
**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 March 31, 2018
or

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

For the transition period from _____ to _____
Commission File Number: 001-16391

Axon Enterprise, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

86-0741227

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

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

(Address of principal executive offices)

85255

(Zip Code)

(480) 991-0797

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

The number of shares of the registrant's common stock outstanding as of April 30, 2018 was 53,322,608.

AXON ENTERPRISE, INC.
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FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AXON ENTERPRISE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 92,330	\$ 75,105
Short-term investments	4,475	6,862
Accounts and notes receivable, net of allowance of \$880 and \$754 as of March 31, 2018 and December 31, 2017, respectively	87,849	56,064
Contract assets, net	9,278	—
Inventory	43,104	45,465
Prepaid expenses and other current assets	21,934	21,696
Total current assets	258,970	205,192
Property and equipment, net of accumulated depreciation of \$37,518 and \$36,477 as of March 31, 2018 and December 31, 2017, respectively	31,175	31,172
Deferred income tax assets, net	14,200	15,755
Intangible assets, net	17,496	18,823
Goodwill	14,947	14,927
Long-term notes receivable, net of current portion	34,624	36,877
Other assets	21,573	15,366
Total assets	\$ 392,985	\$ 338,112
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 11,692	\$ 8,592
Accrued liabilities	34,869	23,502
Current portion of deferred revenue	76,141	70,401
Customer deposits	3,155	3,673
Current portion of business acquisition contingent consideration	2,505	1,693
Other current liabilities	348	89
Total current liabilities	128,710	107,950
Deferred revenue, net of current portion	58,003	54,881
Liability for unrecognized tax benefits	1,810	1,706
Long-term deferred compensation	3,998	3,859
Business acquisition contingent consideration, net of current portion	201	1,048
Other long-term liabilities	934	1,224
Total liabilities	193,656	170,668
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$0.00001 par value; 25,000,000 shares authorized; no shares issued and outstanding as of March 31, 2018 and December 31, 2017	—	—
Common stock, \$0.00001 par value; 200,000,000 shares authorized; 53,307,083 and 52,969,869 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	1	1
Additional paid-in capital	202,344	201,672
Treasury stock at cost, 20,220,227 shares as of March 31, 2018 and December 31, 2017	(155,947)	(155,947)
Retained earnings	155,105	123,185
Accumulated other comprehensive loss	(2,174)	(1,467)
Total stockholders' equity	199,329	167,444
Total liabilities and stockholders' equity	\$ 392,985	\$ 338,112

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

AXON ENTERPRISE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(in thousands, except per share data)

	Three Months Ended March 31,	
	2018	2017
Net sales from products	\$ 80,974	\$ 67,491
Net sales from services	20,241	11,751
Net sales	101,215	79,242
Cost of product sales	32,434	27,072
Cost of service sales	4,320	3,500
Cost of sales	36,754	30,572
Gross margin	64,461	48,670
Operating expenses:		
Sales, general and administrative	35,759	30,857
Research and development	15,119	12,463
Total operating expenses	50,878	43,320
Income from operations	13,583	5,350
Interest and other income, net	1,263	206
Income before provision for income taxes	14,846	5,556
Provision for income taxes	1,920	976
Net income	\$ 12,926	\$ 4,580
Net income per common and common equivalent shares:		
Basic	\$ 0.24	\$ 0.09
Diluted	\$ 0.24	\$ 0.09
Weighted average number of common and common equivalent shares outstanding:		
Basic	53,119	52,418
Diluted	54,532	53,677

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Net income	\$ 12,926	\$ 4,580
Foreign currency translation adjustments	(707)	165
Comprehensive income	\$ 12,219	\$ 4,745

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

AXON ENTERPRISE, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 12,926	\$ 4,580
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,411	1,604
Loss on disposal of property and equipment	34	—
Bond premium amortization	22	218
Stock-based compensation	4,093	3,447
Deferred income taxes	1,514	(1,216)
Unrecognized tax benefits	104	134
Change in assets and liabilities:		
Accounts and notes receivable and contract assets	(17,060)	(11,858)
Inventory	2,408	(13,686)
Prepaid expenses and other assets	(1,702)	(2,707)
Accounts payable, accrued and other liabilities	6,749	6,562
Deferred revenue	6,554	6,313
Net cash provided by (used in) operating activities	18,053	(6,609)
Cash flows from investing activities:		
Purchases of investments	(802)	—
Proceeds from maturity of investments	3,167	18,801
Purchases of property and equipment	(1,063)	(2,343)
Purchases of intangible assets	(34)	(95)
Business acquisitions	—	(6,479)
Net cash provided by investing activities	1,268	9,884
Cash flows from financing activities:		
Proceeds from options exercised	356	296
Payroll tax payments for net-settled stock awards	(3,777)	(2,165)
Payments on capital lease obligation	(9)	(8)
Net cash used in financing activities	(3,430)	(1,877)
Effect of exchange rate changes on cash, cash equivalents and restricted cash		
	469	(76)
Net increase in cash, cash equivalents and restricted cash	16,360	1,322
Cash, cash equivalents and restricted cash, beginning of period	78,438	43,969
Cash, cash equivalents and restricted cash, end of period	\$ 94,798	\$ 45,291
Supplemental disclosures:		
Cash and cash equivalents	\$ 92,330	\$ 41,974
Restricted cash (Note 6)	2,468	3,317
Total cash, cash equivalents and restricted cash shown in the statements of cash flows	\$ 94,798	\$ 45,291
Cash paid for income taxes, net of refunds	\$ 63	\$ 145
Non-cash transactions		
Property and equipment purchases in accounts payable and accrued liabilities	\$ 136	\$ 794
Contingent consideration related to business combinations	\$ —	\$ 1,007

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

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Axon Enterprise, Inc. ("Axon" or the "Company") is a developer and manufacturer of advanced conducted electrical weapons ("CEWs") designed for use by law enforcement, military, corrections, private security personnel, and by private individuals for personal defense. In addition, the Company has developed full technology solutions for the capture, secure storage and management of video/audio evidence as well as other tactical capabilities for use in law enforcement. The Company sells its products worldwide through its direct sales force, distribution partners, online store and third-party resellers. The Company was incorporated in Arizona in September 1993, and reincorporated in Delaware in January 2001. The Company's corporate headquarters and manufacturing facilities are located in Scottsdale, Arizona. The Company's main software development division is located in Seattle, Washington, and it develops artificial intelligence technologies through its wholly-owned subsidiary in Vietnam, Axon Public Safety Southeast Asia LLC. During 2018, the Company established Axon Public Safety Finland OY in Tampere, Finland that operates a connected hardware team focused on the development of the Company's hardware products. Axon Public Safety BV, a wholly owned subsidiary of the Company, supports the Company's international sales and marketing efforts, and is located in Amsterdam, Netherlands. Axon Public Safety BV wholly owns two subsidiaries, Axon Public Safety U.K. LTD and Axon Public Safety AU, that serve as direct sales operations in the United Kingdom ("U.K.") and Australia, respectively. The Company also sells to certain international markets through a wholly-owned subsidiary, Axon Public Safety Germany SE, and sells into the Canadian market through its wholly-owned subsidiary, Axon Public Safety Canada, Inc.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts, transactions, and profits have been eliminated.

Basis of Presentation and Use of Estimates

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information related to the Company's organization, significant accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") has been condensed or omitted. The accounting policies followed in the preparation of these unaudited condensed consolidated financial statements are consistent with those followed in the Company's annual consolidated financial statements for the year ended December 31, 2017, as filed on Form 10-K, with the exception of the Company's adoption of Topic 606. In the opinion of management, these unaudited condensed consolidated financial statements contain all material adjustments, consisting only of normal recurring adjustments, necessary to fairly state the Company's financial position, results of operations and cash flows for the periods presented and the presentations and disclosures herein are adequate when read in conjunction with the Company's Form 10-K for the year ended December 31, 2017. The results of operations for the three months ended March 31, 2018 and 2017 are not necessarily indicative of the results to be expected for the full year (or any other period). Significant estimates and assumptions in these unaudited condensed consolidated financial statements include:

- product warranty reserves,
- inventory valuation,
- revenue recognition,
- valuation of goodwill, intangible and long-lived assets,
- recognition, measurement and valuation of current and deferred income taxes,
- fair value of stock awards issued and the estimated vesting period for performance-based stock awards, and
- recognition and measurement of contingencies and accrued litigation expense.

Actual results could differ materially from those estimates.

Segment Information

The Company is comprised of two reportable segments: the manufacture and sale of CEWs, batteries, accessories, extended warranties and other products and services (the "TASER Weapons" segment); and the software and sensors business, which includes the sale of devices, wearables, applications, cloud and mobile products (collectively, the "Software and Sensors" segment). Within the Software and Sensors segment, the Company specifies sales of products and services. Revenue from the Company's "products" in the Software and Sensors segment are generally sales of sensors, including on-officer body cameras, Axon Fleet cameras, other hardware sensors, warranties on sensors, and other products, and is sometimes referred to as Sensors and Other revenue. Revenue from the Company's "services" in the Software and Sensors segment comprise sales related to the Axon Cloud, which includes Evidence.com, cloud-based evidence management software revenue, other recurring cloud-hosted software revenue and related professional services, and is sometimes referred to as Axon Cloud revenue. Within the Software and Sensors segment, the Company

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

includes only revenues and costs attributable to that segment which include: costs of sales for both products and services, direct labor, selling expenses for the sales team, product management and research and development ("R&D") for products included, or to be included, within the Software and Sensors segment. All other costs are included in the TASER Weapons segment.

The Company's Chief Executive Officer, who is the Chief Operating Decision Maker (the "CODM"), is not provided asset information by segment. Reportable segments are determined based on discrete financial information reviewed by the CODM for the Company. The Company organizes and reviews operations based on products and services. The Company performs an annual analysis of its reportable segments. Additional information related to the Company's business segments is summarized in Note 14.

Geographic Information and Major Customers

For the three months ended March 31, 2018 and 2017, no individual country outside the U.S. represented more than 10% of net sales. Individual sales transactions in the international market are generally larger and occur more intermittently than in the domestic market due to the profile of the Company's customers.

For the three months ended March 31, 2018 and 2017, no customer represented more than 10% of total net sales. At March 31, 2018 and December 31, 2017, no customer represented more than 10% of the aggregate accounts and notes receivable balance and contract assets.

Income per Common Share

Basic income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the periods presented. Potentially dilutive securities include outstanding stock options and unvested restricted stock units ("RSUs"). The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

The calculation of the weighted average number of shares outstanding and earnings per share are as follows (in thousands except per share data):

	Three Months Ended March 31,	
	2018	2017
Numerator for basic and diluted earnings per share:		
Net income	\$ 12,926	\$ 4,580
Denominator:		
Weighted average shares outstanding	53,119	52,418
Dilutive effect of stock-based awards	1,413	1,259
Diluted weighted average shares outstanding	54,532	53,677
Anti-dilutive stock-based awards excluded	404	676
Net income per common share:		
Basic	\$ 0.24	\$ 0.09
Diluted	\$ 0.24	\$ 0.09

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Standard Warranties

The Company warrants its CEWs, Axon cameras and certain related accessories from manufacturing defects on a limited basis for a period of one year after purchase and, thereafter, will replace any defective unit for a fee. Estimated costs for the standard warranty are charged to cost of products sold when revenue is recorded for the related product. Future warranty costs are estimated based on historical data related to warranty claims on a quarterly basis and this rate is applied to current product sales. Historically, reserve amounts have been increased if management becomes aware of a component failure or other issue that could result in larger than anticipated warranty claims from customers. The warranty reserve is reviewed quarterly to verify that it sufficiently reflects the remaining warranty obligations based on the anticipated expenditures over the balance of the warranty obligation period, and adjustments are made when actual warranty claim experience differs from estimates. The warranty reserve is included in accrued liabilities on the accompanying consolidated balance sheets.

Changes in the Company's estimated product warranty liabilities were as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Balance, beginning of period	\$ 644	\$ 780
Utilization of accrual	(93)	(66)
Warranty expense (recovery)	8	(367)
Balance, end of period	<u>\$ 559</u>	<u>\$ 347</u>

Fair Value Measurements and Financial Instruments

The Company uses the fair value framework that prioritizes the inputs to valuation techniques for measuring financial assets and liabilities measured on a recurring basis and for non-financial assets and liabilities when these items are re-measured. Fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. The Company categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.
- Level 2 – Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.
- Level 3 – Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Company's own assumptions about inputs that market participants would use in pricing an asset or liability.

The Company has cash equivalents and investments, which at March 31, 2018 and December 31, 2017 were comprised of money market funds, state and municipal obligations, corporate bonds, and certificates of deposits. See additional disclosure regarding the fair value of the Company's cash equivalents and investments in Note 3. Included in the balance of Other assets as of March 31, 2018 and December 31, 2017 was \$3.8 million related to corporate-owned life insurance policies which are used to fund the Company's deferred compensation plan. The Company determines the fair value of its insurance contracts by obtaining the cash surrender value of the contracts from the issuer, a Level 2 valuation technique.

The Company's financial instruments also include accounts and notes receivable, accounts payable, notes payable and accrued liabilities. Due to the short-term nature of these instruments, their fair values approximate their carrying values on the accompanying condensed consolidated balance sheets.

Valuation of Goodwill, Intangibles and Long-lived Assets

Management evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets and identifiable intangible assets, excluding goodwill and intangible assets with indefinite useful lives, may

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

warrant revision or that the remaining balance of these assets may not be recoverable. Such circumstances could include, but are not limited to, a change in the product mix, a change in the way products are created, produced or delivered, or a significant change in the way products are branded and marketed. In performing the review for recoverability, management estimates the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The amount of the impairment loss, if impairment exists, is calculated based on the excess of the carrying amounts of the assets over their estimated fair value computed using discounted cash flows.

The Company does not amortize goodwill and intangible assets with indefinite useful lives, rather such assets are required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. The Company performs its goodwill and intangible asset impairment tests in the fourth quarter of each year.

Recently Issued Accounting Guidance

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (“ASU 2014-09”) and Accounting Standards Codification (“ASC”) Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers (“ASC 340-40”), (collectively, “Topic 606”). On January 1, 2018, the Company adopted Topic 606 by applying the modified retrospective method of adoption for all contracts that were not substantially completed as of the adoption date. ASU 2014-09 requires entities to recognize revenue through the application of a five-step model, which includes identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to the performance obligations and recognition of revenue as the entity satisfies the performance obligations. Refer to Note 2 for further discussion.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. ASU 2016-02 requires a lessee to recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 is effective for the fiscal year beginning after December 15, 2018 (including interim periods within that year) using a modified retrospective approach and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of this ASU on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses, which amends ASC 326. The new guidance differs from existing GAAP wherein previous standards generally delayed recognition of credit losses until the loss was probable. ASU 2016-13 eliminates the probable initial recognition threshold and, instead, reflects an entity’s current estimate of all expected credit losses. The use of forecasted information is intended to incorporate more timely information in the estimate of expected credit loss. ASU 2016-13 is effective for the fiscal year beginning after December 15, 2019, and interim periods within that fiscal year, and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of ASU 2016-13 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 eliminates the diversity in practice related to the classification of certain cash receipts and payments. ASU 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. The Company adopted ASU 2016-15 effective January 1, 2018, and the adoption of this ASU did not have a material impact on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory. ASU 2016-16 requires an entity to recognize income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This removes the exception to postpone recognition until the asset has been sold to an outside party. The Company adopted ASU 2016-16 effective January 1, 2018, and the adoption of this ASU did not have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows - Restricted Cash (Topic 230), which amends the existing guidance relating to the treatment of restricted cash and restricted cash equivalents on the statement of cash flows. The Company adopted ASU 2016-18 effective January 1, 2018, and retrospectively updated the presentation of its unaudited consolidated statements of cash flows to include amounts of restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts. The adoption of ASU 2016-18 did not have a material impact on the Company's consolidated financial statements.

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805) to provide a more robust framework to use in determining when a set of acquired assets and activities is a business. The Company adopted ASU 2017-01 effective January 1, 2018. The amendments in ASU 2017-01 provide a screen to determine when a set of acquired integrated assets and activities is not a business, and if the screen is not met it may result in fewer transactions that qualify as a business combination under ASC Topic 805. For the three months ended March 31, 2018, the adoption of ASU 2017-01 did not have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718), which provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 708. The Company adopted ASU 2017-09 effective January 1, 2018, and the adoption of this ASU did not have a material impact on its consolidated financial statements.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

2. Revenues

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted, and continue to be reported in accordance with our historic accounting under ASC 605. The Company recorded a net increase in stockholders' equity (retained earnings) of \$19.0 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606 on contracts that were not complete as of that date. The areas most significantly impacted were contracts with contingent hardware revenue and the treatment of incremental costs of obtaining contracts with customers. The impacts as a result of applying Topic 606 was a net increase to revenue of \$1.7 million and a net decrease to selling, general and administrative expenses of approximately \$0.5 million related to the costs of obtaining contracts for the three months ended March 31, 2018 as compared to what would have been recognized under ASC 605. See the impacts to reported results below for the impact of adoption of the Topic 606 on our consolidated financial statements (in thousands):

	December 31, 2017 (As reported)	Impact of Adoption of Topic 606 on Opening Balance Sheet	January 1, 2018 (As adjusted)
Accounts and notes receivable, net	\$ 56,064	\$ 28,915	\$ 84,979
Contract assets, net	—	5,512	5,512
Prepaid expense and other current assets	21,696	2,003	23,699
Total impacted current assets	77,760	36,430	114,190
Deferred income tax assets, net	15,755	(5,158)	10,597
Long-term notes receivable, net of current portion	36,877	(12,977)	23,900
Other assets	15,366	5,323	20,689
Total impacted assets	145,758	23,618	169,376
Accrued liabilities	23,502	2,512	26,014
Current portion of deferred revenue	70,401	863	71,264
Total impacted current liabilities	93,903	3,375	97,278
Deferred revenue, net of current portion	54,881	1,249	56,130
Total impacted liabilities	148,784	4,624	153,408
Retained earnings	123,185	18,994	142,179
Total impacted stockholders' equity	123,185	18,994	142,179
Total impacted liabilities and stockholders' equity	271,969	23,618	295,587

Revenue Recognition

Revenues are recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company enters into contracts that can include various combinations of products and services, each of which are generally distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental taxing authorities.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in Topic 606. For contracts with multiple performance obligations, the Company allocates the contract transaction price to each performance obligation using the Company's estimate of the standalone selling price ("SSP") of each distinct good or service in the contract.

Performance obligations to deliver products, including CEWs, Axon cameras and related accessories such as cartridges, batteries and docks, are generally satisfied at the point in time the Company ships the product, as this is when the customer obtains control of the asset under our standard terms and conditions. In certain contracts with non-standard terms and conditions, these performance obligations may not be satisfied until formal customer acceptance occurs. Performance obligations to fulfill service-type extended warranties and provide our Software-as-a-Service ("SaaS") offerings are generally satisfied over time as the customer receives and consumes the benefits of these services over the stated service period.

The Company has elected to recognize shipping costs when the control of hardware products or accessories have transferred to the customer as an expense in Cost of product sales.

Nature of Products and Services

The following table presents the Company's revenues by primary product and service offering (in thousands):

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017 ⁽¹⁾		
	TASER Weapons	Software and Sensors	Total	TASER Weapons	Software and Sensors	Total
TASER X26P	\$ 16,474	\$ —	\$ 16,474	\$ 15,668	\$ —	\$ 15,668
TASER X2	23,932	—	23,932	18,986	—	18,986
TASER Pulse and Bolt	1,346	—	1,346	1,022	—	1,022
Single cartridges	16,114	—	16,114	16,664	—	16,664
Axon Body	—	5,558	5,558	—	3,446	3,446
Axon Flex	—	1,669	1,669	—	1,475	1,475
Axon Dock	—	3,035	3,035	—	1,987	1,987
Axon Fleet	—	2,116	2,116	—	—	—
Evidence.com	—	20,241	20,241	—	11,742	11,742
TASER Cam	—	1,360	1,360	—	719	719
Extended warranties	3,706	2,490	6,196	2,843	1,418	4,261
Other	1,952	1,222	3,174	2,488	784	3,272
Total	\$ 63,524	\$ 37,691	\$ 101,215	\$ 57,671	\$ 21,571	\$ 79,242

⁽¹⁾ Amounts for the three months ended March 31, 2017 have not been adjusted under the modified retrospective method of adoption of Topic 606, and are presented consistent with the prior period amounts reported under ASC 605.

