted EBITDA guidance range from 20% to 22% to 14% to 15%. Alan will review this in greater detail, but we still remain confident in our medium- to long-term prospects as we transition through what has been a challenging second half of 2025.

I'll now turn the call over to Alan to discuss our financial results for the third quarter of 2025, as well as guidance for the full year 2025 in greater detail. Then, we'll be happy to take your questions.

Alan R. Stewart

Chief Financial Officer & Secretary, SoundThinking, Inc.

Thank you, Ralph, and good afternoon, everyone. As Ralph mentioned, our third quarter 2025 results are behind our expectations due to delays in several large contracts that we had hoped to have completed prior to the end of the quarter. That said, our cash generation, positive adjusted EBITDA, and continued growth in all of our products reflects our ongoing strategic initiatives, operational efficiency measures, and our commitment to delivering value to our shareholders. Revenues were \$25.1 million, representing a 4% decrease from the \$26.3 million in the third quarter of 2024. It is worth noting that our 2024 third quarter revenue included approximately \$2.8 million related to the City of Chicago.

Gross profit was \$13.6 million or 54% of revenue, compared to \$15.2 million or 58% of revenue for the prior year period. Our adjusted EBITDA was \$3.5 million compared to \$4.5 million in the third quarter of 2024. As a reminder, adjusted EBITDA non-GAAP financial measure is calculated by taking our GAAP net income or loss and adjusting out interest income or expense, income taxes, depreciation, amortization and impairment, restructuring costs and losses, including on related fixed asset disposals, stock-based compensation expenses, and adjustments to our contingent consideration obligations.

Our operating expenses were \$15.7 million or 63% of revenues, down from the \$16.3 million or 62% of revenues in the third quarter of 2024. Our operating expenses for the third quarter declined both – from both the third quarter of 2024 and was also lower than Q2 of 2025 even as we invest in AI modeling and tools to enhance the capabilities of our platform product solutions. As a reminder, we expect operating expenses will continue to grow less than the revenue growth rate even with our additional costs.

Breaking down our expenses, sales and marketing expenses in the third quarter were reduced to \$5.8 million or 23% of total revenue, compared to \$7.2 million or 27% of total revenue in the prior year period. Our R&D expenses were \$4.1 million or 16% of total revenue, compared to \$3.4 million or 13% of total revenue in the prior year period, reflecting our increased expenses related to our AI investments.

G&A expenses for the quarter were \$5.8 million or 23% of total revenue, compared to \$5.7 million or 22% of total revenue for the prior year period. G&A expenses increased primarily related to the additional internal and external efforts associated with compliance with our SOX 404(b) requirements. As a reminder, we expect our G&A expenses to grow less than our revenue on a percentage basis as our company grows.

Our GAAP net loss was approximately \$2 million or a loss of \$0.16 per basic and diluted share for the quarter based on 12.8 million basic and diluted weighted average shares outstanding. This compares to a net loss of \$1.4 million or a loss of \$0.11 per basic and diluted share based on 12.7 million basic and diluted weighted average shares outstanding for the prior year period.

Deferred revenue as of September 30, 2025, was largely in line at \$43.9 million, compared to \$43.5 million at the end of Q2 2025. We ended the third quarter with \$11.8 million in cash and cash equivalents, compared to \$9 million at the end of Q2 2025. We repurchased 160,271 of our shares at an average price of \$12.43 for approximately \$2 million in the third quarter of 2025.

On a year-to-date basis, we've repurchased 225,334 of our shares at an average share price of \$13.15 for approximately \$3 million. Currently, we have approximately \$36 million available on our line of credit as we only have approximately \$4 million in debt outstanding, all of which is on our line of credit.

As we close 2025, we remain focused on execution and long-term value creation. We are encouraged by our pipeline visibility for the rest of 2025, the strong renewal rate of our customer base, expanding strategic partnerships and integrations increasing momentum into 2026, and our ability to generate consistent cash flow while investing for future accelerated growth.

Now turning to the guidance for full year 2025. We are reducing our full year revenue guidance range from \$111 million to \$113 million to approximately \$104 million. This shortfall is primarily attributed to delays in three expected bookings and deployments. The first relates to CrimeTracer. We had anticipated execution across approximately 18 agencies within a new state, representing approximately \$2.5 million in revenue.

While this deployment has been delayed, we remain confident it will proceed in the near future. The second relates to an expected CapEx ShotSpotter deployment in Brazil. This initiative was expected to contribute another \$2.5 million in the second half of the year. However, due to recent governmental changes and tariff-related impacts in Brazil, the timing and certainty of this deployment are unknown at this point.

The third factor relates to our ShotSpotter renewal in Puerto Rico. We saw a \$1.4 million reduction here again due to governmental changes. But similar to CrimeTracer rollout in the new state, we expect this to move forward, although on a delayed basis. In total, these three items represent approximately \$6.4 million in revenue that was originally expected to be recognized in 2025.

It's also important to note that approximately 70% of the revenue related to the three items mentioned above would have flowed through to our adjusted EBITDA, which means we would have been at or near our original adjusted EBITDA percentage guidance. While we believe these are temporary setbacks, we remain optimistic about the long-term value of these potential contracts and our ability to execute well on the ones that get booked. We continue to monitor these developments closely and will provide updates as visibility improves.

We're now lowering our full year 2025 adjusted EBITDA margin guidance range from 20% to 22% to 14% to 15%, which also takes into account potential costs associated with tariff changes and the investments we are making in AI modeling and tools that we are incorporating in our products and our internal operational use.

Now turning to our guidance for the full year 2026. We are expecting our growth to continue into 2026 and are setting our 2026 revenue guidance range from \$114 million to \$116 million. We are setting our full year 2026 adjusted EBITDA margin guidance range from 18% to 20%. Overall, we remain optimistic with the progress we have made on each of our strategic initiatives and operational performance of the business.

And with that, we're now happy to answer your questions. Operator, will you please open the line for Q&A?

Question And Answer Section

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] And the first question comes from the line of Richard Baldry with ROTH Capital Partners. Please proceed with your question.

Richard K. Baldry

Analyst, ROTH Capital Partners LLC

Q

Thanks. Just looking from a high level, your 2026 revenue guidance is about \$2 million above what had been your guidance for 2025. The [indiscernible] (00:22:33) the margin guidance is lower than what you would have expected in 2025. You're about 2 points below. So, can you talk about sort of what the changes are there? Is it revenue mix, gross margin mix, or something else?

Alan R. Stewart

Chief Financial Officer & Secretary, SoundThinking, Inc.

A

Yeah, so this is Alan and it's a great question, Rich. I think at this point when we look at the revenue guidance, there's a couple of things that are not in there at all. One is Chicago. The other one is that the \$2.5 million in Brazil CapEx. If either of those come in,

then not only revenue would go up but the adjusted EBITDA on a percentage basis would go up as well. I think we're just trying to be more, perhaps conservative in terms of where we expect that adjusted EBITDA to be.

Richard K. Baldry

Analyst, ROTH Capital Partners LLC

Q

And the implied revenue guidance for the fourth quarter would be sort of down from where you were in the third quarter, with sort of the delays that you had, I would have thought some of that would have come in and you'd see a pretty good sequential bump. So, is there something else missing from the December quarter causing that?

Alan R. Stewart

Chief Financial Officer & Secretary, SoundThinking, Inc.

A

Yeah, This is Alan again. And I think at this point we expect it to be relatively flat. And if it is flat, then we would exceed to \$104 million. The reason, again, because we did not expect some of these delays in Q3, I think we're trying to be appropriate in the fact that we're still working on some of these delays, and all that we know they're going to come in, we just don't know on the timing, particularly the large CrimeTracer deal of \$2.5 million in Puerto Rico. Although making progress on both of those, the timing is a bit unknown at this point. So, we'd rather make sure that we can set a number that we can meet for sure.

Richard K. Baldry

Analyst, ROTH Capital Partners LLC

Q

Yes. Okay then, maybe talk about tying together the inability to close and what you thought was on the timeframes and your desire now to change your leadership in the sales side. Do you think there's some new methods, things you can put into to improve that process? Do you think you have to wait until someone permanently new is in there, or do you think that under the interim leadership you can sort of scrub that better?

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

A

Yeah. So this is Ralph. I think we're pretty encouraged by the recent changes that we're seeing. And let me just state that, first and foremost, we're incredibly constructive about the medium to long-term opportunities in our business. I think when we look back to our sales execution or pull-through conversion of a very strong pipeline, it was that we made some changes organizationally. We changed the playbook. And frankly, we kind of took our eye off the ball on, I'll call it the point execution with respect to ShotSpotter.