The Company derives revenue from two primary sources: (1) the sale of physical products, including CEWs, Axon cameras, Axon Signal enabled devices, corresponding hardware extended warranties, and related accessories such as Axon docks, cartridges and batteries, among others, and (2) subscription to the Company's Evidence.com digital evidence management SaaS (including secure cloud-based storage fees and other ancillary services), which includes varying levels of support. To a lesser extent, the Company also recognizes revenue from training, professional services and revenue related to other software and SaaS services.

Many of the Company's products and services are sold on a standalone basis. The Company also bundles its hardware products and services together and sells them to its customers in single transactions, where the customer can make payments over a multi-year period. These sales may include payments for upfront hardware and services, as well as payments for hardware and services to be provided by the Company at a future date. Additionally, the Company offers customers the ability to purchase CEW cartridges

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and certain services on an unlimited basis over the contractual term. Due to the unlimited nature of the arrangement whereby the Company is obligated to deliver unlimited products at the customer's request, the Company accounts for these arrangements as stand-ready obligations, and recognizes revenue ratably over the contract period. Cost of product sales is recognized as the products are delivered to the customer.

The following table presents the Company's revenues disaggregated by geography (in thousands):

	Three Months Ended March 31,			
	2018		2017 ⁽¹⁾	
United States	\$ 77,950	77%	\$ 64,752	82%
Other countries	23,265	23	14,490	18
Total	\$ 101,215	100%	\$ 79,242	100%

⁽¹⁾ Amounts for the three months ended March 31, 2017 have not been adjusted under the modified retrospective method of adoption of Topic 606, and are presented consistent with the prior period amounts reported under ASC 605.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers. The Company generally has an unconditional right to consideration when it invoices its customers and records a receivable. The Company records a contract asset when revenue is recognized prior to invoicing, or a contract liability (deferred revenue) when revenue is recognized subsequent to invoicing.

Contract assets generally result from the Company's subscription programs where the Company satisfies a hardware performance obligation upon shipment to the customer and the right to the portion of the transaction price allocated to that hardware performance obligation is conditional on the Company's future performance of a SaaS service obligation under the contract. The Company recognizes a portion the amount allocated to hardware products shipped to the customer as accounts receivable when invoiced to the customer, and records the remaining allocated value as a contract asset as the Company has generally fulfilled its hardware performance obligation upon shipment.

Contract liabilities generally consist of deferred revenue on the Company's subscription programs where the Company generally invoices customers at the beginning of each annual period and records a receivable at the time of invoicing when there is an unconditional right to consideration.

Deferred revenue is comprised mainly of unearned revenue related to the Company's Evidence.com SaaS platform, secure cloud-based storage, service-type extended warranties, stand-ready obligations in our cartridge programs, and rights to future CEW, camera and related accessories hardware in our subscription programs. Revenue for Evidence.com and cloud-based storage, our service-type extended warranties and stand-ready cartridge programs is generally recognized on a straight-line basis over the subscription term. Revenue for the rights to future hardware is generally recognized at the point in time the hardware products are shipped to the customer.

Payment terms and conditions vary by contract type and geography, but our standard terms are that payments are due within 30 days from the date of invoice.

The following table presents the Company's contract assets, contract liabilities and certain information related to these balances as of and for the three months ended March 31, 2018 (in thousands):

	March 31, 2018
Contract assets	\$ 9,278
Contract liabilities (deferred revenue)	134,144
Revenue recognized in the period from:	
Amounts included in contract liabilities at the beginning of the period	24,269

Contract liabilities (deferred revenue) consisted of the following (in thousands):

	March 31, 2018			December 31, 2017 ⁽¹⁾		
	Current	Long-Term	Total	Current	Long-Term	Total
Warranty:						
TASER Weapons	\$ 11,601	\$ 17,058	\$ 28,659	\$ 12,501	\$ 18,619	\$ 31,120
Software and Sensors	6,941	5,660	12,601	6,293	4,195	10,488
	<u>18,542</u>	<u>22,718</u>	<u>41,260</u>	<u>18,794</u>	<u>22,814</u>	<u>41,608</u>
Hardware:						
TASER Weapons	4,283	12,440	16,723	4,164	11,401	15,565
Software and Sensors	14,152	15,197	29,349	16,956	14,781	31,737
	<u>18,435</u>	<u>27,637</u>	<u>46,072</u>	<u>21,120</u>	<u>26,182</u>	<u>47,302</u>
Software and Sensors Services	39,164	7,648	46,812	30,487	5,885	36,372
Total	<u>\$ 76,141</u>	<u>\$ 58,003</u>	<u>\$ 134,144</u>	<u>\$ 70,401</u>	<u>\$ 54,881</u>	<u>\$ 125,282</u>

	March 31, 2018			December 31, 2017 ⁽¹⁾		
	Current	Long-Term	Total	Current	Long-Term	Total
TASER Weapons	\$ 15,884	\$ 29,498	\$ 45,382	\$ 16,665	\$ 30,020	\$ 46,685
Software and Sensors	60,257	28,505	88,762	53,736	24,861	78,597
Total	<u>\$ 76,141</u>	<u>\$ 58,003</u>	<u>\$ 134,144</u>	<u>\$ 70,401</u>	<u>\$ 54,881</u>	<u>\$ 125,282</u>

⁽¹⁾ Amounts as of December 31, 2017 have not been adjusted under the modified retrospective method of adoption of Topic 606, and are presented consistent with the prior period amounts reported under ASC 605.

Remaining Performance Obligations

As of March 31, 2018, the Company had approximately \$650 million of remaining performance obligations, which included both recognized contract liabilities as well as amounts that will be invoiced and recognized in future periods. The remaining performance obligations are limited only to arrangements that meet the definition of a contract under Topic 606 as of March 31, 2018. The Company expects to recognize between 15% - 20% of this balance over the next twelve months and expects the remainder to be recognized over the following five to seven years, subject to risks related to delayed deployments, budget appropriation or other contract cancellation clauses.

Costs to Obtain a Contract

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer, which consist primarily of sales commissions. These costs are ascribed to or allocated to the underlying performance obligations in the contract and amortized consistent with the recognition timing of the revenue for the underlying performance obligations.

For contract costs related to performance obligations with an amortization period of one year or less, the Company applies the practical expedient to expense these sales commissions when incurred. These costs are recorded as incurred within sales, general and administrative expenses on the accompanying condensed consolidated statement of operations and comprehensive income.

As of March 31, 2018, the Company's assets for costs to obtain contracts were as follows (in thousands):

	March 31, 2018
Current deferred commissions ⁽¹⁾	\$ 5,526
Deferred commissions, net of current portion ⁽²⁾	12,881
	<u>\$ 18,407</u>

⁽¹⁾ Current deferred commissions are included within "Prepaid expenses and other current assets" on the accompanying condensed consolidated balance sheet.

⁽²⁾ Deferred commissions, net of current portion, are included in "Other assets" on the accompanying condensed consolidated balance sheet.

During the three months ended March 31, 2018, the Company recognized \$1.1 million of amortization related to deferred commissions. These costs are recorded within sales, general and administrative expenses on the accompanying condensed consolidated statement of operations and comprehensive income.

Significant Judgments

The Company's contracts with certain municipal government customers may be subject to budget appropriation, other contract cancellation clauses or future periods which are optional. In contracts where the customer's performance is subject to budget appropriation clauses, we generally consider the likelihood of non-appropriation to be remote when determining the contract term and transaction price. Contracts with other cancellation provisions or optional periods may require judgment in determining the contract term, including the existence of material rights, transaction price and identifying the performance obligations.

At times, customers may request changes that either amend, replace or cancel existing contracts. Judgment is required to determine whether the specific facts and circumstances within the contracts require the changes to be accounted for as a separate contract or as a modification. Generally, contract modifications containing additional goods and services that are determined to be distinct and sold at their SSP, are accounted for as a separate contract. Contract modifications where both criteria are not met, the original contract is updated and the required adjustments to revenue will be made accordingly.

The Company's contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. The Company considers CEW devices and related accessories as well as cameras and related accessories to be separately identifiable from each other as well as from extended warranties on these products and the SaaS subscriptions to Evidence.com.

In contracts where there are timing differences between when the Company transfers a promised good or service to the customer and when the customer pays for that good or service, the Company has determined that, with the exception of its TASER 60 installment purchase arrangements, its contracts generally do not include a significant financing component. For the three months ended March 31, 2018, the Company recorded revenue of \$14.0 million, including \$0.3 million of interest income, under the Company's TASER 60 plan, and recorded \$8.1 million, including \$0.1 million of interest income, for the same period in 2017. Amounts for the three months ended March 31, 2017 have not been adjusted under the modified retrospective method of adoption of Topic 606.

Judgment is required to determine the SSP for each distinct performance obligation. The Company analyzes separate sales of its products and services as a basis for estimating the SSP of its products and services and then uses that SSP as the basis for allocating the transaction price when its products and services are sold together in a contract with multiple performance obligations. In instances where the SSP is not directly observable, such as when the Company does not sell the product or service separately, it determines the SSP using information that may include market conditions, time value of money and other observable inputs. The Company typically has more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, the Company may use information such geographic region and distribution channel in determining the SSP.

Sales are typically made on credit and we generally do not require collateral. We perform ongoing credit evaluations of our customers' financial condition and maintain an allowance for doubtful accounts. Uncollectible accounts are written off when deemed uncollectible, and accounts and notes receivable are presented net of an allowance for doubtful accounts. This allowance represents our best estimate and is based on our judgment after considering a number of factors including third-party credit reports, actual payment history, customer-specific financial information and broader market and economic trends and conditions. In the event that actual uncollectible amounts differ from our estimates, additional expense could be necessary.

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

3. Cash, Cash Equivalents and Investments

The following tables summarize the Company's cash, cash equivalents, and held-to-maturity investments at March 31, 2018 and December 31, 2017 (in thousands):

	As of March 31, 2018				
	Amortized Cost	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Investments
Cash	\$ 68,207	\$ —	\$ 68,207	\$ 68,207	\$ —
Level 1:					
Money market funds	22,282	—	22,282	22,282	—
Corporate bonds	4,974	(3)	4,971	1,300	3,674
Subtotal	27,256	(3)	27,253	23,582	3,674
Level 2:					
State and municipal obligations	1,342	—	1,342	541	801
Total	\$ 96,805	\$ (3)	\$ 96,802	\$ 92,330	\$ 4,475

	As of December 31, 2017				
	Amortized Cost	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Investments
Cash	\$ 53,459	\$ —	\$ 53,459	\$ 53,459	\$ —
Level 1:					
Money market funds	20,884	—	20,884	20,884	—
Corporate bonds	6,632	(6)	6,626	—	6,632
Subtotal	27,516	(6)	27,510	20,884	6,632
Level 2:					
State and municipal obligations	992	—	992	762	230
Total	\$ 81,967	\$ (6)	\$ 81,961	\$ 75,105	\$ 6,862

The Company believes the unrealized losses on its investments are due to interest rate fluctuations. As these investments are short-term in nature, are expected to be redeemed at par value, and/or because the Company has the ability and intent to hold these investments to maturity, the Company does not consider these investments to be other than temporarily impaired at March 31, 2018 or as of December 31, 2017.

4. Inventory

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost of raw materials which approximates the first-in, first-out (“FIFO”) method and includes allocations of manufacturing labor and overhead. Included in finished goods at March 31, 2018 and December 31, 2017 was \$1.6 million and \$1.4 million, respectively, of trial and evaluation hardware units. Provisions are made to reduce excess, obsolete or slow-moving inventories to their net realizable value. Inventories consisted of the following at March 31, 2018 and December 31, 2017 (in thousands):

	2018	2017
Raw materials	\$ 19,003	\$ 20,119
Finished goods	24,101	25,346
Total inventory	\$ 43,104	\$ 45,465

5. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for the three months ended March 31, 2018 were as follows (in thousands):

	TASER Weapons	Software and Sensors	Total
Balance, beginning of period	\$ 1,453	\$ 13,474	\$ 14,927
Foreign currency translation adjustment	10	10	20
Balance, end of period	\$ 1,463	\$ 13,484	\$ 14,947

Intangible assets (other than goodwill) consisted of the following (in thousands):

	Useful Life	March 31, 2018			December 31, 2017		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:							
Domain names	5-10 years	\$ 3,161	\$ (504)	\$ 2,657	\$ 3,161	\$ (428)	\$ 2,733
Issued patents	4-15 years	2,724	(959)	1,765	2,697	(913)	1,784
Issued trademarks	3-11 years	857	(416)	441	860	(397)	463
Customer relationships	4-8 years	1,396	(518)	878	1,377	(451)	926
Non-compete agreements	3-4 years	558	(376)	182	556	(346)	210
Developed technology	3-7 years	13,469	(4,723)	8,746	13,469	(3,956)	9,513
Re-acquired distribution rights	2 years	2,098	(1,049)	1,049	2,133	(711)	1,422
Total amortized		24,263	(8,545)	15,718	24,253	(7,202)	17,051
Not amortized:							
TASER trademark		900		900	900		900
Patents and trademarks pending		878		878	872		872
Total not amortized		1,778		1,778	1,772		1,772
Total intangible assets		\$ 26,041	\$ (8,545)	\$ 17,496	\$ 26,025	\$ (7,202)	\$ 18,823

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Amortization expense of intangible assets for the three months ended March 31, 2018 and 2017 was \$1.4 million and \$0.9 million, respectively. Estimated amortization for intangible assets with definite lives for the remaining nine months of 2018, the next five years ended December 31, and thereafter, is as follows (in thousands):

2018	\$	4,047
2019		3,871
2020		2,404
2021		2,269
2022		838
2023		568
Thereafter		1,721
Total	\$	<u>15,718</u>

6. Other Long-Term Assets

Other long-term assets consisted of the following at March 31, 2018 and December 31, 2017 (in thousands):

	2018	2017
Cash surrender value of corporate-owned life insurance policies	\$ 3,804	\$ 3,846
Deferred commissions ⁽¹⁾	12,881	6,803
Restricted cash ⁽²⁾	2,468	3,333
Prepaid expenses, deposits and other	2,420	1,384
Total other long-term assets	<u>\$ 21,573</u>	<u>\$ 15,366</u>

⁽¹⁾ Represents assets for the incremental costs of obtaining a contract with a customer, which consist primarily of sales commissions. These costs are ascribed to or allocated to the underlying performance obligations in the contract and amortized consistent with the recognition timing of the revenue for the underlying performance obligations. The amounts as of December 31, 2017 have not been adjusted under the modified retrospective method of adoption of Topic 606, and is presented consistent with the prior period amounts. In connection with the Company's adoption of Topic 606, it recorded an adjustment of \$7.3 million as of January 1, 2018, and of that amount, \$5.4 million was recorded within long-term other assets. The adjusted balance of long-term deferred commissions as of January 1, 2018 was \$12.2 million.

⁽²⁾ As of March 31, 2018 and December 31, 2017, restricted cash primarily consisted of \$1.8 million and \$2.7 million, respectively, of sales proceeds related to long-term contracts with customers. As of March 31, 2018, the proceeds are held in escrow until certain billing milestones are achieved, and then specified amounts are transferred to the Company's operating accounts.

7. Accrued Liabilities

Accrued liabilities consisted of the following at March 31, 2018 and December 31, 2017 (in thousands):

	2018	2017
Accrued salaries, benefits and bonus	\$ 10,217	\$ 8,957
Accrued professional, consulting and lobbying fees	4,046	3,870
Accrued warranty expense	559	644
Accrued income and other taxes	8,945	2,558
Other accrued liabilities	11,102	7,473
Accrued liabilities	<u>\$ 34,869</u>	<u>\$ 23,502</u>

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

8. Income Taxes

ASC 740 requires a company to record the effects of a tax law change in the period of enactment; however, shortly after the enactment of the Tax Cuts and Jobs Act (the "Tax Act"), the SEC staff issued Staff Accounting Bulletin 118 ("SAB 118"), which allows a company to record a provisional amount when it does not have the necessary information available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. The measurement period ends when the company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. The Company continues to analyze the impact of the Tax Act and expects that as additional guidance from IRS Treasury is provided, further updates will be necessary.

The Tax Act imposes a U.S. entity tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Given the complexity of the GILTI provisions, we are still evaluating the effects of the GILTI provisions and have not yet determined our accounting policy. At March 31, 2018, because we are still evaluating the GILTI provisions and our analysis of future taxable income that is subject to GILTI, we have included GILTI related to current-year operations only in our EAETR (estimated annual effective tax rate) and have not provided additional GILTI on deferred items.

Deferred Tax Assets

Net deferred income tax assets at March 31, 2018, include capitalized R&D costs, research and development tax credits, stock-based compensation expense, deferred revenue, warranty and inventory reserves, accrued vacation, and other items, partially offset by accelerated depreciation expense and intangible amortization that is not tax deductible. The Company's total net deferred tax assets at March 31, 2018 were \$14.2 million.

In preparing the Company's condensed consolidated financial statements, management assesses the likelihood that its deferred tax assets will be realized from future taxable income. In evaluating the Company's ability to recover its deferred income tax assets, management considers all available positive and negative evidence, including its operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis. A valuation allowance is established if it is determined that it is more likely than not that some portion or all of the net deferred tax assets will not be realized. Management exercises significant judgment in determining its provisions for income taxes, its deferred tax assets and liabilities, and its future taxable income for purposes of assessing its ability to utilize any future tax benefit from its deferred tax assets.

Although management believes that its tax estimates are reasonable, the ultimate tax determination involves significant judgments that could become subject to audit by tax authorities in the ordinary course of business. As of each reporting date, management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. As of March 31, 2018, the Company continues to demonstrate three-year cumulative pre-tax income in the U.S. federal and Arizona tax jurisdictions; however, the Company's Arizona R&D Tax Credits start to expire in 2018 with a significant tranche with a gross value of \$1.2 million expiring if not used by the end of 2019. It appears that the Company's long term investments, which impact short term profits, will likely result in some of the R&D credits expiring before they are utilized. Therefore, management has concluded that it is more likely than not that a portion of the Company's deferred tax assets will not be realized and has established a valuation allowance.

The Company has claimed R&D tax credits of approximately \$17.0 million for federal, Arizona and California income tax purposes related to tax years 2003 to 2018. Management has made the determination that it is more likely than not that the full benefit of the R&D tax credits will not be sustained upon examination and recorded a liability for unrecognized tax benefits of \$3.6 million as of March 31, 2018. In addition, management accrued \$0.1 million for estimated uncertain tax positions related to certain state income tax liabilities, for a total unrecognized tax benefit as of March 31, 2018 of \$3.7 million. Management expects the amount of unrecognized tax benefit liability to increase by \$0.2 million within the next 12 months. Should the unrecognized benefit of \$3.7 million be recognized, the Company's effective tax rate would be favorably impacted. Approximately \$2.0 million of the unrecognized tax benefit associated with R&D credits has been netted against the R&D deferred tax asset.

Effective Tax Rate

The Company's overall effective tax rate for the three months ended March 31, 2018, after discrete period adjustments, was 12.9%. Before discrete adjustments, the tax rate was 23.1%, which is more than the federal statutory rate primarily due to state taxes and non-deductible expenses for items such as meals and entertainment, executive compensation limitation under IRC section

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

162(m), lobbying fees, an income inclusion from GILTI, offset by a reduction for foreign-derived intangible income ("FDII"). This was partially offset by R&D tax credit deductions. The effective tax rate was favorably impacted by a \$1.6 million discrete tax benefit primarily associated with windfalls related to stock-based compensation for RSUs that vested or stock options that were exercised during the three months ended March 31, 2018.

9. Stockholders' Equity

In May 2016, the Company's stockholders approved a new stock incentive plan authorizing an additional 2.0 million shares, plus remaining available shares under a prior plan, for issuance under the new plan. Combined with the legacy stock incentive plans, there are 0.8 million shares available for grant as of March 31, 2018.