We're asking our sales organization to be much more consultative and trying to sell the full product suite to customers. And where we saw the uplift in our solutions beyond ShotSpotter, we're frankly going into brand new buying centers. So, we're trying to be super intentional, kind of going back to our original playbook, being a little bit less perhaps consultative, focusing more on the point of solutions and letting those opportunities kind of pull us through into those opportunities as opposed to trying to pitch the entire product suite when there might just be an interest in ShotSpotter, for an example, and by changing the organization as well.

So, earlier this year, we're asking, we had more salespeople carrying more things in their bag. They had to get trained up on it. And it just didn't work out very well. So, now, we're kind of going back to say it's okay, fewer things in the bag, focus in on those opportunities, and let those opportunities kind of pull through as they naturally should. And being a lot more intentional around, I'll call it, kind of sales force hygiene and forecasting.

So, we're still early on in the process, we're encouraged about some of the recent changes that we're seeing, and we're going to be working on this through the remainder of the year and early next year. And at the same time, look at bringing on a new permanent senior VP of sales. But we're incredibly grateful for Gary to come back in to this role and help right the ship so that we can finish out the year on a pretty decent basis.

Richard K. Baldry

Analyst, ROTH Capital Partners LLC

Q

And switch gears away from sort of the government centric stuff to the SafePointe, more commercial area. Can you talk about the magnitude of a pipeline there? I mean, broadly speaking, how much that could move the dial on growth rates or revenues in 2026 or forward, to sort of get a gauge for how much that can offset sort of some of the challenges on the other side?

Ralph A. Clark

I'll try to say this, and hopefully, I won't sound too giddy, but we're incredibly excited about the opportunity in SafePointe, particularly around the hospital vertical. It just has extraordinarily strong product market fit. And you'll notice over the past couple of quarters we've announced some fairly substantial deals with SafePointe that were in the kind of \$400,000, \$500,000-plus types of bookings, and we're seeing a lot of those opportunities kind of line up for us. So, although I won't give you a specific number, I will say that we're incredibly constructive around the growing pipeline, our ability to execute to that growing pipeline.

We don't have a sales motion problem in SafePointe at all. I think that's a business that's going to be fairly substantial for us over the medium to long term. And again, we're even seeing traction outside of California AB 2975. So, when that thing begins to kick in, that's going to be a real, we believe, significant tailwind for that business.

Richard K. Baldry

Analyst, ROTH Capital Partners LLC

Q

Thanks.

Operator

And the next question comes from the line of Mike Latimore with Northland Capital Markets. Please proceed with your question.

Q

Yeah. Hi. This is [indiscernible] (00:28:48) for Mike Latimore. Couple of questions. One, how many enterprise security deals are in the pipeline for gunshot detection technology?

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

A

We'll have to circle back. This is Ralph. We'll circle back to you. That's a really good question. I don't have the number off the top of my head, but it's a fairly good strong list of, I would say, new customer opportunities for gunshot detection. You said gunshot detection, I presume. I heard gunshot detection as opposed to weapons detection. But we have a strong pipeline of new customers as well as some expansions that are on the books that we're having some good conversations around. And not to be discounted is the unlock we expect to see internationally where we have a fairly strong, I would say, pricing leverage internationally. And we're seeing some early successes in Uruguay as we spoke about earlier along with our more recent deployment in Niterói, Brazil. And I think the Brazilian opportunity specifically is something we're incredibly excited about.

Q

Okay. [indiscernible] (00:30:01) back on this question. What percent of the pipeline is that? I mean, okay, we can discuss that later. But how are the sales cycle for SafePointe changed now versus a couple of quarters ago?

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

A

Yeah. So the thing that we see around – this is Ralph again, that we see around the sales cadence with SafePointe versus traditional ShotSpotter, those deals appear to be happening on a much faster cycle time. I think the sales cycle time we can think about with respect to SafePointe is more in the kind of 12-month category, whereas ShotSpotter is kind of 12 to 18 months, and the reasons for that are pretty logical when you step back and think about it.