Performance-based stock awards

The Company has issued performance-based stock options and performance-based restricted stock units ("RSUs"), the vesting of which is contingent upon the achievement of certain performance criteria related to the operating performance of the Company, as well as successful and timely development and market acceptance of future product introductions. In addition, certain of the performance-based RSUs have additional service-based vesting requirements subsequent to the achievement of the performance criteria. Compensation expense is recognized over the implicit service period (the longer of the period the performance condition is expected to be achieved or the required service period) based on management's estimate of the probability of the performance criteria being satisfied, adjusted at each balance sheet date.

Restricted Stock Units

The following table summarizes RSU activity for the three months ended March 31, 2018 (number of units and aggregate intrinsic value in thousands):

	Number of Units	Weighted Average Grant-Date Fair Value	Aggregate Intrinsic Value
Units outstanding, beginning of year	2,348	\$ 23.47	
Granted	122	30.14	
Released	(329)	24.14	
Forfeited	(114)	21.79	
Units outstanding, end of period	<u>2,027</u>	23.93	\$ 79,681

Aggregate intrinsic value represents the Company's closing stock price on the last trading day of the period, which was \$39.31 per share, multiplied by the number of RSUs outstanding. As of March 31, 2018, there was \$39.3 million in unrecognized compensation costs related to RSUs under the Company's stock plans. The Company expects to recognize the cost related to the RSUs over a weighted average period of 2.68 years. RSUs are released when vesting requirements are met.

During the three months ended March 31, 2018, the Company granted no performance-based RSUs. As of March 31, 2018, the performance criteria had not been met for any of the 0.4 million performance-based RSUs outstanding. The performance-based RSUs granted in 2017 and 2016 contain provisions whereby the amount of RSUs that ultimately vest is dependent upon the level of achievement of performance metrics. The amount of RSUs included in the table above related to such grants is the target level, which is the Company's best estimate of the amount of RSUs that will vest. The maximum additional number of performance-based RSUs that could be earned is 0.3 million, which are not included in the table above.

Certain RSUs that vested in the three months ended March 31, 2018 were net-share settled such that the Company withheld shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. Total shares withheld were 0.1 million and had a value of \$3.6 million on their respective vesting dates as determined by the Company's closing stock price on such dates. Payments for the employees' tax obligations are reflected as a financing activity within the statement of cash flows. These net-share settlements had the effect of share repurchases by the Company as they reduced the amount of shares that would have otherwise been issued as a result of the vesting had they been settled on a gross basis with the employees responsible for directly remitting the applicable income and other employment taxes.

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Stock Option Activity

The following table summarizes stock option activity for the three months ended March 31, 2018 (number of units and aggregate intrinsic value in thousands):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Options outstanding, beginning of year	804	\$ 4.99		
Granted	—	—		
Exercised	(78)	4.54		
Expired / terminated	—	—		
Options outstanding, end of period	<u>726</u>	5.04	0.99	\$ 24,879
Options exercisable, end of period	<u>722</u>	5.04	1.00	24,729

Aggregate intrinsic value represents the difference between the exercise price of the underlying stock option awards and the closing market price of the Company's common stock of \$39.31 on March 31, 2018. The intrinsic value of options exercised for the three months ended March 31, 2018 and 2017 was \$2.0 million and \$0.7 million, respectively. As of March 31, 2018, total options outstanding includes 0.2 million performance-based stock options, of which 4,350 were unvested and of those, none are expected to vest.

On February 26, 2018, the Company's Board of Directors approved a new stock option grant to Patrick W. Smith, the Company's Chief Executive Officer ("CEO Performance Award"), which is subject to shareholder approval. The CEO Performance Award will consist of 12 vesting tranches, each equal to 1% of the Company's outstanding common stock as of February 23, 2018, the business day prior to the award date. The CEO Performance Award will have a per share exercise price equal to \$28.58, the closing price of our common stock on February 23, 2018, and will have a vesting schedule based entirely on the attainment of both operational and market capitalization goals. Because the CEO Performance Award is still subject to shareholder approval, there was no financial statement impact as of and for the three months ended March 31, 2018.

Stock-based Compensation Expense

Stock-based compensation cost for RSUs is measured based on the closing fair market value of the Company's common stock on the date of grant. The Company recognizes stock-based compensation cost over the requisite service period of an award on a straight-line basis for time-based RSUs and on a graded basis for RSUs that are contingent on the achievement of performance conditions. The following table summarizes the composition of stock-based compensation for the three months ended March 31, 2018 and 2017 (in thousands):

	Three Months Ended March 31,	
	2018	2017
Cost of products sold and services delivered	\$ 141	\$ 79
Sales, general and administrative expenses	2,304	2,028
Research and development expenses	1,648	1,340
Total stock-based compensation	<u>\$ 4,093</u>	<u>\$ 3,447</u>

Stock Repurchase Plan

In February 2016, the Company's Board of Directors authorized a stock repurchase program to acquire up to \$50.0 million of the Company's outstanding common stock subject to stock market conditions and corporate considerations. During the three months ended March 31, 2018 and 2017, no common shares were purchased under the program. As of March 31, 2018, \$16.3 million remains available under the plan for future purchases. The Company suspended its 10b5-1 plan during 2016, and any future purchases will be discretionary.

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

10. Line of Credit

The Company has a \$10.0 million revolving line of credit with a domestic bank. At both March 31, 2018 and December 31, 2017, there were no borrowings under the line. Under the terms of the line of credit, available borrowings are reduced by outstanding letters of credit. As of March 31, 2018, the Company had letters of credit outstanding of \$2.7 million under the facility, and available borrowing of \$7.3 million. The line is secured by substantially all of the assets of the Company, and bears interest at varying rates (currently LIBOR plus 1.25% or Prime less 0.50%). The line of credit matures on December 31, 2018, and requires monthly payments of interest only. The Company's agreement with the bank requires it to comply with a maximum funded debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio, as defined, of no greater than 2.00 to 1.00 based upon a trailing twelve-month period. At March 31, 2018, the Company's funded debt to EBITDA ratio was 0.002 to 1.00.

11. Commitments and Contingencies***Product Litigation***

The Company is currently named as a defendant in seven lawsuits in which the plaintiffs allege either wrongful death or personal injury in situations in which a TASER CEW was used by law enforcement officers in connection with arrests. While the facts vary from case to case, the product liability claims are typically based on an alleged product defect resulting in injury or death, usually involving a failure to warn, and the plaintiffs are seeking monetary damages. The information throughout this note is current through the date of these financial statements.

As a general rule, it is the Company's policy not to settle suspect injury or death cases. Exceptions are sometimes made where the settlement is strategically beneficial to the Company. Also, on occasion, the Company's insurance company has settled such lawsuits over the Company's objection where the risk is over the Company's liability insurance deductibles. Due to the confidentiality of the Company's litigation strategy and the confidentiality agreements that are executed in the event of a settlement, the Company does not identify or comment on which specific lawsuits have been settled or the amount of any settlement.

In 2009, the Company implemented new risk management strategies, including revisions to product warnings and training to better protect both the Company and its customers from litigation based on "failure to warn" theories - which comprise the vast majority of the cases against the Company. These risk management strategies have been highly effective in reducing the rate and exposure from litigation post-2009. From the third quarter of 2011 to the first quarter of 2018, product liability cases have been reduced from 55 to seven active cases.

Management believes that pre-2009 cases have a different risk profile than cases which have occurred since the risk management procedures were introduced in 2009. Therefore, the Company necessarily treats certain pre-2009 cases as exceptions to the Company's general no settlement policy in order to reduce caseload, legal costs and liability exposure.

The Company intends to continue its successful practice of aggressively defending and generally not settling litigation except in very limited and unusual circumstances as described above. With respect to each of the pending lawsuits, the following table lists the name of plaintiff, the date the Company was served with process, the jurisdiction in which the case is pending, the type of claim and the status of the matter.

Plaintiff	Month Served	Jurisdiction	Claim Type	Status
Derbyshire	Nov-09	Ontario, Canada Superior Court of Justice	Officer Injury	Discovery Phase. Trial scheduled for October 14, 2019.
Shymko	Dec-10	The Queen's Bench, Winnipeg Centre, Manitoba	Wrongful Death	Pleading Phase, currently inactive
Ramsey	Jan-12	12th Judicial Circuit Court, Broward County, FL	Wrongful Death	Discovery Phase
Bennett	Sep-15	11th Judicial Circuit Court, Miami-Dade County, FL	Wrongful Death	Discovery Phase. Trial scheduled for June 18, 2018.
Masters	Nov-16	U.S. District Court, Western District of Missouri	Suspect Injury	Discovery Phase. Trial scheduled for December 10, 2018.
Taylor	Mar-17	U.S. District Court, Southern District of Texas	Officer Injury	Discovery Phase. The Company's motion for summary judgment was filed on April 20, 2018. Docket call scheduled for August 31, 2018.
Wiggington	Apr-18	U.S. District Court, Western District Court of Missouri	Wrongful Death	Pleading Phase

No product liability cases were dismissed or judgments entered during the first quarter of 2018 and through the date of these financial statements and there are no product litigation matters in which the Company is involved that are currently on appeal.

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The claims, and in some instances the defense, of each of these lawsuits have been submitted to the Company's insurance carriers that maintained insurance coverage during the applicable periods. The Company continues to maintain product liability insurance coverage with varying limits and deductibles. The following table provides information regarding the Company's product liability insurance. Remaining insurance coverage is based on information received from the Company's insurance provider (in millions).

Policy Year	Policy Start Date	Policy End Date	Insurance Coverage	Deductible Amount	Defense Costs Covered	Remaining Insurance Coverage	Active Cases and Cases on Appeal
2009	12/15/2008	12/15/2009	\$ 10.0	\$ 1.0	N	\$ 10.0	Derbyshire
2010	12/15/2009	12/15/2010	10.0	1.0	N	10.0	Shymko
2011	12/15/2010	12/15/2011	10.0	1.0	N	10.0	n/a
Jan-Jun 2012	12/15/2011	6/25/2012	7.0	1.0	N	7.0	Ramsey
Jul-Dec 2012	6/25/2012	12/15/2012	12.0	1.0	N	12.0	n/a
2013	12/15/2012	12/15/2013	12.0	1.0	N	12.0	n/a
2014	12/15/2013	12/15/2014	11.0	4.0	N	11.0	n/a
2015	12/15/2014	12/15/2015	10.0	5.0	N	10.0	Bennett
2016	12/15/2015	12/15/2016	10.0	5.0	N	10.0	Masters
2017	12/15/2016	12/15/2017	10.0	5.0	N	10.0	Taylor
2018	12/15/2017	12/15/2018	10.0	5.0	N	10.0	Wiggington

Other Litigation

Phazzer Patent Infringement Litigation

In November 2015, the Company filed a complaint against Phazzer Electronics Inc. and Sang Min International Co. Ltd. for patent infringement, trademark infringement and false advertising. On July 21, 2017, the U.S. District Court for the Middle District of Florida granted the Company's Motion for Sanctions and for a Permanent Injunction against Florida-based Phazzer Electronics, Inc. The Court issued a broad permanent injunction against Phazzer banning sales of the infringing Phazzer Enforcer CEWs and dart cartridges. The injunction prohibits Phazzer and its officers, agents, employees, and anyone else acting in concert with them, from making, using, offering for sale, selling, distributing, importing or exporting Phazzer CEWs and associated cartridges. Phazzer is further enjoined from dumping its infringing inventory by "donating" CEWs to law enforcement, and from false advertising and comparison to TASER® brand products. Both Phazzer and its U.S. distributors are barred from exporting CEWs or cartridges to fill foreign orders. The injunction also makes clear that nonparties who assist Phazzer in violating the injunction, including specifically Taiwanese CEW manufacturer Sang Min International and Double Dragon Development and Trading Corporation, may be held in contempt of court. On August 10, 2017, Phazzer filed a notice of appeal which is detailed in the following section entitled cases on appeal. On April 19, 2018, the Court denied Phazzer's second motion to stay the injunction pending appeal.

On April 4, 2018, the Court entered a judgment for the Company against Phazzer in an amount exceeding \$7.8 million which included an award to the Company of compensatory and treble damages for willful infringement, and also an award of reasonable attorneys' fees and costs. The collectability of this judgment is in doubt since Phazzer has informed the Court that it is insolvent.

In imposing severe sanctions against Phazzer, the Court found that Phazzer "engaged in a pattern of bad faith conduct designed and intended to delay, stall, and increase the cost of this litigation," and that Phazzer repeatedly disregarded Court Orders thereby exhibiting "contemptuous", "egregious", "flagrant" and "intentional obstructionist behavior" resulting in willful "abuse [of] the judicial process."

The Company's patent (U.S. No. 7,234,262) at issue in the litigation (Case No. 6:16-cv-00366-PGB-KRS) relates to the CEW's data recording of date and time of each trigger operation and duration of the stimulus. The Court found that patent is "valid, enforceable, and infringed by Phazzer." The injunction will remain in effect until the patent expires, and includes any CEW or device not colorably different from the Phazzer Enforcer CEW. Phazzer filed a second petition for reexamination of the Company's Patent on April 27, 2017 which resulted in a non-final office action on December 5, 2017 rejecting all old and new patent claims. The Company filed its response on February 5, 2018 and a final office action was issued by the USPTO rejecting all old and new patent claims. The Company has appealed this ruling. The injunction is still in full force and effect despite recent USPTO office action.

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The Company's trademark that is the subject of the injunction is Federal Registration No. 4,423,789, relating to the non-functional shape of TASER CEW cartridges used to launch the darts. The Court found the trademark "valid and enforceable, not generic, functional, or merely descriptive, and infringed by Phazzer." The permanent injunction covers all Phazzer CEW dart cartridges that are confusingly similar to, or not more than a colorable imitation of, TASER CEW cartridges, and includes Phazzer product numbers 1-DC15, 1-DC21, 1-DC25, 1-DC21-SIDT, 1-PB30, 1-PB8F, 1-PB15943, 1-RB30, 1-PA30, and 1-LOWIMPT2015. Phazzer has filed a petition to cancel Axon's trademark.

The Court expressly found that Phazzer cartridges currently marketed and sold as compatible with TASER brand CEWs embody the protected appearance and constitute infringing products enjoined under its Order. Phazzer was also ordered by the Court "not [to] challenge or continue to challenge the validity or enforceability of the '789 Registration in any manner in any forum, including the USPTO." Accordingly, Phazzer's pending USPTO cancellation action, which was stayed while the litigation ran its course, will be dismissed.

Digital Ally Patent Litigation

In February 2016, the Company was served with a first amended complaint filed by Digital Ally in the Federal District Court for the District of Kansas alleging patent infringement regarding the Company's Axon Signal technology, commercial bribery, antitrust, and unfair competition. In March 2016, the Company was served with a second amended complaint with similar allegations. The second amended complaint seeks a judgment of infringement, monetary damages, a permanent injunction, punitive damages and attorneys' fees and costs.

Digital Ally's complaint has been substantially narrowed based on (1) the district court dismissing all of Digital Ally's antitrust claims in January 2017; (2) the USPTO granting validity review of Digital Ally's '292 patent in June 2017, and Digital Ally subsequently dismissing this patent from the litigation and covenanting not to sue the Company with respect to existing and prior products; and (3) Digital Ally's dismissal of certain inconsistent claims in the '452 patent, leaving only independent claim 10 for resolution by the Court. The Company believes the remaining claim of the '452 patent is invalid and not infringed, and is vigorously defending this litigation. Digital Ally filed an appeal on the dismissal of its antitrust claims on April 20, 2017, which is pending in the Federal Circuit Court of Appeals. The Company's inter parte review of the '292 patent was heard by the PTAB on February 23, 2018, and a decision is expected by early June 2018.

The litigation stay has been lifted and the case is in the discovery phase. A third Scheduling Order was entered on December 20, 2017, and a Markman Hearing was held on March 8, 2018.

Antoine di Zazzo Arbitration

In April 2016, the Company was served with a notice of arbitration claim filed by Antoine di Zazzo, the Company's former distributor in France, for commissions allegedly owed Mr. di Zazzo. The arbitration claim was filed with the International Court of Arbitration of the International Chamber of Commerce in Paris, France, and the amount that is claimed in controversy is \$0.6 million. The Company's records reflect that all commissions that were due Mr. di Zazzo under his contract were paid or offered to him and the Company will vigorously defend this arbitration claim.

VIEVU Commercial Litigation

In February 2017, the Company was served with a complaint filed by VieVU, LLC ("VIEVU") alleging tortious interference with a business expectancy. In February 2017, the Company filed complaints against VIEVU for unfair competition and false advertising in both the Superior Court of Arizona for Maricopa County as well as the California Superior Court for Santa Cruz County. VIEVU and the Company entered into mutual stipulations for dismissal of both parties' complaints against the other. On February 21, 2018, the Federal lawsuit against VIEVU was dismissed, and on February 27, 2018 the State lawsuit against the Company was dismissed.

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Appeals

The judgment entered resulting from the Court granting the Company's motion for dismissal of Digital Ally litigation for antitrust claims as well as the judgment and permanent injunction in the Company's favor against Phazzer are on appeal as noted in the following table:

Plaintiff	Month Served	Jurisdiction	Claim Type	Status
Digital Ally	Jan-16	U.S. District Court, District of Kansas	Antitrust Claims	The Company's motion for dismissal of the antitrust claims was granted on January 12, 2017 with judgment entered in its favor on April 14, 2017 and Plaintiff filed an appeal on April 20, 2017.
Axon	Mar-16	U.S. District Court, Middle District of Florida	Judgment and Permanent Injunction	The Company received judgment in its favor and a permanent injunction against Phazzer on July 21, 2017. Phazzer filed a notice of appeal on August 10, 2017.

General

From time to time, the Company is notified that it may be a party to a lawsuit or that a claim is being made against it. It is the Company's policy to not disclose the specifics of any claim or threatened lawsuit until the summons and complaint are actually served on the Company. After carefully assessing the claim, and assuming the Company determines that it is not at fault or it disagrees with the damages or relief demanded, the Company vigorously defends any lawsuit filed against the Company. In certain legal matters, the Company records a liability when losses are deemed probable and reasonably estimable. In evaluating matters for accrual and disclosure purposes, the Company takes into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, the availability of insurance, and the severity of any potential loss. The Company reevaluates and updates accruals as matters progress over time.

Based on the Company's assessment of outstanding litigation and claims as of March 31, 2018, the Company has determined that it is not reasonably possible that these lawsuits will individually, or in the aggregate, materially affect its results of operations, financial condition or cash flows. However, the outcome of any litigation is inherently uncertain and there can be no assurance that any expense, liability or damages that may ultimately result from the resolution of these matters will be covered by its insurance or will not be in excess of amounts recognized or provided by insurance coverage and will not have a material adverse effect on our operating results, financial condition or cash flows.

Off-Balance Sheet Arrangements

Under certain circumstances, the Company uses letters of credit and surety bonds to guarantee its performance under various contracts, principally in connection with the installation and integration of its Axon cameras and related technologies. Certain of the Company's letters of credit and surety bonds have stated expiration dates with others being released as the contractual performance terms are completed. At March 31, 2018, the Company had outstanding letters of credit of \$2.7 million that are expected to expire in May 2018. Additionally, the Company had \$10.6 million of outstanding surety bonds at March 31, 2018, with \$1.0 million expiring in 2018, \$0.1 million expiring in 2020, \$2.3 million expiring in 2021, \$3.1 million expiring in 2022 and the remaining \$4.0 million expiring in 2023.

12. Related Party Transactions

The Company subscribes to various cloud-based applications from Salesforce. Bret Taylor, a member of the Company's Board of Directors, serves as President and Chief Product Officer of Salesforce. The Company incurs costs at different times throughout the year, typically in advance of services being provided, and subsequently amortizes these costs ratably to expense as services are provided over the contractual term. The Company did not make any payments related to these services during the three months ended March 31, 2018, and made payments of \$1.0 million during the three months ended March 31, 2017.

13. Employee Benefit Plans

The Company has a defined contribution profit sharing 401(k) plan for eligible employees, which is qualified under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended. Employees are entitled to make tax-deferred contributions of up to the maximum amount allowed by law of their eligible compensation.