When you're dealing with SafePointe, you're typically dealing with commercial enterprises. In our particular case, hospitals and casinos are great example. So they operate in a very different fashion. When you're talking about ShotSpotter, the sales process becomes a lot more complicated because you have buying centers, which are the police departments. You have decision makers that need to weigh in that represent elected officials, and elected officials aren't necessarily driven by ROI stuff. They're driven by sometimes optics and politics a little bit as we know from our experience. Funding sources can come in from different places.

So we're in a position where we basically have to weave all those things together without alienating anybody in the process and going through city council meetings where communities can appropriately weigh in and the like. So, that's just a much more complicated process. But I will say and it's important to note, offsetting that longer sales cycle is the stickiness that we have been able to appreciate and take advantage of over on that acoustic gunshot detection side. Those customers tend to stay with us a very long time, think in terms of decades.

Q

Thank you. I appreciate the color.

Operator

And the next question comes from the line of Trevor Walsh with Citizens. Please proceed with your question.

Trevor J. Walsh

Analyst, Citizens JMP Securities LLC

Q

Great. Thanks. Hey, Ralph and Alan. Thanks for taking the questions. Maybe, Ralph, just to kind of dig in a little bit more on some of the comments that you made around the go-to-market changes. It just seems a little bit reactionary to the three deals specifically that you mentioned as affecting kind of where the results came in on the top line for the quarter and in the guide, which, you know, each of those have their own intricacies and kind of special, I guess, cases.

So, are you seeing something else, I guess, in terms of execution more broadly that's leading to these changes? It just seems like these deals, again, are a little bit more specific and wouldn't necessarily need to have a complete reworking of the sales team for just that are having...

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

A

Oh! Yeah.

Trevor J. Walsh

Analyst, Citizens JMP Securities LLC

Q

...nuances around delays. So, can you maybe just what's kind of more going on there?

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

A

No, I appreciate you asking that question, Trevor, because maybe I wasn't clear about that. The sales conversion challenge I am talking about are additive to the three deals that Alan spoke about. Those are just kind of apples and oranges. So, yes, even with those sales deals that Alan spoke about, we still have to recognize or acknowledge that we have some sales execution challenges that we're addressing.

So that was something on the edge, so additive to the three deals. So [ph] that part (00:33:33) of the three deals. So sales execution bit doesn't have anything to do with our large CapEx deal in Brazil, doesn't have anything really to do with our CrimeTracer deal [indiscernible] (00:33:45) state that we're talking about. And of course, the Puerto Rico renewal is the Puerto Rico renewal. That has nothing to do with the way we're kind of organized from a sales point of view or what our playbook is.

I think when you step back and look at the thing that the bid that I was talking about is really around we would expect it have been – I personally expect it to be much further along, I would say, on the ShotSpotter domestic side, outside of those three deals. So I think we had spoke earlier about trying to get to like 100 square miles going live. We're going to be less than that this year and that has a revenue impact.

Trevor J. Walsh

Q

Analyst, Citizens JMP Securities LLC

Got it. Okay.

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

A

Does that answer your question?

Trevor J. Walsh

Analyst, Citizens JMP Securities LLC

Q

Yeah. Yeah, absolutely.

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

A

Okay. Thank you, Trevor, for asking that. [indiscernible]

(00:34:34)

Trevor J. Walsh

Analyst, Citizens JMP Securities LLC

Q

Thank you. Yeah. Okay. So maybe just another follow up, different topic. When you – on the commentary in your prepared remarks for integration with DFR initiatives, can you just maybe give us a flavor? You might not have hard stats, but just how much of that is current ShotSpotter customers and then versus maybe influencing the pipeline of those new customers that you spoke about with DFR that they're working on in tandem? And like how much is that, I guess, influencing more of that new customer pipeline as far as customer wanting to integrate with their DFR initiatives kind of at the same time, if that makes sense?

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

A

Yeah, that's a great question. I'll do my best to answer it. Let me first say that we have a history of integrating with systems outside of ShotSpotter, so DFR happens to be the [indiscernible] (00:35:24) thing today. But for years, we've been integrating with real-time crime centers. We've been integrating with LPR. We've been integrating with fixed cameras as well. ShotSpotter alert goes off to be able to pan, tilt, and zoom a camera to that specific location has been a game changer, and it's really a one plus one equals three.

Frankly, a DFR is just a new version of that. So, instead of sending an alert to a fixed camera, we're now essentially sending it to a mobile camera. And we're taking a, I'll call it, a open standard approach here. We'll integrate with [ph] anybody (00:36:00) that the customer has as a part of their DFR platform. We'll send them a digital alert and allow them to direct that DFR response to that specific [indiscernible] (00:36:10).

The incident that I spoke about earlier, and we have experience with all the major drone platforms today, the one in Pueblo, California, I think was a brink, a DFR platform. If you went to [ph] ICP, you would've seen a Birdstop (00:36:24) in our booth, and we work with others as well. So, we're completely agnostic because I think it's all about making the customer win and helping them be more effective.

Trevor J. Walsh

Analyst, Citizens JMP Securities LLC

Q

Great. Terrific. Appreciate the color there. Maybe just one final one for you, Alan. Can you just explain, or is there any additive comments around, kind of, why the gross margins broadly just slipped a little bit in the quarter? I'm wondering if it's specifically related to the three deals that were expected, or if there was something else, kind of, at work? Thanks.

Alan R. Stewart

That's a great question. I think the gross margins did go down related to the deals. That is basically the primary reason. But I would also – well, if you take a look, although the gross margin went down, the cost of goods sold also went down because we are controlling our cost appropriately. And it went down from \$12.1 million in Q2 down to \$11.5 million in Q3.

So, if we see things reduce a little bit in revenue, we are doing everything we can to adjust the costs related to that. So you not only saw that in cost of goods sold going down, but the same thing in the total operating expense going down from \$16.7 million in Q2 down to \$15.7 million in Q3. So being very intentional when we see things get a little bit delayed, what we can do from an operating or other cost basis to improve the ultimate bottom line.

Trevor J. Walsh

Analyst, Citizens JMP Securities LLC

Q

Okay. Great. I'll hop back in the queue. Thanks, all, for taking the questions.

Operator

And the next question comes from the line of Max Michaelis with Lake Street Capital Markets. Please proceed with your question.

Max Michaelis

Analyst, Lake Street Capital Markets LLC

Q

Hey, guys. Thanks for taking my questions. First one for me just around 2025 and 2026 guides. I know you have previously given sort of an ARR outlook. I was wondering if that \$110 million what that stands at now for the projected into 2025 ARR. And I was also wondering if you could provide any color around 2026 ARR expectations.

Alan R. Stewart

Chief Financial Officer & Secretary, SoundThinking, Inc.

A

Yeah. So this is Alan. We generally give the ARR guidance in our Q4 earnings reports, so that'll be in February. So we intend to do the same thing again coming into 2026. And if you think about it, one of the main reasons for that is just two of the large projects that we're talking about, \$2.5 million for CrimeTracer and Puerto Rico would be \$2.8 million. That moves that a lot. So we need to make sure that we get an accurate number and we know more of that by the time we do our Q4 earnings report.

Max Michaelis

Analyst, Lake Street Capital Markets LLC

Q

Okay. And then I was just wondering if you could just help clear up some confusion I have around the CrimeTracer and the delays around that. I'm pretty sure in a few questions ago, you said didn't really have anything to do with the go-to-market strategy and some of the reworking that you've done with the sales team, but – so, can you kind of help me understand sort of the pain points around that deal and the main cause of that delay?

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

A

Yeah. So, this is Ralph. I'll answer and Alan jump in and add and correct as appropriate. But this is basically a quasi-state level deal. We have some experiences with this with respect to CrimeTracer. These are very, very large transactions. Not at the local agency level, but more to state level. So, when we first acquired the company, we closed Tennessee. That was a seven-figure deal. Then I think 18 months later, we closed a very large transaction with the state of Massachusetts. Recently, we closed a deal with Utah.

There's another state that we're not naming right now, but it's not the entire state. It's a number of agencies within this very large state that we're looking to close a deal. And it's essentially like pouring a lot of cash into the process here because you have kind of one funder basically and kind of one buyer, but there's a number of agencies that are participating around this particular acquisition.

And I think I'll just say we were recently spending some time kind of walking in the halls of this state capital here, meeting with a number of senators and representatives within this particular state to reaffirm their support for the solution. The funding is there, so

that's incredibly positive. We just have to kind of work through the, I'll call it, the bureaucracy of getting a deal done because this isn't a muscle that gets used a lot in terms of having more than 10 agencies all work together and collaborate together and agree on the same terms and conditions to get a deal done. So it's just taken a long time. And so that's where that is.