The Company also has a non-qualified deferred compensation plan for certain executives, key employees and non-employee directors through which participants may elect to postpone the receipt and taxation of a portion of their compensation, including

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stock-based compensation, received from the Company. The non-qualified deferred compensation plan allows eligible participants to defer up to 80% of their base salary and up to 100% of other types of compensation. The plan also allows for matching and discretionary employer contributions. Employee deferrals are deemed 100% vested upon contribution. Distributions from the plan are made upon retirement, death, separation of service, specified date or upon the occurrence of an unforeseeable emergency. Distributions can be paid in a variety of forms from lump sum to installments over a period of years. Participants in the plan are entitled to select from a wide variety of investments available under the plan and are allocated gains or losses based upon the performance of the investments selected by the participant. All gains or losses are allocated fully to plan participants and the Company does not guarantee a rate of return on deferred balances. Assets related to this plan consist of corporate-owned life insurance contracts and are included in other assets in the condensed consolidated balance sheets. Participants have no rights or claims with respect to any plan assets and any such assets are subject to the claims of the Company's general creditors.

Contributions to the plans are made by both the employee and the Company. Company contributions to the 401(k) plan are based on the level of employee contributions and are immediately vested. The Company's matching contributions to the 401(k) plan for the three months ended March 31, 2018 and 2017, were \$0.8 million and \$0.7 million, respectively. Future matching or profit sharing contributions to the plans are at the Company's sole discretion.

14. Segment Data

The Company is comprised of two reportable segments: the manufacture and sale of CEWs, batteries, accessories, extended warranties and other products and services (the "TASER Weapons" segment); and the software and sensors business, which includes the sale of devices, wearables, applications, cloud and mobile products (collectively, the "Software and Sensors" segment). Within the Software and Sensors segment, the Company specifies sales of products and services. Revenue from the Company's "products" in the Software and Sensors segment are generally sales of sensors, including on-officer body cameras, Axon Fleet cameras, other hardware sensors, warranties on sensors, and other products, and is sometimes referred to as Sensors and Other revenue. Revenue from the Company's "services" in the Software and Sensors segment comprise sales related to the Axon Cloud, which includes Evidence.com, cloud-based evidence management software revenue, other recurring cloud-hosted software revenue and related professional services, and is sometimes referred to as Axon Cloud revenue. Within the Software and Sensors segment, the Company includes only revenues and costs attributable to that segment which include: costs of sales for both products and services, direct labor, selling expenses for the sales team, product management and R&D for products included, or to be included, within the Software and Sensors segment. All other costs are included in the TASER Weapons segment. The Company's Chief Executive Officer, who is the CODM, is not provided asset information by segment, and therefore, no asset information is provided.

Information relative to the Company's reportable segments was as follows (in thousands):

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017 ⁽¹⁾		
	TASER Weapons	Software and Sensors	Total	TASER Weapons	Software and Sensors	Total
Net sales from products ⁽²⁾	\$ 63,524	\$ 17,450	\$ 80,974	\$ 57,671	\$ 9,820	\$ 67,491
Net sales from services ⁽³⁾	—	20,241	20,241	—	11,751	11,751
Net sales	63,524	37,691	101,215	57,671	21,571	79,242
Cost of product sales	20,543	11,891	32,434	18,026	9,046	27,072
Cost of service sales	—	4,320	4,320	—	3,500	3,500
Cost of sales	20,543	16,211	36,754	18,026	12,546	30,572
Gross margin	42,981	21,480	64,461	39,645	9,025	48,670
Sales, general and administrative	21,265	14,494	35,759	17,216	13,641	30,857
Research and development	2,960	12,159	15,119	2,212	10,251	12,463
Income (loss) from operations	\$ 18,756	\$ (5,173)	\$ 13,583	\$ 20,217	\$ (14,867)	\$ 5,350

⁽¹⁾ Amounts for the three months ended March 31, 2017 have not been adjusted under the modified retrospective method of adoption of Topic 606, and are presented consistent with the prior period amounts reported under ASC 605.

⁽²⁾ Software and Sensors "products" revenue consists of sales of sensors, including on-officer body cameras, Axon Fleet cameras, other hardware sensors, warranties on sensors, and other products, and is sometimes referred to as Sensors and Other revenue.

AXON ENTERPRISE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

⁽³⁾Software and Sensors “services” revenue comprises sales related to the Axon Cloud, which includes Evidence.com, cloud-based evidence management software revenue, other recurring cloud-hosted software revenue and related professional services and is sometimes referred to as Axon Cloud revenue.

15. Subsequent Event

On May 3, 2018 (the “Closing Date”), the Company acquired all of the outstanding ownership interests of VIEVU, LLC (“VIEVU”), a public safety camera and cloud-based evidence management system provider for law enforcement agencies.

The purchase price consisted of \$4.6 million in cash and 58,843 shares of the Company's common stock (the “Closing Stock”) issued to VIEVU’s parent company, Safariland, LLC (“Safariland”), at closing. The number of shares of Closing Stock was determined by dividing \$2.5 million in aggregate value by the volume-weighted average price of the Company’s common stock, as reported on the NASDAQ Global Select Market, for the 20-trading day period up to and including the trading day that was three trading days immediately preceding (but not including) the Closing Date (the “Closing Stock Price”). The Closing Stock Price was \$42.49 per share.

Pursuant to the terms of the transaction, the Company has agreed to issue up to \$6.0 million in aggregate value of its common stock (the “Earn-Out Stock Payments”), at a price per share equal to the Closing Stock Price, if certain conditions relating to retention of VIEVU’s customers are met as of the first and second anniversaries of the Closing Date. Subject to the satisfaction of those conditions, the Company may issue up to 141,226 additional shares of common stock in respect of the Earn-Out Stock Payments.

Concurrently with the closing of the VIEVU acquisition, the Company entered into a long-term Product Development and Supplier Agreement (the “Supply Agreement”) with Safariland, pursuant to which Safariland will be the Company’s preferred provider of holsters for its CEW products. The Company will include the fair value of the Supply Agreement as a component of the purchase price to be allocated to the acquired net assets of VIEVU. The acquisition will be accounted for in the second quarter of fiscal year 2018 using the acquisition method in accordance with ASC 805, Business Combinations. Accordingly, the identified assets and liabilities assumed will be measured at their acquisition-date fair value. VIEVU’s operating results will be included in the Company’s consolidated financial statements from the effective date of the acquisition (i.e., May 3, 2018).

The Closing Stock and the shares of common stock that may be issued in respect of the Earn-Out Stock Payments (if any), was and will be, as applicable, issued without registration under the Securities Act of 1933, as amended (the “Securities Act”), in reliance upon the exemption from registration set forth in Section 4(a)(2) of the Securities Act and Rule 506 of Regulation D promulgated by the SEC thereunder. Safariland represented and warranted to the Company that it is an “accredited investor” as that term is defined in Rule 501 of Regulation D, and the Company did not engage in any general solicitation in connection with the issuances of Company common stock contemplated by the terms of the transaction. All such shares of Company common stock are and will be, as applicable, “restricted securities” as that term is defined in Rule 144 promulgated by the SEC under the Securities Act.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of the Company’s financial condition as of March 31, 2018, and results of operations for the three months ended March 31, 2018 and 2017. The following discussion may be understood more fully by reference to the consolidated financial statements, notes to the consolidated financial statements, and Management’s Discussion and Analysis of Financial Condition and Results of Operations section contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Certain statements contained in this report that are not historical are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including statements regarding our expectations, beliefs, intentions and strategies regarding the future. We intend that such forward-looking statements be subject to the safe-harbor provided by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things: our intentions about future development efforts and activities, including our intentions to invest in R&D as well as the development of new product and service lines and enhanced features for our existing product and service lines; our need that customers upgrade and replace existing conducted electrical weapons (“CEW”) units and the willingness of customers to do so; that we may have more sales denominated in foreign currencies in 2018; our intention to increase our investment in the development of sales in the international, military and law enforcement market; our plans to expand our sales force; that cloud and mobile technologies are fundamentally changing

the police environment; our plan to invest in web activities and law enforcement trade shows in 2018; our intention to not pay dividends; that increases in marketing and sales activities will lead to an increase in sales; our belief that the video evidence capture and management market will grow significantly in the near future and the reasons for that belief; our intention to continue to pursue the personal security market; our intention to grow direct sales; the sufficiency of our facilities and our strategy to expand manufacturing capacity if needed; that we may lease facilities from parties that specialize in handling and manufacturing of firearm materials; that we expect to continue to depend on sales of our X2 and X26P CEW devices; our intention to apply for and prosecute our patents; that selling, general and administrative expense will increase in 2018; that research and development expenses will increase in 2018; the timing of the resolution of uncertain tax positions; our intention to hold investments to maturity; the effect of interest rate changes on our annual interest income; that we may engage in currency hedging activities; our intentions concerning, and the effectiveness of, our ongoing marketing efforts through web activities, trial programs, tech summits and law enforcement trade shows; the benefits of our CEW products compared to other lethal and less-lethal alternatives; the benefits of our Software and Sensors products compared to our competitors; our belief that customers will honor multi-year contracts despite the existence of appropriations, termination for convenience, or similar clauses; our belief that customers will renew their Evidence.com service subscriptions at the end of the contractual term; our insulation from competition and our competitive advantage in the weapons business; estimates regarding the size of our target markets and our competitive position in existing markets; the availability of alternative materials and components suppliers; the benefits of the continued automation of our production process; the sufficiency and availability of our liquid assets and capital resources; our financing and growth strategies, including: our decision not to pay dividends, potential joint ventures, mergers and acquisitions, stock repurchases and hedging activities; the safety of our products; our litigation strategy, including the outcome of legal proceedings in which we are currently involved; our ability to maintain secure and consistent customer data access and storage, including the use of third-party data storage providers, and the impact of a loss of customer data, a breach of security or an extended outage; our ability to attract and retain the qualified professional services necessary to implement and maintain our business, both through employment and through other partnership arrangements; the effect of current and future tax strategies; the fluctuations in our effective tax rate; the impact of the U.S. Tax Cuts and Jobs Act (the "Tax Act"); the impact of recently adopted and future accounting standards; the impact of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASU 2014-09") and ASC Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers ("ASC 340-40") (collectively, "Topic 606"); and the ultimate resolution of financial statement items requiring critical accounting estimates, including those set forth in our Form 10-K for the year ended December 31, 2017.

Overview

Axon Enterprise, Inc.'s (the "Company" or "Axon" or "we" or "our") core mission is to protect life, to protect truth and to reduce social conflict through developing and selling technologies that make communities safer. We are highly focused on disrupting existing categories and bringing public safety technology into the 21st century. We are the market leader in the development, manufacture and sale of conducted electrical weapons ("CEWs") and other electronic weapons designed for use in law enforcement, military, corrections, private security and personal defense. We have also developed a fully integrated hardware and cloud-based software solution to provide our law enforcement customers the capabilities to capture, securely store, manage, share and analyze video and other digital evidence.

Our strategic growth areas are TASER weapons, Sensors hardware including on-officer body cameras and Axon Fleet in-car video systems, our Evidence.com connected software network, and Axon Records and Computer Aided Dispatch software. These value streams exist within an estimated \$7.7 billion total addressable market, comprising TASER weapons (\$1.5 billion), hardware sensors (\$0.7 billion), and cloud-based public safety software (\$5.5 billion.)

The \$1.5 billion TASER Weapons total addressable market estimates 660,000 domestic patrol officers and 1,800,000 immediately addressable international patrol officers at an average revenue of \$600 per year (\$50 per user per month) including the weapon, cartridges, batteries, and enhanced services currently under development.

The \$5.5 billion cloud-based public safety software total addressable market estimates 1,000,000 domestic patrol officers with annual digital evidence management revenue of \$750 per year (\$63 per user per month, which reflects Axon current list pricing), 1,000,000 domestic police officers with annual advanced intelligence and analytics revenue of \$350 per year (\$29 per user per month based on estimated market pricing), 400,000 domestic patrol vehicle license evidence management annual revenue of \$925 (\$77 per user per month, which reflects 60% allocation to software of Axon's \$129 per month listed pricing), 2,100,000 public safety employees with annual records management & computer dispatch revenue of \$1,500 per year (\$125 per user per month based on estimated market pricing and analysis of current existing RMS and CAD contracts), and 1,000,000 immediately addressable international officers with annual revenue of \$750 per year (\$63 per user per month based on Axon's current listed software pricing).

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The hardware sensors \$0.7 billion total addressable market estimates 660,000 domestic patrol officers and 1,000,000 immediately addressable international officers with annual camera and dock revenue of \$200 per year (\$16-\$19 per user per month based on Axon's listed pricing), 400,000 domestic patrol vehicles with annual hardware revenue of \$600 per year (\$50 per user per month based on 40% of allocation to hardware of Axon's \$129 per month listed pricing), and 660,000 domestic patrol officers with annual revenue of \$120 per year (\$10 per user per month based on Axon's listed pricing) for the Signal Sidearm product.

Our long-term financial strategy includes shifting our revenue, contracts, and cash flows from book-and-ship hardware transactions to multi-element, multi-year, subscription or recurring payment plans. During the three months ended March 31, 2018, 55% of our consolidated revenues were recognized from contracts with multiple performance obligations, while within our TASER Weapons and Software and Sensors segments, approximately 32% and 94%, respectively, were recognized from contracts containing multiple performance obligations. Recurring revenue refers to those contracts with multiple performance obligations, which we break out in more detail in the Critical Accounting Estimates.

As of March 31, 2018, we have booked 226,900 cloud-based software licenses on the Axon Cloud network and we have annual recurring run-rate Axon Cloud and Sensors and Other revenue of \$83.3 million. Annual recurring run-rate revenue is calculated by annualizing our most previous reported month's recurring license, integration, warranty and storage revenue. Our long-term goal is to transition a majority of our customers to recurring payment plan or subscription contracts.

We are also highly focused on driving operating leverage and profitability within our two reported segments, TASER Weapons and Software & Sensors.

Results of Operations

Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017

The following table presents data from our statements of operations as well as the percentage relationship to total net sales of items included in our statements of operations (dollars in thousands):

	Three Months Ended March 31,			
	2018		2017 ⁽¹⁾	
Net sales from products	\$ 80,974	80.0%	\$ 67,491	85.2%
Net sales from services	20,241	20.0	11,751	14.8
Net sales	101,215	100.0	79,242	100.0
Cost of product sales	32,434	32.0	27,072	34.2
Cost of service sales	4,320	4.3	3,500	4.4
Cost of sales	36,754	36.3	30,572	38.6
Gross margin	64,461	63.7	48,670	61.4
Operating expenses:				
Sales, general and administrative	35,759	35.3	30,857	38.9
Research and development	15,119	14.9	12,463	15.7
Total operating expenses	50,878	50.3	43,320	54.7
Income from operations	13,583	13.4	5,350	6.8
Interest and other income, net	1,263	1.2	206	0.3
Income before provision for income taxes	14,846	14.7	5,556	7.0
Provision for income taxes	1,920	1.9	976	1.2
Net income	\$ 12,926	12.8%	\$ 4,580	5.8%

⁽¹⁾ Amounts for the three months ended March 31, 2017 have not been adjusted under the modified retrospective method of adoption of Topic 606, and are presented consistent with the prior period amounts reported under ASC 605.

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The following table presents the Company's revenues disaggregated by geography (in thousands):

	Three Months Ended March 31,			
	2018		2017 ⁽¹⁾	
United States	\$ 77,950	77%	\$ 64,752	82%
Other countries	23,265	23	14,490	18
Total	\$ 101,215	100%	\$ 79,242	100%

⁽¹⁾ Amounts for the three months ended March 31, 2017 have not been adjusted under the modified retrospective method of adoption of Topic 606, and are presented consistent with the prior period amounts reported under ASC 605.

Net Sales

Net sales by product line were as follows (dollars in thousands):

	Three Months Ended March 31,				Dollar Change	Percent Change
	2018		2017 ⁽¹⁾			
TASER Weapons segment:						
TASER X26P	\$ 16,474	16.3%	\$ 15,668	19.8%	\$ 806	5.1 %
TASER X2	23,932	23.6	18,986	24.0	4,946	26.1
TASER Pulse and Bolt	1,346	1.3	1,022	1.3	324	31.7
Single cartridges	16,114	15.9	16,664	21.0	(550)	(3.3)
Extended warranties	3,706	3.7	2,843	3.6	863	30.4
Other	1,952	1.9	2,488	3.1	(536)	(21.5)
Total TASER Weapons segment	63,524	62.8	57,671	72.8	5,853	10.1
Software and Sensors segment:						
Axon Body	5,558	5.5	3,446	4.3	2,112	61.3
Axon Flex	1,669	1.6	1,475	1.9	194	13.2
Axon Fleet	2,116	2.1	—	—	2,116	*
Axon Dock	3,035	3.0	1,987	2.5	1,048	52.7
Evidence.com	20,241	20.0	11,742	14.8	8,499	72.4
TASER Cam	1,360	1.3	719	0.9	641	89.2
Extended warranties	2,490	2.5	1,418	1.8	1,072	75.6
Other	1,222	1.2	784	1.0	438	55.9
Total Software and Sensors segment	37,691	37.2	21,571	27.2	16,120	74.7
Total net sales	\$ 101,215	100.0%	\$ 79,242	100.0%	\$ 21,973	27.7

* Not meaningful

⁽¹⁾ Amounts for the three months ended March 31, 2017 have not been adjusted under the modified retrospective method of adoption of Topic 606, and are presented consistent with the prior period amounts reported under ASC 605.

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Net unit sales for TASER Weapons handles and other products and Software and Sensors segment products were as follows:

	Three Months Ended March 31,		Unit Change	Percent Change
	2018	2017		
TASER X26P	15,720	15,361	359	2.3 %
TASER X2	20,501	17,137	3,364	19.6
TASER Pulse and Bolt	4,000	3,572	428	12.0
Cartridges	532,952	595,986	(63,034)	(10.6)
Axon Body	21,769	20,313	1,456	7.2
Axon Flex	3,693	3,101	592	19.1
Axon Fleet	1,857	—	1,857	*
Axon Dock	5,844	4,875	969	19.9
TASER Cam	3,528	1,339	2,189	163.5

* Not meaningful

Net sales were \$101.2 million and \$79.2 million for the three months ended March 31, 2018 and 2017, respectively, an increase of \$22.0 million or 27.7%. International revenues were \$23.3 million and \$14.5 million for the three months ended March 31, 2018 and 2017, respectively, an increase of \$8.8 million or 60.6%.

Net sales for the TASER Weapons segment were \$63.5 million and \$57.7 million for the three months ended March 31, 2018 and 2017, respectively, an increase of \$5.9 million or 10.1%. The Company increased sales of its TASER X26P and X2 Smart Weapons by \$5.8 million to \$40.4 million during the quarter ended March 31, 2018 as compared to \$34.7 million during the same period in 2017, which was primarily attributable to increased sales under the Officer Safety Plan and TASER 60 payment programs.

Net sales for the Software and Sensors segment were \$37.7 million and \$21.6 million for the three months ended March 31, 2018 and 2017, respectively, an increase of \$16.1 million, or 74.7%. The overall increase in the Software and Sensors segment was driven by continued adoption of on-officer cameras and related technologies, including the Company's Evidence.com digital evidence management software suite. Revenue related to the Company's Axon Body, Axon Flex, and Axon Dock increased \$3.4 million in the first quarter of 2018 compared to the same period in 2017 due to the continued adoption by new agencies of the Company's technologies. The Company recorded net sales of \$2.1 million related to Axon Fleet in the first quarter of 2018, with no amounts recorded during the same period in 2017. Evidence.com revenues for the three months ended March 31, 2018 increased \$8.5 million to \$20.2 million as compared to the same period in 2017. This increase was primarily driven by the continued increase in active users on the Company's Evidence.com platform.

To gain more immediate feedback regarding activity for Axon camera products and Evidence.com services, we also review bookings for these products. We consider bookings to be a statistical measure defined as the sales price of orders (not invoiced sales), including contractual optional periods we expect to be exercised, net of cancellations, placed in the relevant fiscal period, regardless of when the products or services ultimately will be provided. Most bookings will be invoiced in subsequent periods. Due to municipal government funding rules, in some cases certain of the future period amounts included in bookings are subject to budget appropriation or other contract cancellation clauses. Although the Company has entered into contracts for the delivery of products and services in the future and anticipates the contracts will be fulfilled, if agencies do not exercise contractual options, do not appropriate funds in future year budgets, or do enact a cancellation clause, revenue associated with these bookings may not ultimately be recognized, resulting in a future reduction to bookings. Bookings related to the Company's Software and Sensors segment, net of cancellations, were \$97.5 million and \$60.1 million during the three months ended March 31, 2018 and 2017, respectively, an increase of \$37.4 million, or 62.3%.

The chart below illustrates the Company's Software and Sensors segment quarterly bookings for each of the previous six fiscal quarters (in thousands):



Cost of Product and Service Sales

Cost of product and service sales was \$36.8 million and \$30.6 million for the three months ended March 31, 2018 and 2017, respectively, an increase of \$6.2 million, or 20.2%. As a percentage of net sales, cost of product and service sales decreased to 36.3% for the three months ended March 31, 2018 compared to 38.6% during the same period in 2017. The Company noted no significant changes in variable manufacturing costs during the three months ended March 31, 2018 as compared to the same period in 2017.

Within the TASER Weapons segment, cost of product sales increased to \$20.5 million for the three months ended March 31, 2018 from \$18.0 million for the same period in 2017 as a result of higher sales volumes, and increased as a percentage of sales to 32.3% from 31.3%, respectively.

Within the Software and Sensors segment, cost of product and service sales increased to \$16.2 million for the three months ended March 31, 2018 from \$12.5 million for the same period in 2017 as a result of higher sales volumes, and decreased as a percentage of sales to 43.0% for the three months ended March 31, 2018 from 58.2% for the same period in 2017.

Gross Margin

Gross margin increased \$15.8 million to \$64.5 million for the three months ended March 31, 2018 compared to \$48.7 million for the same period in 2017. As a percentage of net sales, gross margin was 63.7% for the three months ended March 31, 2018 compared to 61.4% for the same period in 2017, which was primarily attributable to increased leveraging of fixed costs related to cloud storage.

As a percentage of net sales, gross margin for the TASER Weapons segment decreased slightly to 67.7% from 68.7% for the three months ended March 31, 2018 and 2017, respectively. As a percentage of net sales, gross margin for the Software and Sensors segment was 57.0% and 41.8% for the three months ended March 31, 2018 and 2017, respectively. Within the Software and Sensors segment, hardware gross margin was 31.9% for the three months ended March 31, 2018 and 7.9% for the same period in 2017, while the service margins were 78.7% and 70.2% during those same periods, respectively. The increase in hardware gross margins during the three months ended March 31, 2018 was primarily attributable to accounting adjustments required under the new revenue accounting standard. Previously, the level of discounting in the Company's contracts resulted in a portion of the contractual consideration allocated to the delivered hardware to be recognized as revenue ratably over the Evidence.com subscription term, while the full cost of the product was recognized when the hardware was delivered to the customer resulting in lower gross margins initially. Under the new revenue accounting standard, generally the full amount of revenue related to the delivered hardware is recognized in the period in which it is delivered resulting in better matching of the revenues and related costs. The increase service margins during the three months ended March 31, 2018 as compared to the same period in 2017 was attributable to the reduction of non-recurring expenses related to the Company's data migration to its new cloud-storage provider that was completed in 2018, as well as increased leveraging of fixed costs related to cloud-storage.

Sales, General and Administrative Expenses

Sales, general and administrative (“SG&A”) expenses were comprised as follows (dollars in thousands):

	Three Months Ended March 31,		Dollar Change	Percent Change
	2018	2017 ⁽¹⁾		
Total sales, general and administrative expenses	\$ 35,759	\$ 30,857	\$ 4,902	15.9
Sales, general, and administrative as a percentage of net sales	35.3%	38.9%		

⁽¹⁾ Amounts related to commissions expense for the three months ended March 31, 2017 have not been adjusted under the modified retrospective method of adoption of Topic 606, and are presented consistent with the prior period amounts reported under ASC 605.

Within the TASER Weapons segment, SG&A increased \$4.0 million, or 23.5%, to \$21.3 million during the three months ended March 31, 2018 as compared to \$17.2 million for the three months ended March 31, 2017. Of the increase, \$2.1 million related to higher salaries, benefits and bonus related primarily to sales and marketing, professional staff and general support staff, as well as increased professional and consulting costs of \$1.5 million primarily related to its implementation efforts related to the adoption of Topic 606.

Within the Software and Sensors segment, SG&A increased \$0.9 million, or 6.3%, to \$14.5 million during the three months ended March 31, 2018 as compared to \$13.6 million for the same period in 2017. The increase was primarily attributable to increased costs related to sales and marketing.

Research and Development Expenses

R&D expenses were comprised as follows (dollars in thousands):

	Three Months Ended March 31,		Dollar Change	Percent Change
	2018	2017		
Total research and development expenses	\$ 15,119	\$ 12,463	\$ 2,656	21.3
Research and development as a percentage of net sales	14.9%	15.7%		

The Company's Software and Sensors segment was responsible for 72% of the overall increase in R&D expense. Within the TASER Weapons segment, R&D expense increased \$0.7 million, which was almost entirely comprised of increased salaries, benefits and bonus as the Company continues to invest in personnel allocated to the development of new CEW related technologies. Of the \$1.9 million increase in R&D expense for the Software and Sensors segment, \$3.0 million related to salaries and benefits, inclusive of stock-based compensation, which was partially offset by \$1.0 million of lower expenses related to external professional and consulting fees. The Company expects R&D expense to continue to increase in absolute dollars as it invests in the deployment of new CEW technologies and focuses on growing the Software and Sensors segment as it adds headcount and additional resources to develop new products and services to further advance its scalable cloud-connected device platform. The Company believes that these investments will result in an increase in our subscription revenue base, which over time will result in revenue increasing faster than the increase in selling, general and administrative expenses and research and development costs, as we reach economies of scale. With this increased operating leverage, the Company expects its operating margins to increase in the long term.

Interest and Other Income

Interest and other income was \$1.3 million for the three months ended March 31, 2018 compared to \$0.2 million for the same period in 2017. During the three months ended March 31, 2018, interest and other income amounts consisted primarily of foreign currency transaction gains of \$0.9 million as well as interest income related to the Company's sales under hardware installment sale plans and short-term investments totaling \$0.4 million. During the three months ended March 31, 2017, investment and interest income of \$0.4 million was offset by \$0.1 million of losses on foreign currency transaction adjustments.

Provision for Income Taxes

The provision for income taxes was \$1.9 million for the three months ended March 31, 2018, which was an effective tax rate of 12.9%. Our estimated full year effective income tax rate for 2018, before discrete period adjustments, was 23.1%, which is more than the federal statutory rate primarily due to state taxes and non-deductible expenses for items such as meals and entertainment, executive compensation limitation under IRC Section 162(m), lobbying fees, an income inclusion from GILTI, offset by a reduction for foreign-derived intangible income ("FDII"). This was partially offset by R&D tax credit deductions. The effective tax rate was favorably impacted by a \$1.6 million discrete tax benefit primarily associated with windfalls related to stock-based compensation for RSUs that vested or stock options that were exercised during the three months ended March 31, 2018.

Net Income

Our income increased by \$8.3 million to \$12.9 million for the three months ended March 31, 2018 compared to \$4.6 million for the same period in 2017. Net income per basic and diluted share was \$0.24 for the three months ended March 31, 2018 compared to \$0.09 per basic and diluted share for the same period in 2017.

Three Months Ended March 31, 2018 Compared to the Three Months Ended December 31, 2017

Net Sales

Net sales by product line were as follows (dollars in thousands):

	Three Months Ended March 31, 2018		Three Months Ended December 31, 2017 ⁽¹⁾		Dollar Change	Percent Change
TASER Weapons segment:						
TASER X26P	\$ 16,474	16.3%	\$ 19,259	20.3%	\$ (2,785)	(14.5)%
TASER X2	23,932	23.6	23,662	25.0	270	1.1
TASER Pulse and Bolt	1,346	1.3	1,448	1.5	(102)	(7.0)
Single cartridges	16,114	15.9	14,198	15.0	1,916	13.5
Extended warranties	3,706	3.7	3,506	3.7	200	5.7
Other	1,952	1.9	2,336	2.5	(384)	(16.4)
Total TASER Weapons segment	63,524	62.8	64,409	68.0	(885)	(1.4)
Software and Sensors segment:						
Axon Body	5,558	5.5	3,459	3.7	2,099	60.7
Axon Flex	1,669	1.6	2,194	2.3	(525)	(23.9)
Axon Fleet	2,116	2.1	1,661	1.8	455	27.4
Axon Dock	3,035	3.0	2,327	2.5	708	30.4
Evidence.com	20,241	20.0	17,143	18.1	3,098	18.1
TASER Cam	1,360	1.3	951	1.0	409	43.0
Extended warranties	2,490	2.5	2,128	2.2	362	17.0
Other	1,222	1.2	379	0.4	843	222.4
Total Software and Sensors segment	37,691	37.2	30,242	32.0	7,449	24.6
Total net sales	\$ 101,215	100.0%	\$ 94,651	100.0%	\$ 6,564	6.9%

⁽¹⁾ Amounts for the three months ended December 31, 2017 have not been adjusted under the modified retrospective method of adoption of Topic 606, and are presented consistent with the prior period amounts reported under ASC 605.

Net sales within the TASER Weapons segment decreased during the three months ended March 31, 2018 at \$63.5 million as compared to \$64.4 million for the three months ended December 31, 2017.

Within the Software and Sensors segment, net sales were \$37.7 million for the three months ended March 31, 2018 as compared to \$30.2 million for the three months ended December 31, 2017. The increase was primarily due to increased Evidence.com revenues driven by the continued increase in total users, as well as increases in sales of the Company's camera and related hardware products.

Net unit sales for TASER Weapons handles and other products and Software and Sensors segment products were as follows:

	Three Months Ended March 31, 2018	Three Months Ended December 31, 2017	Unit Change	Percent Change
TASER X26P	15,720	23,350	(7,630)	(32.7)%
TASER X2	20,501	21,683	(1,182)	(5.5)
TASER Pulse and Bolt	4,000	3,641	359	9.9
Cartridges	532,952	590,126	(57,174)	(9.7)
Axon Body	21,769	13,944	7,825	56.1
Axon Flex	3,693	5,253	(1,560)	(29.7)
Axon Fleet	1,857	2,197	(340)	(15.5)
Axon Dock	5,844	3,908	1,936	49.5
TASER Cam	3,528	2,245	1,283	57.1

Liquidity and Capital Resources

Summary

As of March 31, 2018, we had \$94.8 million of cash, cash equivalents and restricted cash, an increase of \$16.4 million as compared to December 31, 2017.

Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities (in thousands):

	Three Months Ended March 31,	
	2018	2017
Net cash provided by (used in) operating activities	\$ 18,053	\$ (6,609)
Net cash provided by investing activities	1,268	9,884
Net cash used in financing activities	(3,430)	(1,877)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	469	(76)
Net increase in cash, cash equivalents and restricted cash	\$ 16,360	\$ 1,322

Operating activities

Net cash provided by operating activities in the first three months of 2018 of \$18.1 million reflects \$12.9 million in net income impacted by the net increase of non-cash income statement items totaling \$8.2 million and decrease of \$3.1 million for the net change in operating assets and liabilities. Included in the non-cash items were \$2.4 million in depreciation and amortization expense and \$4.1 million in stock-based compensation expense, and deferred income tax expense of \$1.5 million. Increases to operating cash flows consisted of increased accounts payable, accrued and other liabilities of \$6.7 million, which reduced the amount of cash used during the period, along with increased deferred revenue of \$6.6 million and decreased inventory of \$2.4 million. The increase in deferred revenue was primarily driven by increased software and sensors services invoiced in advance. Cash used in operations was also impacted by various other operating items, with the most significant component related to increased accounts and notes receivable and contract assets of \$17.1 million primarily related to increased customer balances under the Company's Officer Safety Plan and TASER 60 purchase programs. Cash used in operations was also impacted by increased prepaid expenses and other assets of \$1.7 million which was primarily related to increased deferred commissions balances of \$9.3 million partially offset by lower deferred cost of products sold of \$1.5 million. Both of these changes were driven by accounting changes related to the adoption of Topic 606.

Net cash used in operating activities in the first three months of 2017 of \$6.6 million consisted of \$4.6 million in net income impacted by the net increase of non-cash income statement items totaling \$4.2 million and decrease of \$15.4 million for the net change in operating assets and liabilities. Included in the non-cash items were \$1.6 million in depreciation and amortization expense, \$3.4 million in stock-based compensation expense and \$0.2 million of bond premium amortization. These non-cash impacts were partially offset by deferred income tax expense of \$1.2 million. Increases to operating cash flows consisted of increased accounts payable, accrued and other liabilities of \$6.6 million, which reduced the amount of cash used during the period,

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along with increased deferred revenue of \$6.3 million. The increase in deferred revenue was primarily driven by continued sales growth of products and services within the Company's Software and Sensors segment that are typically invoiced in advance, and recognized over the duration of the contract period as hardware and services are delivered. Of the increase in deferred revenue, \$2.7 million resulted from increased hardware deferred revenue along with increased deferred warranty revenue of \$2.0 million, and increased services, including Evidence.com subscriptions, of \$1.6 million. Cash used in operations were also impacted by various other operating items, with the most significant component related to increased inventory of \$13.7 million in anticipation of the Company's national field trial offer for body cameras as well as increased sales throughout the remainder of 2017. The Company also had increased prepaid expenses and other assets of \$2.8 million which was primarily driven by a \$1.5 million increase in value added tax receivables attributable to higher TASER weapons sales in the U.K. and \$0.7 million of increased prepaid commissions which are paid for when a contract is booked, and subsequently amortized over the contractual period. Cash from operations also decreased due to increases in accounts and notes receivable of \$11.9 million primarily driven by increased long-term accounts receivable of \$7.1 million related to the Company's Officer Safety Plan and TASER 60 purchase programs.

Investing activities

We generated \$1.3 million from investing activities during the first three months of 2018. Maturities and calls of investments, net of purchases, were \$2.4 million, which was partially offset by the Company's investment of \$1.1 million in the purchase of property and equipment and intangible assets.

We generated \$9.9 million from investing activities during the first three months of 2017. Maturities and calls of investments of \$18.8 million was partially offset by the Company's investment of \$2.4 million in the purchase of property and equipment and intangible assets. The Company also used \$6.5 million in connection with the acquisition of Dextro, Inc.

Financing activities

Net cash used in financing activities was \$3.4 million during the first three months of 2018. During the first three months of 2018, the Company paid payroll taxes of \$3.8 million on behalf of employees who net-settled stock awards during the period, which was partially offset by proceeds from options exercised of \$0.4 million.

Net cash used in financing activities was \$1.9 million during the first three months of 2017. During the first three months of 2017, the Company paid payroll taxes of \$2.2 million on behalf of employees who net-settled stock awards during the period, which was partially offset by proceeds from options exercised of \$0.3 million.

Liquidity and Capital Resources

Our most significant source of liquidity continues to be funds generated by operating activities and available cash and cash equivalents. In addition, our \$10.0 million revolving credit facility is available for additional working capital needs or investment opportunities. Under the terms of the line of credit, available borrowings are reduced by outstanding letters of credit. The line is secured by substantially all of the assets of the Company, and bears interest at varying rates, currently LIBOR plus 1.25% or Prime less 0.50%. As of March 31, 2018, we had letters of credit outstanding of \$2.7 million, leaving the net amount available for borrowing of \$7.3 million. The facility matures on December 31, 2018. There can be no assurance that we will continue to generate cash flows at or above current levels or that we will be able to maintain our ability to borrow under our revolving credit facility. At March 31, 2018 and December 31, 2017, there were no borrowings under the line.

Our agreement with the bank requires us to comply with a maximum funded debt to EBITDA ratio, as defined, of no greater than 2.00 to 1.00 based upon a trailing twelve-month period. At March 31, 2018, the Company's funded debt to EBITDA ratio was 0.002 to 1.00.

TASER 60 installment purchase arrangements typically involve amounts invoiced in five equal installments at the beginning of each year of the five-year term. This is in contrast to a traditional CEW sale in which the entire amount being charged for the hardware is invoiced upon shipment. This impacts liquidity in a commensurate fashion, with the cash for the TASER 60 arrangements received in five annual installments rather than up front. It is our strategic intent to shift an increasing amount of our business to a subscription model, to better match the municipal budgeting process of our customers as well as to allow for multiple product offerings to be bundled into existing subscriptions. We carefully considered the cash flow impacts of this strategic shift and regularly revisit our cash flow forecast with the goal of maintaining a comfortable level of liquidity as we introduce new commercial offerings in which we incur upfront cash costs to produce and fulfill hardware sales ahead of the cash inflows from our customers. We anticipate, and have prepared for, the majority of our arrangements in both reportable segments to be offered in similar subscription-type offerings over the coming years.

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We believe financing will be available, both through our existing credit line and possible additional financing. However, there is no assurance that such funding will be available on terms acceptable to us, or at all. We believe that our sources of funding will be sufficient to satisfy our currently anticipated cash requirements including capital expenditures, working capital requirements, potential acquisitions and other liquidity requirements through at least the next 12 months. The Company and its Board of Directors may consider repurchases of our common stock. Further repurchases of our common stock would take place on the open market, would be financed with available cash and are subject to authorization as well as market and business conditions.

Off-Balance Sheet Arrangements

The discussion of off-balance sheet arrangements in Note 11 to the unaudited condensed consolidated financial statements included in PART I, ITEM I of this Form 10-Q is incorporated by reference herein.

Critical Accounting Estimates

We have identified the following accounting estimates as critical to our business operations and the understanding of our results of operations. The preparation of this Quarterly Report on Form 10-Q requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of our unaudited condensed consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. While we do not believe that a change in these estimates is reasonably likely, there can be no assurance that our actual results will not differ from these estimates. The effect of these estimates on our financial condition and results of operations are discussed below.

Product Warranties

The Company warrants its CEWs, Axon cameras and certain related accessories from manufacturing defects on a limited basis for a period of one year after purchase and, thereafter, will replace any defective unit for a fee. Estimated costs for the standard warranty are charged to cost of products sold when revenue is recorded for the related product. Future warranty costs are estimated based on historical data related to warranty claims on a quarterly basis and this rate is applied to current product sales. Historically, reserve amounts have been increased if management becomes aware of a component failure or other issue that could result in larger than anticipated warranty claims from customers. The warranty reserve is reviewed quarterly to verify that it sufficiently reflects the remaining warranty obligations based on the anticipated expenditures over the balance of the warranty obligation period, and adjustments are made when actual warranty claim experience differs from estimates. As of both March 31, 2018 and December 31, 2017, our reserve for warranty returns was \$0.6 million. Warranty expense for the three months ended March 31, 2018 was negligible, and there was a recovery of \$0.4 million during the three months ended March 31, 2017. The change in warranty reserve was primarily driven by the release of initial reserves related to the Axon Flex 2 on-officer body camera. The Company experienced lower warranty claims than initially expected and, as such, adjusted the warranty reserve to better reflect actual warranty claims. As of March 31, 2018, the Company's reserve also included initial reserves related to the new Fleet in-car camera system and Signal Sidearm.

Revenue related to separately-priced extended warranties is initially recorded as deferred revenue at its contractual amount and subsequently recognized as net sales ratably over the warranty service period. Costs related to extended warranties are charged to cost of product and service sales when incurred.

Inventory

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost of raw materials, which approximates the first-in, first-out ("FIFO") method and includes allocations of manufacturing labor and overhead. Provisions are made to reduce potentially excess, obsolete or slow-moving inventories, as well as trial and evaluation inventories to their net realizable value. These provisions are based on management's best estimate after considering historical demand, projected future demand, inventory purchase commitments, industry and market trends and conditions among other factors. Management evaluates inventory costs for abnormal costs due to excess production capacity and treats such costs as period costs.

During each of the three months ended March 31, 2018 and 2017, the Company recorded provisions for excess and obsolete inventory of \$0.7 million. During the three months ended March 31, 2018, the Company continued phasing out certain previous generations of its body-worn cameras, which made up a portion of the amounts recorded as provisions to excess and obsolete inventory. The remaining change for the three months ended March 31, 2018 was driven by analyses looking at projected sales data for existing products and making corresponding adjustments to state inventories at their lower of cost and net realizable value. Refer to Note 4 of our consolidated financial statements included elsewhere in this report for further information.