I don't know, Alan...

Max Michaelis

Analyst, Lake Street Capital Markets LLC

Q

All right. That's helpful.

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

A

...do you – would you add any additional color?

Alan R. Stewart

Chief Financial Officer & Secretary, SoundThinking, Inc.

A

Yeah. This is Alan. The only thing I would add is this is something that they want very much and have wanted. We thought actually we were going to close this around Q2. This particular state had some other costs that came in that had them take a look at some of their priorities. We're still a very, very high priority to get this contract done. And I see very high like in the top two priorities for this entire state that they're dealing with these types of things. So, we expect it to happen. It's just being a little delayed.

Max Michaelis

Analyst, Lake Street Capital Markets LLC

Q

All right. Thanks, guys. [Operator Instructions]

Operator

And the next question comes from the line of Jeremy Hamblin with Craig-Hallum Capital. Please proceed with your question.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Q

Thanks for taking the questions. Sorry to harp on this, but I want to come back to the guidance change. And it looks like about an \$8 million change in revs, but also about an \$8 million change in EBITDA. And understand the three key contracts that didn't come through from a timing perspective. But, you know, even if we're thinking about a kind of 70% flow through, I wanted to just understand what else creates kind of that step function gap to the roughly \$8 million reduction in EBITDA? You know, is that just R&D costs are a bit higher or color that you might be able to share on that?

Alan R. Stewart

Chief Financial Officer & Secretary, SoundThinking, Inc.

A

Yeah. Thanks, Jeremy. This is Alan answering the question. I think part of it is if you look at the actual profitability that we thought we were going to get with those, Puerto Rico is already deployed, right? So, the actual cost to turn that back on, almost 100% of that revenue goes to the bottom line. The CrimeTracer deal is – the actual gross margins that we produce with that when we go live in a large deal like this are significantly high. And then the CapEx deal was something that – this is like \$2.5 million, which otherwise would have been a five-year \$500,000 services deal. And you know our gross margins internationally are significantly higher, and we would have gotten most of that money to the bottom line because we would have been actually selling them some of the sensors. So, the revenue itself comes with a very high adjusted EBITDA that we would have expected to come to the bottom line.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Q

Okay, got it. I wanted to touch on Puerto Rico a bit more. As you noted, kind of prior customer kind of in a halted period. And just in terms of you have the infrastructure deployed, I know this – the process of getting it extended has dragged on here. But in terms of how you would expect that, let's just assume that you get that back turned on in 2026, would there be a catch-up payment that would occur? And let's just say it doesn't happen in Q4 but it does in Q1. Would you receive kind of back revenues for the second half of 2025 that we're missing, or how do you expect us or how do you think that that's going to get treated as you go through this process?

Alan R. Stewart

Chief Financial Officer & Secretary, SoundThinking, Inc.

A

You know, this is Alan. I'll answer, then Ralph can add or correct. At this point, and what we historically see with Puerto Rico is they do not backdate to the – an earlier date based on when we get the actual contract signed. So, we really cannot expect that. But I would say the second point here is the cost to them is going to be going up. So, basically, because some of these things are costing us some time and money as well, it is likely that they're going to have to pay a little bit more to get the same solution.

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

A

Yeah. Alan, if I could just add something. What makes Puerto Rico a little bit different than other customers is other customers might be delayed in getting the renewal that they intend on doing. We know they're going to do it. They have a history of doing it so we won't turn the system off for them. We've turned the system off from Puerto Rico. So, they're not getting any alerts right now. And that's another reason why they would not be backdating, or excuse me, we would not have any catch-up revenues in this situation because they're not receiving the service as at the end of Q2.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Q

No, that's helpful color. And then just switching gears, I want to come back to Chicago exciting potential there and know this has been a really elongated process with twists and turns. In terms of the engagement that you have, is presumably a potential decision is getting made? I assume that you're not actively engaged with the mayor's office given that kind of status. But would you have a sense for where you think there might be a resolution on whether or not this moves forward? I mean, are you thinking by next spring that you'll have an answer? And if we don't have an answer by then, it's not happening?