Revenue Recognition, Contract Assets and Liabilities and Accounts and Notes Receivable

The Company derives revenue from two primary sources: (1) the sale of physical products, including CEWs, Axon cameras, Axon Signal enabled devices, corresponding hardware extended warranties, and related accessories such as Axon docks, cartridges and batteries, among others, and (2) subscription to the Company's Evidence.com digital evidence management software as a service ("SaaS") (including secure cloud-based storage fees and other ancillary services), which includes varying levels of support. To a lesser extent, the Company also recognizes revenue from training and professional services and revenue related to other software and SaaS services. Refer to Note 2 of our consolidated financial statements included elsewhere in this report for further discussion.

Many of the Company's products and services are sold on a standalone basis. The Company also bundles its hardware products and services together and sells them to its customers in single transactions, where the customer can make payments over a multi-year period. For the three months ended March 31, 2018 and 2017, the composition of revenue recognized from contracts containing multiple performance obligations and those not containing multiple performance obligations was as follows (dollars in thousands):

	Three Months Ended March 31, 2018						Three Months Ended March 31, 2017 ⁽¹⁾					
	TASER Weapons		Software and Sensors		Total		TASER Weapons		Software and Sensors		Total	
Contracts with Multiple Performance Obligations	\$ 20,006	31.5%	\$ 35,285	93.6%	\$ 55,291	54.6%	\$ 13,938	24.2%	\$ 19,514	90.5%	\$ 33,452	42.2%
Contracts without Multiple Performance Obligations	43,518	68.5	2,406	6.4	45,924	45.4	43,733	75.8	2,057	9.5	45,790	57.8
Total	\$ 63,524	100.0%	\$ 37,691	100.0%	\$ 101,215	100.0%	\$ 57,671	100.0%	\$ 21,571	100.0%	\$ 79,242	100.0%

⁽¹⁾ Amounts for the three months ended March 31, 2017 have not been adjusted under the modified retrospective method of adoption of Topic 606, and are presented consistent with the prior period amounts reported under ASC 605.

Valuation of Goodwill, Intangibles and Long-lived Assets

The Company does not amortize goodwill and intangible assets with indefinite useful lives. Such assets are required to be tested for impairment at least annually, or sooner whenever events or changes in circumstances indicate that the assets may be impaired. The Company performs its annual impairment assessment in the fourth quarter of each year. Finite-lived intangible assets and other long-lived assets are amortized over their estimated useful lives. Management evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets and intangible assets may warrant revision or that the remaining balance of these assets, including intangible assets with indefinite lives, may not be recoverable.

Circumstances that might indicate long-lived assets might not be recoverable could include, but are not limited to, a change in the product mix, a change in the way products are created, produced or delivered, or a significant change in the way the Company's products are branded and marketed. When performing a review for recoverability, management estimates the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The amount of the impairment loss, if impairment exists, is calculated based on the excess of the carrying amounts of the assets over their estimated fair value computed using discounted cash flows.

Income Taxes

We recognize federal, state and foreign current tax liabilities or assets based on our estimate of taxes payable or refundable in the current fiscal year by tax jurisdiction. We also recognize federal, state and foreign deferred tax assets or liabilities, as appropriate, for our estimate of future tax effects attributable to temporary differences and carry forwards.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Management must also assess whether uncertain tax positions as filed could result in the recognition of a liability for possible interest and penalties if any. The Company has claimed R&D tax credits of approximately \$17.0 million for federal, Arizona and California income tax purposes related to tax years 2003 to 2018. Management determined that it was more likely than not that the full benefit of the R&D tax credit would not be sustained on examination and accordingly, has established a liability for unrecognized tax benefits of \$3.6 million as of March 31, 2018. In addition, we established a \$0.1 million liability related to uncertain tax positions for certain state income tax liabilities, for a total unrecognized tax benefit at March 31, 2018 of

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\$3.7 million. Approximately \$2.0 million of the unrecognized tax benefit associated with R&D credits has been netted against the R&D credit deferred tax asset. Our estimates are based on the information available to us at the time we prepare the income tax provision. Our income tax returns are subject to audit by federal, state, and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws.

Our calculation of current and deferred tax assets and liabilities is based on certain estimates and judgments and involves dealing with uncertainties in the application of complex tax laws. Our estimates of current and deferred tax assets and liabilities may change based, in part, on added certainty or finality to an anticipated outcome, changes in accounting or tax laws in the U.S. and overseas, or changes in other facts or circumstances. In addition, we recognize liabilities for potential U.S. tax contingencies based on our estimate of whether, and the extent to which, additional taxes may be due. If we determine that payment of these amounts is unnecessary, or if the recorded tax liability is less than our current assessment, we may be required to recognize an income tax benefit, or additional income tax expense, respectively, in our consolidated financial statements.

In preparing our consolidated financial statements, management assesses the likelihood that our deferred tax assets will be realized from future taxable income. In evaluating our ability to recover our deferred income tax assets, management considers all available positive and negative evidence, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis. A valuation allowance is established if we determine that it is more likely than not that some portion or all of the net deferred tax assets will not be realized.

Although management believes that its tax estimates are reasonable, the ultimate tax determination involves significant judgments that could become subject to audit by tax authorities in the ordinary course of business. As of March 31, 2018, the Company would need to generate approximately \$40.3 million of pre-tax book income in the U.S. in order to realize the net deferred tax assets for which a benefit has been recorded. This estimate considers the reversal of \$19.0 million of taxable temporary differences, which produce \$4.6 million of deferred tax liabilities. The Company has \$4.5 million of state net operating losses ("NOLs") which expire at various dates between 2030 and 2036. The Company also has federal NOLs of \$1.5 million which expire in 2035 through 2036, and are subject to limitation under IRC Section 382. The Company has \$7.4 million of Arizona R&D credits carrying forward, which expire at various dates between 2018 and 2032, and \$0.1 million of federal R&D credits carrying forward which expire in 2034 through 2037. In Australia, the U.K., Canada, and Germany, the Company has \$2.1 million, \$7.6 million, \$1.7 million, and \$0.2 million of NOLs, respectively, which expire at various dates or may be carried forward indefinitely.

We anticipate the Company's future income to continue to trend upward from our 2017 results, with sufficient pre-tax book income to realize a large portion of our deferred tax assets. As such, we have not recorded a valuation allowance on our U.S. deferred tax assets as of March 31, 2018, with the exception of a reserve of \$2.4 million that has been recorded due to specific income projections in years in which certain tax assets are set to expire. As of March 31, 2018, the Company has cumulative losses in Australia, the U.K. and Canada, and a history of losses Germany, which limits the ability to consider other subjective evidence, such as projections for future growth. On the basis of this evaluation, a full valuation allowance has been recorded for these jurisdictions. The amount of the deferred tax asset considered realizable, however, could be adjusted if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as projections for growth.

We consider the earnings of certain non-U.S. subsidiaries to be indefinitely reinvested outside of the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and our specific plans for reinvestment of those subsidiary earnings. The determination of the unrecognized deferred tax liability on those undistributed foreign earnings is not practicable due to our legal entity structure and the complexity of U.S. and local country tax laws. If we decide to repatriate the undistributed foreign earnings, we will need to recognize the income tax effects in the period we change our assertion on indefinite reinvestment. Refer to Note 8 of our consolidated financial statements included elsewhere in this report for additional information.

Stock-Based Compensation

We have historically granted stock-based compensation to key employees and non-employee directors as a means of attracting and retaining highly qualified personnel. The Company recognizes expense related to stock-based payment transactions in which it receives employee services in exchange for equity instruments of the Company. Stock-based compensation expense for RSUs is measured based on the closing fair market value of the Company's common stock on the date of grant. The Company recognizes stock-based compensation expense over the award's requisite service period on a straight-line basis for time-based RSUs and on a graded basis for RSUs that are contingent on the achievement of performance conditions. The Company recognizes forfeitures as they occur as a reduction to stock-based compensation expense and to additional paid-in-capital.

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We have granted a total of 2.0 million performance-based awards (options and restricted stock units) of which 0.6 million are outstanding as of March 31, 2018. The Company recognizes expense related to stock-based payment transactions in which it receives employee services in exchange for equity instruments of the Company.

Contingencies and Accrued Litigation Expense

We are subject to the possibility of various loss contingencies arising in the ordinary course of business, including product-related litigation. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required. Refer to Note 11 of our consolidated financial statements for further discussion.

As of March 31, 2018, there were no material changes outside of the ordinary course of business to the contractual obligations table, including the notes thereto, contained in our Form 10-K Report for the fiscal year ended December 31, 2017.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

We typically invest in a limited number of financial instruments, consisting principally of investments in money market accounts, certificates of deposit, and corporate and municipal bonds with a typical long-term debt rating of “A” or better by any nationally recognized statistical rating organization, denominated in U.S. dollars. All of our cash equivalents and investments are treated as “held-to-maturity.” Investments in fixed-rate interest-earning instruments carry a degree of interest rate risk as their market value may be adversely impacted due to a rise in interest rates. As a result, we may suffer losses in principal if we sell securities that have declined in market value due to changes in interest rates. However, because we classify our debt securities as “held-to-maturity” based on our intent and ability to hold these instruments to maturity, no gains or losses are recognized due to changes in interest rates. These securities are reported at amortized cost. Based on investment positions as of March 31, 2018, a hypothetical 100 basis point increase in interest rates across all maturities would result in an insignificant incremental decline in the fair market value of the portfolio. Such losses would only be realized if the Company sold the investments prior to maturity.

Additionally, we have access to a \$10.0 million line of credit borrowing facility which bears interest at varying rates, currently at LIBOR plus 1.25% or Prime less 0.50%. Under the terms of the line of credit, available borrowings are reduced by outstanding letters of credit, which totaled \$2.7 million at March 31, 2018. At March 31, 2018, there was no amount outstanding under the line of credit and the available borrowing under the line of credit was \$7.3 million. We have not borrowed any funds under the line of credit since its inception; however, should we need to do so in the future, such borrowings could be subject to adverse or favorable changes in the underlying interest rate.

Exchange Rate Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, in each case compared to the U.S. Dollar, related to transactions by our foreign subsidiaries. The majority of our sales to international customers are transacted in U.S. dollars and, therefore, are not subject to exchange rate fluctuations. However, the cost of our products to our customers increases when the U.S. dollar strengthens against their local currency, and the Company may have more sales and expenses denominated in foreign currencies in future years which could increase its foreign exchange rate risk.

To date, we have not engaged in any currency hedging activities. However, the Company may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing or future assets and liabilities, certain firmly committed transactions, forecasted future cash flows and net investments in foreign subsidiaries. The Company may choose not to hedge certain foreign exchange exposures for a variety of reasons, including but not limited to the prohibitive economic cost of hedging particular exposures. As such, fluctuations in currency exchange rates could harm our business in the future.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer are responsible for the evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Our disclosure controls and procedures are designed to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that because a material weakness exists in our internal control over financial reporting, as further described below, our disclosure controls and procedures were not effective as of March 31, 2018 at a level that provides reasonable assurance as of the last day of the period covered by this report.

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During the fourth quarter of 2017, we identified a material weakness related to account reconciliations and monitoring over our U.K. subsidiary, Axon Public Safety U.K. Ltd. ("APS U.K."), which resulted from a breakdown in the operation of identified preventative and detective controls which led to the Company not initially recording some transactions correctly during 2016 and the interim periods in 2017.

To remediate the material weakness described above and related to APS U.K., we designed a specific plan to design new controls, and enhanced the design of existing controls and procedures. Specifically:

- for the 2017 year-end close and first quarter 2018 close of our accounting records, we sent accounting personnel from our headquarters in Arizona to the U.K. to perform additional review procedures of the account reconciliations for APS U.K., and our corporate accounting team performed additional reviews of APS U.K. activity;
- we plan for our corporate accounting team to continue performing these additional review procedures on an ongoing basis; and
- we added internal reporting procedures, including those designed to add depth to our detailed review processes of inventory, sales transactions and related accounting for deferred revenue and cost of goods sold and services delivered for APS U.K.

The material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. As remediation has not yet been completed and tested, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of March 31, 2018 at a level that provides reasonable assurance as of the last day of the period covered by this report.

Change in Internal Control over Financial Reporting

We implemented internal controls to ensure we adequately evaluated our contracts with customers and properly assessed the impact of the new accounting standard related to revenue recognition on our financial statements to facilitate its adoption on January 1, 2018. Except as noted above, there were no other changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. *Legal Proceedings*

The discussion of legal proceedings in Note 11 to the unaudited condensed consolidated financial statements included in PART I, ITEM 1 of this Form 10-Q is incorporated by reference herein.

Item 1A. *Risk Factors*

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock. There have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended December 31, 2017.

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

None.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Mine Safety Disclosures*

None.

Item 5. *Other Information*

None.

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Item 6. Exhibits

- 3.5* [Complete copy of the Certificate of Incorporation, as amended consisting of \(i\) Certificate of Incorporation filed January 5, 2001, \(ii\) Certificate of Amendment filed April 20, 2001, \(iii\) Certificate of Amendment filed December 31, 2004, and \(iv\) Certificate of Amendment filed April 4, 2017](#)
- 3.6* [Bylaws, as amended, consisting of \(i\) Bylaws adopted January 6, 2001, amended April 10, 2001, and amended January 17, 2016, and \(ii\) Amendment No. \[3\] as of April 5, 2017](#)
- 31.1* [Principal Executive Officer Certification pursuant to Rule 13a-14\(a\) or Rule 15d-14\(a\)](#)
- 31.2* [Principal Financial Officer Certification pursuant to Rule 13a-14\(a\) or Rule 15d-14\(a\)](#)
- 32** [Principal Executive Officer and Principal Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101.INS* [XBRL Instance 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](#)

* Filed herewith

** Furnished herewith

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.

AXON ENTERPRISE, INC.

Date: May 10, 2018

By: _____
/s/ PATRICK W. SMITH
Chief Executive Officer
(Principal Executive Officer)

Date: May 10, 2018

By: _____
/s/ JAWAD A. AHSAN
Chief Financial Officer
(Principal Financial and
Accounting Officer)

CERTIFICATE OF INCORPORATION
OF
TASER INTERNATIONAL, INC.

The undersigned, in order to form a corporation for the purposes described below, under and pursuant to the General Corporation Law of the State of Delaware (the "Law"), hereby certifies that:

1. The name of the corporation is TASER International, Inc. (the "Corporation").
 2. The street and the mailing address of the Corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, State of Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.
 3. The purpose of the Corporation is to conduct any lawful business, to promote any lawful purpose, and to engage in any lawful act or activity for which corporations may be organized under the Law.
 4. (a) The Corporation is authorized to issue a total of 75,000,000 shares of two classes of stock: 50,000,000 shares of Common Stock, par value \$.00001 per share; and 25,000,000 shares of Preferred Stock, par value \$.00001 per share.
 - (a) Holders of Common Stock are entitled to one vote per share on any matter submitted to the stockholders. On dissolution of the Corporation, after any preferential amount with respect to any series of Preferred Stock has been paid or set aside, the holders of Common Stock and the holders of any series of Preferred Stock entitled to participate in such distribution of assets are entitled to receive the net assets of the Corporation.
 - (b) The Board of Directors is authorized, subject to limitations prescribed by the Law and by the provisions of this Article 4, to provide for the issuance of shares of Preferred Stock in series, to establish from time-to-time the number of shares to be included in each series and to determine the designations, relative rights, preferences and limitations of the shares of each series. The authority of the Board of Directors with respect to each series includes determination of the following:
 - (i) The number of shares in and the distinguishing designation of that series;
 - (ii) Whether shares of that series will have full, special, conditional, limited or no voting rights, except to the extent otherwise provided by the Law;
 - (iii) Whether shares of that series will be convertible and the terms and conditions of the conversion, including provision for adjustment of the conversion rate in circumstances determined by the Board of Directors;
 - (iv) Whether shares of that series will be redeemable and the terms and conditions of the redemption, including the date or dates upon or after which they will be redeemable and the amount per share payable in case of redemption, which amount may vary under different conditions or at different redemption dates;
 - (v) The dividend rate, if any, on shares of that series, the manner of calculating any dividends and the preferences of any dividends;
 - (vi) The rights of shares of that series in the event of voluntary or involuntary dissolution of the Corporation and the right of priority of that series relative to the Common Stock and any other series of Preferred Stock on the distribution of assets on dissolution; and
-

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

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

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

(a) The number of directors that shall constitute the whole Board of Directors shall from time to time be fixed exclusively by the Board of Directors by a resolution adopted by a majority of the whole Board of Directors serving at the time of the vote. In no event shall the number of directors that constitute the whole Board of Directors be less than three (3) or more than nine (9). No decrease in the number of directors shall have the effect of shortening the term of any incumbent director.

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

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

(d) A director may be removed from office before the expiration date of that director's term of office, with or without cause, only by an affirmative vote of the holders of 75% of the voting power of the then outstanding shares of capital stock entitled to vote thereon (the "Voting Stock"), voting together as a single class.

(e) Notwithstanding any other provision of this Certificate of Incorporation or any provision of the Law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by the Law or by this Certificate of Incorporation, the affirmative vote of 75% of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article 5.

6. (a) All of the power of the Corporation, insofar as it may be lawfully vested by this Certificate of Incorporation in the Board of Directors, is hereby conferred upon the Board of Directors. In furtherance of and not in limitation of that power or the powers conferred by the Law, a majority of directors then in office (or such higher percentage as may be specified in the Bylaws with respect to any provision thereof) shall have the power to adopt, alter, amend and repeal the Bylaws of the Corporation, and notwithstanding any other provision of this Certificate of Incorporation or any provision of the Law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by the Law or by this Certificate of Incorporation, the Bylaws of the Corporation shall not be adopted, altered, amended or repealed by the stockholders of the Corporation except in accordance with the provisions of the Bylaws and by the vote of the holders of not less than 75% of the Voting Stock, voting together as a single class, or such higher vote as is set forth in the Bylaws. Notwithstanding any other provision of this Certificate of Incorporation or any provision of the Law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by the Law or by this Certificate of Incorporation, the affirmative vote of the holders of not less than 75% of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article 6.

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

7. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for conduct as a director, provided that this Article does not eliminate the liability of any director for any act or omission for which such elimination of liability is not permitted under the Law. No amendment to the Law that further limits the acts or omissions for which elimination of liability is permitted will affect the liability of a director for any act or omission which occurs prior to the effective date of the amendment.

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

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

10. The name and mailing address of the incorporator is Jeffrey S. Cronn, 1600 Pioneer Tower, 888 S. W. Fifth Avenue, Portland, Oregon 97204
IN WITNESS WHEREOF, the undersigned has signed this Certificate of Incorporation on the 5th day of January, 2001.

/s/ Jeffrey S. Cronn
Jeffrey S. Cronn, Sole Incorporator

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
TASER INTERNATIONAL, INC.

TASER International, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation"), DOES HEREBY CERTIFY:

FIRST, that pursuant to Section 141 of General Corporation Law of the State of Delaware (the "GCL") the Board of Directors, by unanimous written consent, adopted resolutions setting forth proposed amendments of the Certificate of Incorporation of the Corporation declaring the amendments to be advisable and directing the calling of a meeting of the stockholders of the Corporation for consideration of the amendments. The resolutions setting forth the proposed amendments are as follows:

RESOLVED, that Article 4 paragraph (c) of the Corporation's Certificate of Incorporation be amended in its entirety to read as follows:

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

- (i) The number of shares in and the distinguishing designation of that series;
 - (ii) Whether shares of that series will have full, special, conditional, limited or no voting rights, except to the extent otherwise provided by the Law,
 - (iii) Whether shares of that series will be convertible and the terms and conditions of the conversion, including provision for adjustment of the conversion rate in circumstances determined by the Board of Directors;
 - (iv) Whether shares of that series will be redeemable and the terms and conditions of the redemption, including the date or dates upon or after which they will be redeemable and the amount per share payable in case of redemption, which amount may vary under different conditions or at different redemption dates;
 - (v) The dividend rate, if any, on shares of that series, the manner of calculating any dividends and the preferences of any dividends;
 - (vi) The rights of shares of that series in the event of voluntary or involuntary dissolution of the Corporation and the right of priority of that series relative to the Common Stock and any
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other series of Preferred Stock on the distribution of assets on dissolution; and
(vii) Any other rights, preferences and limitations of that series that are permitted by the Law.”

FURTHER RESOLVED, that Article 5 paragraph (d) of the Corporation’s Certificate of Incorporation be amended in its entirety to read as follows;

“(d) A director may be removed from office before the expiration date of that director’s term of office, with or without cause, only by an affirmative vote of the holders of 66.67% of the voting power of the then outstanding shares of capital stock entitled to vote thereon (the “Voting Stock”), voting together as a single class.”

FURTHER RESOLVED, that Article 6 paragraph (a) of the Corporation’s Certificate of Incorporation be amended in its entirety to read as follows:

“(a) All of the power of the Corporation, insofar as it may be lawfully vested by this Certificate of Incorporation in the Board of Directors, is hereby conferred upon the Board of Directors. In furtherance of and not in limitation of that power or the powers conferred by the Law, a majority of directors then in office (or such higher percentage as may be specified in the Bylaws with respect to any provision thereof) shall have the power to adopt, alter, amend and repeal the Bylaws of the Corporation, and notwithstanding any other provision of this Certificate of Incorporation or any provision of the Law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by the Law or by this Certificate of Incorporation, the Bylaws of the Corporation shall not be adopted, altered, amended or repealed by the stockholders of the Corporation except in accordance with the provisions of the Bylaws and by the vote of the holders of not less than 66.67% of the Voting Stock, voting together as a single class. Notwithstanding any other provision of this Certificate of Incorporation or any provision of the Law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by the Law or by this Certificate of Incorporation, the affirmative vote of the holders of not less than 66.67% of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article 6.”

SECOND, that thereafter, pursuant to resolution of its Board of Directors, a special meeting of the stockholders of the Corporation was duly called and held upon notice in accordance with Section 222 of the GCL, at which meeting the necessary number of shares required by the Corporation’s Certificate of Incorporation and applicable statutes were voted in favor of the amendments.

THIRD, that the amendments were duly adopted in accordance with the provisions of Section 242 of the GCL.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be signed by Patrick W, Smith, its President, and attested to by Kathleen C. Hanrahan, its Secretary, this 20th day of April, 2001.

/s/ Patrick W. Smith

Patrick W. Smith, Chief Executive Officer

ATTESTED TO:

/s/ Kathleen C. Hanrahan

Kathleen C. Hanrahan, Secretary

STATE OF DELAWARE
CERTIFICATE OF AMENDMENT
OF CERTIFICATE OF INCORPORATION
FOR TASER INTERNATIONAL, INC.

The corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware does hereby certify:

FIRST: That at a meeting of the Board of Directors of TASER International, Inc. resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that the Certificate of Incorporation of this corporation be amended by changing the Article thereof numbered "4(a)" so that, as amended, said Article shall be and read as follows:

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

SECOND: That thereafter, pursuant to resolution of its Board of Directors, a special meeting of the stockholders of said corporation was duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

FOURTH: That the capital of said corporation shall not be reduced under or by reason of said amendment.

IN WITNESS WHEREOF, said corporation has caused this certificate to be signed this 1st day of September, 2004.

By: /s/ Douglas E. Klint
Authorized Officer

Title: Vice President, Corporate Secretary and General Counsel

Name: Douglas E. Klint

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
TASER INTERNATIONAL, INC.
(which is changing its name to Axon Enterprise, Inc.)

TASER INTERNATIONAL, INC. (the "Company"), a corporation organized and existing under the General Corporation Law of the State of Delaware, hereby certifies as follows:

1. This Certificate of Amendment (the "Certificate of Amendment") amends the provisions of the Company's Certificate of Incorporation filed with the Secretary of State of the State of Delaware on January 5, 2001 (as amended on April 20, 2001 and December 31, 2004, the "Certificate of Incorporation").

2. Article 1 of the Certificate of Incorporation is hereby amended and restated in its entirety as follows:

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

3. This Certificate of Amendment (and the amendment to the Certificate of Incorporation set forth herein) shall be effective at 12:00 p.m. Eastern Time on April 5, 2017.

4. This amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

5. All other provisions of the Certificate of Incorporation shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Certificate of Amendment to be signed by Douglas E. Klint, its General Counsel and Corporate Secretary, on April 4, 2017.

By: /s/ Douglas E. Klint
Name: Douglas E. Klint
Title: General Counsel and Corporate
Secretary

BYLAWS OF TASER INTERNATIONAL, INC.,

a Delaware corporation
Adopted January 6, 2001
Amended April 10, 2001
Amended January 17, 2016

AMENDMENTS

Section Number/file	Date Approved
2.03-a. Business to be Transacted	April 10, 2001 (by Directors) April 20, 2001 (by Stockholders)
2.04. Special Meetings	April 10, 2001 (by Directors) April 20, 2001 (by Stockholders)
3.03. Classes and Terms	April 10, 2001 (by Directors) April 20, 2001 (by Stockholders)
3.04. Vacancies	April 10, 2001 (by Directors) April 20, 2001 (by Stockholders)
3.10. Resignation and Removal	April 10, 2001 (by Directors) April 20, 2001 (by Stockholders)
Article X: Amendments	April 10, 2001 (by Directors) April 20, 2001 (by Stockholders)
2.12. Action in Writing	January 17, 2016 (by Directors)

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BYLAWS OF TASER INTERNATIONAL, INC.

Article I: OFFICES

Section 1.01. Registered Office.

The registered office of TASER International, Inc. (the “Corporation”) in the State of Delaware shall be that set forth in the Certificate of Incorporation or in the most recent amendment of the Certificate of Incorporation or in a certificate prepared by the Board of Directors and filed with the Secretary of State of Delaware changing the registered office.

Section 1.02. Other Offices.

The Corporation may also have offices and places of business at such other places of business both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II: MEETINGS OF STOCKHOLDERS

Section 2.01. Place of Meetings.

All meetings of the stockholders of the Corporation shall be held at its registered office or at such other place within or without the State of Delaware as shall be stated by the Board of Directors in the notice of the meeting. In the absence of designation otherwise, meetings shall be held at the principal executive offices of the Corporation in the State of Arizona.

Section 2.02. Time of Meetings.

The Board of Directors shall designate the time and day for each meeting. In the absence of such designation, all meetings of the stockholders shall be held at 1:00 p.m., Mountain Time.

Section 2.03. Annual Meetings.

Section 2.03-a. Business to be Transacted. Except as otherwise required by law or regulation, no business proposed by a stockholder to be considered at an annual meeting of the stockholders (including the nomination of any person to be elected as a director of the Corporation) shall be considered by the stockholders at that meeting unless, no later than sixty (60) days before the annual meeting of stockholders or (if later) ten (10) days after the first public notice of that meeting is sent to stockholders, the Corporation receives from the stockholder proposing that business a written notice that sets forth: (1) the nature of the proposed business with reasonable particularity, including the exact text of any proposal to be presented for adoption, and the reasons for conducting that business at the annual meeting; (2) with respect to each such stockholder, that stockholder's name and address (as they appear on the records of the Corporation), business address and telephone number, residence address and telephone number, and the number of shares of each class of stock of the Corporation beneficially owned by that stockholder; (3) any interest of the stockholder in the proposed business; (4) the name or names of each person nominated by the stockholder to be elected or re-elected as a director, if any; and (5) with respect to each nominee, that nominee's name, business address and telephone number, and residence address and telephone number, the number of shares, if any, of each class of stock of the Corporation owned directly and beneficially by that nominee, and all information relating to that nominee that is required to be disclosed in solicitations of proxies for elections of directors, or is otherwise required, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, or any provision of law subsequently replacing Regulation 14A, together with a duly acknowledged letter signed by the nominee stating his or her acceptance of the nomination by that stockholder, stating his or her intention to serve as a director if elected, and consenting to being named as a nominee for director in any proxy statement relating to such election. The person presiding at the annual meeting shall determine whether business (including the nomination of any person as a director) has been properly brought before the meeting and, if the facts so warrant, shall not permit any business (or voting with respect to any particular nominee) to be transacted that has not been properly brought before the meeting. Notwithstanding any other provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of the holders of not less than 66.67% of the voting power of the then outstanding shares of capital stock entitled to vote thereon (the "Voting Stock"), voting together as a single class, shall be required to amend or repeal, or to adopt a provision inconsistent with, this Section 2.03-a.

Section 2.03-b. Date and Time. Annual meetings of stockholders shall be held at such date and time as shall be designated by the Board of Directors and stated in the notice of the meeting.

Section 2.03-c. Election of Directors. At each annual meeting of stockholders beginning in 2001, the stockholders, voting as provided in the Certificate of Incorporation or in these Bylaws, shall elect directors to succeed directors whose terms are expiring, each such director to hold office until the third annual meeting of stockholders after his or her election and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal.

Section 2.04. Special Meetings.

Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may only be called and proposed by: (i) the Chairman of the Board; (ii) the Chief Executive Officer; (iii) the holder(s) of a majority of the voting power of the Voting Stock; or (iv) the Board of Directors pursuant to a resolution adopted by a majority of the then-authorized number of directors. Such request shall state the purpose or purposes of the proposed meeting.

Section 2.05. Purpose of Special Meeting.

Business transacted at any special meeting of the stockholders shall be limited to the matters stated in the notice of such meeting, or other matters necessarily incidental therefore.

Section 2.06. Notice of Meetings.

Notice of stockholder meetings shall be in writing. Such notice shall state the place, date and time of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. A copy of such notice shall be either delivered personally or mailed, postage prepaid, to each stockholder of record entitled to vote at such meeting pursuant to Section 2.13 hereof not less than ten (10) nor more than sixty (60) days before such meeting. If mailed, it shall be directed to each stockholder at his or her address as it appears upon the records of the Corporation, and upon such mailing of any such notice, the service thereof shall be complete, and the time of the notice shall begin to run from the date that such notice is deposited in the mail for transmission to such stockholder. Personal delivery of any such notice to a corporation, an association, or a partnership shall be accomplished by personal delivery of such notice to any officer of a corporation or an association or to any member of a partnership.

Section 2.07. Waiver of Notice.

Notice of any meeting of the stockholders may be waived before, at, or after such meeting in a writing signed by the stockholder or representative thereof entitled to vote the shares so represented. Such waiver shall be filed with the Secretary or entered upon the records of the meeting.

Section 2.08. Quorum; Adjournment.

The holders of a majority of the voting power of all shares entitled to vote, present in person or represented by proxy, shall constitute a quorum for the transaction of all business at meetings of the stockholders, except as may be otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented.

At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the original meeting in accordance with the notice thereof. If a quorum is present when a duly called or held meeting is convened, the stockholders present in person or represented by proxy may continue to transact business until adjournment notwithstanding the withdrawal of enough stockholders originally present in person or by proxy to leave less than a quorum, and for the purposes of voting pursuant to Section 2.09 hereof, stockholders holding a majority of the voting power of all shares entitled to vote shall be deemed to be present in person.

Section 2.09. Vote Required.

When a quorum is present or represented at any meeting, the vote of the holders of a majority of the voting power of all shares entitled to vote present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one that by express provision of statute or of the Certificate of Incorporation or of these Bylaws requires a different vote, in which case such express provision shall govern the vote required.

Section 2.10. Voting Rights.

Except as may be otherwise required by statute or the Certificate of Incorporation or these Bylaws, every stockholder of record of the Corporation shall be entitled at each meeting of the stockholders to one vote for each share of stock standing in his or her name on the books of the Corporation.

Section 2.11. Proxies.

At any meeting of the stockholders, any stockholder may be represented and vote by a proxy or proxies appointed by an instrument in writing, signed by the stockholder, and filed with the Secretary at or before the meeting. In addition, a stockholder may cast or authorize the casting of a vote by a proxy by transmitting to the Corporation or the Corporation's duly authorized agent before the meeting, an appointment of a proxy by means of a telegram, cablegram, or any other form of electronic transmission, including telephonic transmission, whether or not accompanied by written instructions of the stockholder. The electronic transmission must set forth or be submitted with information from which it can be determined that the appointment was authorized by the stockholder. If it is determined that a telegram, cablegram, or other electronic transmission is valid, the inspectors of election or, if there are no inspectors, the other persons making that determination shall specify the information upon which they relied to make that determination.

An appointment of a proxy or proxies for shares held jointly by two or more stockholders is valid if signed by any one of them, unless and until the Corporation receives from any one of those stockholders written notice denying the authority of such other person or persons to appoint a proxy or proxies or appointing a different proxy or proxies, in which case no proxy shall be appointed unless the instrument shall otherwise provide. No proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period.

Subject to the above, any duly executed proxy shall continue in full force and effect and shall not be revoked unless

written notice of its revocation or a duly executed proxy bearing a later date is filed with the Secretary of the Corporation. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable proxy.

Section 2.12. Action in Writing.

All actions required or permitted to be taken by the holders of common stock of the Corporation may be effected by the written consent of such holders pursuant to Section 228 of the General Corporation Law of the State of Delaware; provided that no such action may be effected except in accordance with the provisions of this Section 2.12 and applicable law.

(a) Request for Record Date. The record date for determining such stockholders entitled to consent to corporate action in writing without a meeting shall be as fixed by the Board of Directors or as otherwise established under this Section 2.12. Any holder of common stock of the Corporation seeking to have such stockholders authorize or take corporate action by written consent without a meeting shall, by written notice addressed to the Secretary of this Corporation, delivered to this Corporation and signed by holders of record at the time such notice is delivered holding shares representing in the aggregate at least twenty percent (20%) of the outstanding shares of common stock of the Corporation request that a record date be fixed for such purpose. The written notice must contain the information set forth in paragraph (b) of this Section 2.12. Following delivery of the notice, the Board of Directors shall, by the later of (i) 20 days after delivery of a valid request to set a record date and (ii) 5 days after delivery of any information required by the Corporation to determine the validity of the request for a record date or to determine whether the action to which the request relates may be effected by written consent under paragraph (c) of this Section 2.12, determine the validity of the request and whether the request relates to an action that may be taken by written consent and, if appropriate, adopt a resolution fixing the record date for such purpose. The record date for such purpose shall be no more than 10 days after the date upon which the resolution fixing the record date is adopted by the Board of Directors and shall not precede the date such resolution is adopted. If a notice complying with the second and third sentences of this paragraph (a) has been duly delivered to the Secretary of the Corporation but no record date has been fixed by the Board of Directors by the date required by the preceding sentence, the record date shall be the first date on which a signed written consent relating to the action taken or proposed to be taken by written consent is delivered to this Corporation in the matter described in paragraph (f) of this Section 2.12; provided that, if prior action by the Board of Directors is required under the provisions of Delaware law, the record date shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

(b) Notice Requirements. Any notice required by paragraph (a) of this Section 2.12 must be delivered by the holders of record of at least twenty percent (20%) of the outstanding shares of common stock of the Corporation (with evidence of ownership attached to the notice), must describe the action proposed to be taken by written consent of stockholders and must contain (i) such information and representations, to the extent applicable, then required by this Corporation's Bylaws as though such stockholder was intending to make a nomination of persons for election to the Board of Directors or to bring any other matter before a meeting of stockholders, as applicable, and (ii) the text of the proposed action to be taken (including the text of any resolutions to be adopted by written consent of stockholders and the language of any proposed amendment to the Bylaws of this Corporation). This Corporation may require the stockholder(s) submitting such notice to furnish such other information as may be requested by this Corporation to determine whether the request relates to an action that may be effected by written consent under paragraph (c) of this Section 2.12. In connection with an action or actions proposed to be taken by written consent in accordance with this Section 2.12, the stockholders seeking such action or actions shall further update and supplement the information previously provided to this Corporation in connection therewith, if necessary, as required by Article II of this Corporation's Bylaws.

(c) Actions Which May Be Taken by Written Consent. Stockholders are not entitled to act by written consent if (i) the action relates to an item of business that is not a proper subject for stockholder action under applicable law, (ii) the request for a record date for such action is delivered to the Corporation during the period commencing 90 days prior to the first anniversary of the date of the notice of annual meeting for the immediately preceding annual meeting and ending on the earlier of (x) the date of the next annual meeting and (y) 30 calendar days after the first anniversary of the date of the immediately preceding annual meeting, (iii) an identical or substantially similar item (as determined in good faith by the Board of Directors, a "Similar Item"), other than the election or removal of directors, was presented at a meeting of stockholders held not more than 12 months before the request for a record date for such action is delivered to the Corporation, (iv) a Similar Item consisting of the election or removal of directors was presented at a meeting of stockholders held not more than 90 days before the request for a record date was delivered to the Corporation (and, for purposes of this clause, the election or removal of directors shall be deemed a "Similar Item" with respect to all items of business involving the election or removal of directors), (v) a Similar Item is included in the Corporation's notice as an item of business to be brought before a stockholders meeting that has been called by the time the request for a record date is delivered to the Corporation but not yet held, (vi) such record date request was made in a manner that involved a violation of Regulation 14A under the Securities Exchange Act of 1934 or other applicable law, or (vii) sufficient written consents are not dated and delivered to the Corporation prior to the first anniversary of the date of the notice of annual meeting for the immediately preceding annual meeting.

(d) Manner of Consent Solicitation. Holders of common stock of the Corporation may take action by written consent

only if consents are solicited by the stockholder or group of stockholders seeking to take action by written consent of stockholders from all holders of capital stock of this Corporation entitled to vote on the matter and in accordance with applicable law.

(e) Date of Consent. Every written consent purporting to take or authorize the taking of corporate action (each such written consent is referred to in this paragraph and in paragraph (f) as a "Consent") must bear the date of signature of each stockholder who signs the Consent, and no Consent shall be effective to take the corporate action referred to therein unless, within 60 days of the earliest dated Consent delivered in the manner required by paragraph (f) of this Section 2.12, consents signed by a sufficient number of stockholders to take such action are so delivered to this Corporation.

(f) Delivery of Consents. No Consents may be dated or delivered to this Corporation or its registered office in the State of Delaware until 60 days after the delivery of a valid request to set a record date. Consents must be delivered to this Corporation by delivery to its registered office in the State of Delaware or its principal place of business. Delivery must be made by hand or by certified or registered mail, return receipt requested. In the event of the delivery to this Corporation of Consents, the Secretary of this Corporation, or such other officer of this Corporation as the Board of Directors may designate, shall provide for the safe-keeping of such Consents and any related revocations and shall promptly conduct such ministerial review of the sufficiency of all Consents and any related revocations and of the validity of the action to be taken by written consent as the Secretary of this Corporation, or such other officer of this Corporation as the Board of Directors may designate, as the case may be, deems necessary or appropriate, including, without limitation, whether the stockholders of a number of shares having the requisite voting power to authorize or take the action specified in Consents have given consent; provided, however, that if the action to which the Consents relate is the election or removal of one or more members of the Board of Directors, the Secretary of this Corporation, or such other officer of this Corporation as the Board of Directors may designate, as the case may be, shall promptly designate two persons, who shall not be members of the Board of Directors, to serve as inspectors ("Inspectors") with respect to such Consent, and such Inspectors shall discharge the functions of the Secretary of this Corporation, or such other officer of this Corporation as the Board of Directors may designate, as the case may be, under this Section 2.12. If after such investigation the Secretary of this Corporation, such other officer of this Corporation as the Board of Directors may designate or the Inspectors, as the case may be, shall determine that the action purported to have been taken is duly authorized by the Consents, that fact shall be certified on the records of this Corporation kept for the purpose of recording the proceedings of meetings of stockholders and the Consents shall be filed in such records. In conducting the investigation required by this section, the Secretary of this Corporation, such other officer of this Corporation as the Board of Directors may designate or the Inspectors, as the case may be, may, at the expense of this Corporation, retain special legal counsel and any other necessary or appropriate professional advisors as such person or persons may deem necessary or appropriate and, to the fullest extent permitted by law, shall be fully protected in relying in good faith upon the opinion of such counsel or advisors.

(g) Effectiveness of Consent. Notwithstanding anything in these Bylaws to the contrary, no action may be taken by written consent of the holders of common stock of the Corporation except in accordance with this Section 2.12.