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

A

Yeah. So, I think something is definitely happening, and I think we were quite encouraged to see that during the budget discussions, there was specific commentary. Q&A going back and forth that determined a couple of things. One, we determined that there is a line item in the budget, in the mayor's budget for acoustic gunshot detection technology. So that's encouraging I think. There's also a lot of discussion about the need for this type of first responder or acoustic gunshot detection technology to be led up as quickly as possible.

And during the course of two days of discussions, it was acknowledged by an executive within the mayor's organization that they have fairly much completed the work on determining their recommendation for the vendor. And now that has to go through the process of going through the chief procurement officers and then being presented to the mayor, where the mayor – excuse me, not the mayor specifically, but the mayor's office signs off on it and it moves forward.

And they suggested in a couple of different testimonies that were coming close to the conclusion. And then lastly, the most important thing for me or anybody really around wanting to be involved with Chicago and helping them create safer spaces for the communities in Chicago, it was really nice to see Snelling reaffirmed publicly when asked the question directly about his feelings about – that's about ShotSpotter, but the answer was he is in very strong favor of any tool and/or technology that can help them do a better job responding to gun violence. So he's not backing away from that. So all those things are pretty encouraging, and [ph] now we wait (00:49:11).

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Q

Great. Last one for me. Just in terms of the platform growing, having a lot more services that you're offering between CrimeTracer and the base SSTI ALPR capability, et cetera. In terms of thinking about your R&D spend, right, which is ticked up this year and, you know, wanted to get a sense for, is that something where as these services have more AI tools, you're likely having to hire some more engineers to support that? Should we expect similar growth next year in terms of what your R&D budget looks like?

Alan R. Stewart

Chief Financial Officer & Secretary, SoundThinking, Inc.

A

Yeah. This is Alan. I'll answer and then Ralph can correct. I think at this point and we've been talking about this for a year, we went into the year fully expecting to spend a significant amount more in all the AI initiatives, which goes into the R&D aspect. Specifically, you can also know about how we just released the CrimeTracer Gen3. That is a very great upgrade for us and that particular product that required some of our AI and other R&D personnel. And also what we were doing in terms of SafePointe is continuing to improve the algorithms. Literally, month by month, the product improvement is occurring and that's because we're investing in the improvements, not just the algorithms and software side of things, but other aspects of the actual SafePointe product as well. And – but those require personnel either in the AI with algorithms or in the R&D for the complete product development.

So, the second part of your question. [indiscernible]

(00:51:10)

Alan R. Stewart

Chief Financial Officer & Secretary, SoundThinking, Inc.

A

Yeah. Go ahead, Ralph.

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

A

Yeah [indiscernible] (00:51:13) with the – writing the algorithms and some of these specialized processes and opportunity we have to maybe in-source that on-prem and be able to save some money and still be able to do the work that we're doing with AI.

Alan R. Stewart

Chief Financial Officer & Secretary, SoundThinking, Inc.

A

Yeah. That's a great addition. I mean, at this point, we are spending more in personnel, but also our costs related to that are in the millions at this point. And we do believe that we can do some of that internally and save some money so that – your other question was, do we expect to continue have R&D go up year-over-year? It may go up a bit, but we think it's going to go up far lower than the actual revenue that it's producing.

Jeremy Scott Hamblin

Analyst, Craig-Hallum Capital Group LLC

Q

Great. Thanks for the color. Appreciate the detail.

Operator

There are no further questions at this time. And I would like to turn the floor back over to Ralph Clark for any closing comments.

Ralph A. Clark

President, Chief Executive Officer & Director, SoundThinking, Inc.

Great. Hey, thanks a lot, John. I want to thank everyone for joining us today. Your engagement and thoughtful questions really do demonstrate the strong interest you have in our strategic vision and the market opportunities we're pursuing. And I also want to take a moment to thank my leadership colleagues and work employees' colleagues for their strong dedication and hard work. And certainly, none of this would be possible or meaningful if it wasn't for the work that we're doing with customers and our community partners. And we do value their continued trust and collaboration.

We're going to continue to remain committed to making communities safer through technology, transparency, and innovation that address real-world public safety challenges. And we're going to focus on executing our strategic vision and delivering shareholder value. And thank you all very much. And looking forward to some of one-on-one discussions we're going to have here in a bit. Have a good evening everyone.

Operator

Thank you, ladies and gentlemen. That does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time.