If the Board of Directors shall determine that any request to fix a record date or to take stockholder action by written consent was not properly made in accordance with, or relates to an action that may not be effected by written consent pursuant to, this Section 2.12, or the stockholder or stockholders seeking to take such action do not otherwise comply with this Section 2.12, then the Board of Directors shall not be required to fix a record date and any such purported action by written consent shall be null and void to the fullest extent permitted by applicable law. No action by written consent without a meeting shall be effective until such date as the Secretary of this Corporation, such other officer of this Corporation as the Board of Directors may designate, or the Inspectors, as applicable, certify to this Corporation that the Consents delivered to this Corporation in accordance with paragraph (f) of this Section 2.12, represent at least the minimum number of votes that would be necessary to take the corporate action at a meeting at which all shares entitled to vote thereon were present and voted, in accordance with Delaware law and this Corporation's Certificate of Incorporation and Bylaws.

(h) Challenge to Validity of Consent. Nothing contained in this Section 2.12 shall in any way be construed to suggest or imply that the Board of Directors of this Corporation or any stockholder shall not be entitled to contest the validity of any Consent or related revocations, whether before or after such certification by the Secretary of this Corporation, such other officer of this Corporation as the Board of Directors may designate or the Inspectors, as the case may be, or to prosecute or defend any litigation with respect thereto.

(i) Board-solicited Stockholder Action by Written Consent. Notwithstanding anything to the contrary set forth above, (x) none of the foregoing provisions of this Section 2.12 shall apply to any solicitation of stockholder action by written consent by or at the direction of the Board of Directors and (y) the Board of Directors shall be entitled to solicit stockholder action by written consent in accordance with applicable law.

Section 2.13. Closing of Books; Record Date.

The Board of Directors may fix, or authorize an officer to fix, a date, not more than sixty (60) nor less than ten (10) days preceding the date of any meeting of the stockholders of the Corporation, as a record date for the determination of the stockholders of

record on the date so fixed or their legal representatives shall be entitled to notice of and to vote at such meeting, notwithstanding any transfer of shares on the books of the Corporation against the transfer of shares during the whole or any part of such period.

ARTICLE III: DIRECTORS

Section 3.01. General Powers.

The business of the Corporation shall be managed by its Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are by statute or by the Certificate of Incorporation or by these Bylaws permitted, directed or required to be exercised or done by the Board of Directors.

Section 3.02. Number and Qualification.

The number of directors that shall constitute the whole Board of Directors shall from time to time be fixed exclusively by the Board of Directors by a resolution adopted by a majority of the whole Board of Directors serving at the time of that vote. In no event shall the number of directors that constitute the whole Board of Directors be fewer than three (3), nor greater than nine (9). No decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Directors of the Corporation need not be elected by written ballot. Directors need not be stockholders.

Section 3.03. Classes and Terms.

The Board of Directors of the Corporation shall be divided into three classes designated Class A, Class B, and Class C, respectively, all as nearly equal in number as possible, with each director then in office receiving the classification that at least a majority of the Board of Directors designates. The initial term of office of directors of Class A shall expire at the annual meeting of stockholders of the Corporation in 2001, of Class B shall expire at the annual meeting of stockholders of the Corporation in 2002, and of Class C shall expire at the annual meeting of stockholders of the Corporation in 2003, and in all cases a director shall serve until the director's successor is elected and qualified or until his earlier death, resignation or removal. At each annual meeting of stockholders beginning with the annual meeting of stockholders in 2001, each director elected to succeed a director whose term is then expiring shall hold office until the third annual meeting of stockholders after his or her election and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. If the number of directors that constitutes the whole Board of Directors is changed as permitted by the Certificate of incorporation or these Bylaws, the majority of the whole Board of Directors that adopts the change shall also fix and determine the number of directors comprising each class; provided, however, that any increase or decrease in the number of directors shall be apportioned among the classes as equally as possible. Notwithstanding any provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of 66.67% of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Section 3.03.

Section 3.04. Vacancies.

Vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office, or other cause, and newly-created directorships resulting from any increase in the authorized number of directors, may be filled by no less than a majority vote of the remaining directors then in office, though less than a quorum, who are designated to represent the same class or classes of stockholders that the vacant position, when filled, is to represent or by the sole remaining director (but not by the stockholders except as required by law); provided, however, that, with respect to any directorship to be filled by the Board of Directors by reason of an increase in the number of directors: (a) such directorship shall be for a term of office continuing only until the next election of one or more directors by the stockholders; and (b) the Board of Directors may not fill more than two such directorships during the period between any two successive annual meetings of stockholders. Each director chosen in accordance with this provision shall receive the classification of the vacant directorship to which he or she has been appointed or, if it is a newly-created directorship, shall receive the classification that at least a majority of the Board of Directors designates and shall hold office until the first meeting of stockholders held after his or her election for the purpose of electing directors of that classification and until his or her successor is elected and qualified or until his or her earlier death, resignation, or removal from office. Notwithstanding any provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of 66.67% of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Section 3.04.

Section 3.05. Meetings.

Section 3.05-a. Place of Meetings. The Board of Directors may hold meetings, both regular and special, either within or

without the State of Delaware.

Section 3.05-b. Regular Meetings. As soon as practicable after each regular election of directors, the Board of Directors shall meet at the registered office of the Corporation, or at such other place within or without the State of Delaware as may be designated by the Board of Directors, for the purpose of electing the officers of the Corporation and for the transaction of such other business as shall come before the meeting. Other regular meetings of the Board of Directors may be held without notice at such time and place within and without the State of Delaware as shall from time to time be determined by resolution of the Board of Directors.

Section 3.05-c. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman, Chief Executive Officer, or a majority of the then directors, and shall be held at such time and place as shall be designated in the notice thereof.

Section 3.05-d. Notice. Notice of a special meeting shall be given to each Director at least twenty-four (24) hours before the time of the meeting. Said notice shall be in writing and state the place, date and hour of the meeting and the purpose or purposes for which the meeting is called. Whenever any provision of law, the Certificate of Incorporation, or the Bylaws require notice to be given, any director may, in writing, either before or after the meeting, waive notice thereof. Without notice, any director, by his or her attendance at and participation in the action taken at the meeting, shall be deemed to have waived notice thereof.

Section 3.05-e. Quorum: Voting Requirements: Adjournment. A majority of the Board of Directors then in office shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation or these Bylaws.

If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting to another time or place, and no notice as to such adjourned meeting need be given other than by announcement at the meeting at which such adjournment is taken. If a quorum is present at the call of a meeting, the directors may continue to transact business until adjournment notwithstanding the withdrawal of enough directors to leave less than a quorum.

Section 3.05-f. Organization of Meetings. At all meetings of the Board of Directors, the Chairman of the Board, or in his absence, the Chief Executive Officer, or in his absence, any director appointed by the Chief Executive Officer, shall preside, and the Secretary, or in his absence, any person appointed by the Chairman, shall act as Secretary.

Section 3.05-g. Action in Writing. Except as may be otherwise required by statute or the Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board of Directors of the Corporation or of any committee thereof may be taken by written consent in lieu of a meeting, if all members of the Board or committee consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 3.05-h. Absent Directors. A director may give advance written consent or opposition to a proposal to be acted on at a meeting of the Board of Directors. Such advance written consent or opposition shall be ineffective unless the writing is delivered to the Chief Executive Officer, Chairman or Secretary of the Corporation prior to the meeting at which such proposal is to be considered. If the director is not present at the meeting, consent or opposition to a proposal does not constitute presence for purposes of determining the existence of a quorum, but such consent or opposition shall be counted as a vote in favor of or against the proposal and shall be entered in the minutes or other record of action at the meeting, if the proposal acted on at the meeting is substantially the same or has substantially the same effect as the proposal to which the director has consented or objected, such substantial similarity to be determined in the sole judgment of the presiding officer at the meeting.

Section 3.06. Committees.

Section 3.06-a. Designation. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee.

Section 3.06-b. Limitations on Authority. No committees of the Corporation shall have authority as to any of the following matters:

- (a) Approving or adopting, or recommending to the stockholders any action or matter expressly required by law to be submitted to stockholders for approval; or
- (b) Adopting, amending or repealing any bylaw of the Corporation.

Section 3.06-c. Minutes of Committee Meetings. Committees shall keep regular minutes of their proceedings and report the same to the Board of Directors when required.

Section 3.07. Telephone Conference Meetings.

Any Director or any member of a duly constituted committee of the Board of Directors may participate in any meeting of the Board of Directors or of any duly constituted committee thereof by means of a conference telephone or other comparable communication technique whereby all persons participating in such a meeting can hear and communicate with each other. For the purpose of establishing a quorum and taking any action at such a meeting, the members participating in such a meeting pursuant to this Section 3.07 shall be deemed present in person at such meeting

Section 3.08. Compensation.

Unless otherwise provided by the Board of Directors, directors shall be paid their expenses, if any, of attendance at each meeting of the Board of Directors or a committee thereof. Directors who are not employees of the Corporation shall be paid at least \$500 for attendance at each meeting of the Board of Directors, or any committee thereof, unless a different sum is fixed by resolution of the Board of Directors. Directors may also receive other compensation, such as stock options or grants, for their service as directors or committee members as determined by the Board of Directors. Nothing herein contained shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 3.09. Limitation of Director Liability.

A director shall not be liable to the Corporation or its stockholders for dividends illegally declared, distributions illegally made to stockholders, or any other actions taken in good faith reliance upon financial statements of the Corporation represented to the director to be correct by the Chief Executive Officer of the Corporation or the officer having charge of its books of account or certified by an independent or certified public accountant to fairly reflect the financial condition of the Corporation; nor shall the director be liable if in good faith in determining the amount available for dividends or distributions the Board values the assets in a manner allowable under applicable law.

Section 3.10. Resignation and Removal.

A director may resign at any time by giving written notice to the Secretary or Assistant Secretary. Such resignation shall take effect on the date of the receipt of such notice or at such later date as specified therein. A director of any class of directors of the Corporation may be removed before the expiration date of that director's term of office only by an affirmative vote of the holders of 66.67% of the voting power of the Voting Stock, voting together as a single class. Notwithstanding any provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of 66.67% of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Section 3.10.

ARTICLE IV: OFFICERS

Section 4.01. Selection: Qualifications.

Section 4.01-a. Election: Qualifications. The Board of Directors at its next meeting after each annual meeting of the stockholders shall choose a Chairman of the Board, a Chief Executive Officer, a Secretary, a Chief Financial Officer, and such other officers or agents as it deems necessary, none of whom need be members of the Board.

Section 4.01-b. Additional Officers. The Board of Directors may choose a President, additional Vice Presidents, Assistant Secretaries and Assistant Treasurers and such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board.

Section 4.02. Salaries.

The salaries of all officers, and of the Chairman of the Corporation, shall be fixed by the Board of Directors on an annual basis.

Section 4.03. Term of Office.

The officers of the Corporation shall hold office until their successors are chosen and qualified. Any officer elected or appointed by the Board of Directors may be removed at any time with or without cause by the affirmative vote of a majority of the Board of Directors. Any officer may resign at any time by giving written notice to the Chief Executive Officer or the Secretary of the Corporation. Any vacancy occurring in any office of the Corporation by death, resignation, removal, or otherwise shall be filled by the

Board of Directors.

Section 4.04. Chairman of the Board.

The Chairman of the Board of Directors shall preside at all meetings of the Board of Directors and of the stockholders and shall perform such other duties as he or she may be directed to perform by the Board of Directors.

Section 4.05. Chief Executive Officer.

The Chief Executive Officer of the Corporation shall have general active management of the business of the Corporation. Unless the Board has elected a Chairman of the Board of Directors, the Chief Executive Officer shall preside at meetings of the stockholders of the Corporation and at meetings of the Board of Directors. The Chief Executive Officer may execute and deliver in the name of the Corporation any deeds, mortgages, bonds, contracts or other instruments pertaining to the business of the Corporation, except in cases in which the authority to sign and deliver is required by law to be exercised by another person or is expressly delegated by the Board to some other officer or agent of the Corporation; may delegate the authority to execute and deliver documents to other officers of the Corporation; shall maintain records of and, whenever necessary, certify any proceedings of the stockholders and the Board; shall perform such other duties as may from time to time be prescribed by the Board; and, in general, shall perform all duties usually incident to the office of the Chief Executive Officer.

Section 4.06. President.

The President of the Corporation shall have general active management of the business of the Corporation in the absence or disability of the Chief Executive Officer. He shall also generally assist the Chief Executive Officer and exercise such other powers and perform such other duties as are delegated to him by the Chief Executive Officer or Chairman, or as the Board of Directors shall prescribe.

Section 4.07. Vice-Presidents.

Unless otherwise determined by the Board of Directors, the Vice Presidents, if any, shall, in the absence or disability of the President, perform the duties and exercise the powers of the President. They shall also generally assist the Chief Executive Officer and the President and exercise such other powers and perform such other duties as are delegated to them by the Chief Executive Officer or the President or as the Board of Directors shall prescribe.

Section 4.08. Secretary and Assistant Secretary.

The Secretary or Assistant Secretary shall attend all meetings of the stockholders and of the Board of Directors and shall record all the proceedings of the meetings of the stockholders and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required, and shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Chairman or the Board of Directors, under whose supervision he shall be.

The Assistant Secretary, or if there be more than one, the assistant secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Secretary or in the event of inability or refusal to act by the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Chairman, or Board of Directors, may, from time to time, prescribe.

Section 4.09. Chief Financial Officer.

Section 4.09-a. Custody of Funds and Accounting. The Chief Financial Officer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors.

Section 4.09-b. Disbursements and Reports. The Chief Financial Officer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chief Executive Officer and the Board of Directors, at the regular meetings of the Board, or when the Board of Directors so requires, an account of all his transactions as Chief Financial Officer and of the financial condition of the Corporation.

Section 4.09-c. Bond. If required by the Board of Directors, the Chief Financial Officer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration, upon the expiration of his term of office or his resignation, retirement, or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to

the Corporation.

ARTICLE V: CERTIFICATES FOR SHARES

Section 5.01. Issuance of Shares and Fractional Shares.

The Board of Directors is authorized to issue shares and fractional shares of stock of the Corporation up to the full amount authorized by the Certificate of Incorporation in such amounts as may be determined by the Board of Directors and as permitted by law.

Section 5.02. Form of Certificate.

The shares of the Corporation shall be represented by certificates, provided that the Board of Directors of the Corporation may resolve that some or all of any or all classes or series of its stock will be uncertificated shares as provided in Section 5.06. Certificates shall be signed by the Chairman of the Board or the President and by the Secretary or Assistant Secretary of the Corporation, certifying the number of shares of capital stock owned by him in the Corporation. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the designations, preferences, and relative, participating, optional, or other special rights of the various classes of stock or series thereof and the qualifications, limitations, or restrictions of such rights, together with a statement of the authority of the Board of Directors to determine the relative rights and preferences of subsequent classes or series, shall be set forth in full on the face or back of the certificate which the Corporation shall issue to represent such stock, or, in lieu thereof, such certificate shall contain a statement that the stock is, or may be, subject to certain rights, preferences, or restrictions and that a statement of the same will be furnished without charge by the Corporation upon request by any stockholder.

Certificates representing the shares of the capital stock of the Corporation shall be in such form not inconsistent with law or the Certificate of Incorporation or these Bylaws as shall be determined by the Board of Directors.

Section 5.03. Facsimile Signatures.

Whenever any certificate is countersigned or otherwise authenticated by a transfer agent, transfer clerk, or registrar, then a facsimile of the signatures of the officers or agents of the Corporation may be printed or lithographed upon such certificate in lieu of the actual signatures. In case any officer or officers who shall have signed, or whose facsimile signature shall have been used on, any such certificate or certificates shall cease to be such officer or officers of the Corporation, whether because of death, resignation, or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be adopted by the Corporation and be signed and delivered as though the person or persons who signed such certificate or certificates, or whose facsimile signature or signatures shall have been used thereon, had not ceased to be the officer or officers of the Corporation.

Section 5.04. Lost, Stolen, or Destroyed Certificates.

The Board of Directors may direct a certificate or certificates to be issued in place of a certificate or certificates previously issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates or uncertificated shares, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 5.05. Transfers of Stock.

Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books; except that the Board of Directors may, by resolution duly adopted, establish conditions upon the transfer of shares of stock to be issued by the Corporation, and the purchasers of such shares shall be deemed to have accepted such conditions on transfer upon the receipt of the certificate representing such shares, provided that the restrictions shall be referred to on the certificates or the purchaser shall have otherwise been notified thereof.

Section 5.06. Uncertificated Shares.

Unless prohibited by the Certificate of Incorporation or these Bylaws, some or all of any or all classes and series of the Corporation's shares may be uncertificated shares. Upon receipt of proper transfer instructions from the registered owner of

uncertificated shares, such uncertificated shares shall be canceled and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the Corporation. Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the new stockholder the information required by Section 5.02 to be stated on certificates. If this Corporation becomes a publicly held corporation which adopts, in compliance with Section 17 of the Securities Exchange Act of 1934, a system of issuance, recordation, and transfer of its shares by electronic or other means not involving an issuance of certificates, this information is not required to be sent to new stockholders.

Section 5.07. Closing of Transfer Books: Record Date.

The Board of Directors or an officer of the Corporation authorized by the Board may close the stock transfer books of the Corporation for a period not exceeding sixty (60) days preceding the date of any meeting of stockholders as provided in Section 2.13 hereof or the date for payment of any dividend as provided in Section 6.02 hereof or the date for the allotment of rights or the date when any change or conversion or exchange of capital stock shall go into effect. In lieu of closing the stock transfer books as aforesaid, the Board of Directors or an officer of the Corporation authorized by the Board may fix, in advance, a date, not exceeding sixty (60) days preceding the date for payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the stockholders entitled to receive payment.

Section 5.08. Registered Stockholders.

The Corporation shall be entitled to recognize the exclusive right of the persons registered on its books as the owners of shares to receive dividends and to vote as such owners and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided in the laws of Delaware.

Section 5.09. Stock Options and Agreements.

In addition to any stock options, plans, or agreements into which the Corporation may enter, any stockholder of the Corporation may enter into an agreement giving any other stockholder or stockholders or any third party an option to purchase any of his stock in the Corporation, and such shares of stock shall thereupon be subject to such agreement and transferable only upon proof of compliance therewith; provided, however, that a copy of such agreement shall be filed with the Corporation and reference thereto placed upon the certificates representing said shares of stock.

ARTICLE VI: DIVIDENDS

Section 6.01. Method of Payment.

Dividends upon the capital stock of the Corporation may be declared by the Board of Directors at any regular or special meeting pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

Section 6.02. Closing of Books: Record Date.

The Board of Directors or an officer of the Corporation authorized by the Board may fix a date not exceeding sixty (60) days preceding the date fixed for the payment of any dividend as the record date for the determination of the stockholders entitled to receive payment of the dividend and, in such case, only stockholders of record on the date so fixed shall be entitled to receive payment of such dividend notwithstanding any transfer of shares on the books of the Corporation after the record date. The Board of Directors or an officer of the Corporation authorized by the Board may close the books of the Corporation against the transfer of shares during the whole or any part of such period. If the Board of Directors or an officer of the Corporation authorized by the Board fails to fix such a record date, the record date shall be the thirtieth (30th) day preceding the date of such payment.

Section 6.03. Reserves.

Before payment of any dividend, there may be set aside out of the funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves for meeting contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Board shall think conducive to the interest of the Corporation, and the Board may modify or abolish any such reserve in the manner in which it was created.

ARTICLE VII: CHECKS

All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

ARTICLE VIII: CORPORATE SEAL

The Corporation shall have no corporate seal.

ARTICLE IX: FISCAL YEAR

The fiscal year of the Corporation shall end on December 31 unless otherwise fixed by resolution of the Board of Directors.

ARTICLE X: AMENDMENTS

These Bylaws shall not be adopted, altered, amended or repealed except in accordance with the provisions of the Certificate of Incorporation and these Bylaws. Unless a different requirement is mandated by the Certificate of Incorporation or these Bylaws, adoption, alteration, amendment or repeal of these Bylaws requires the affirmative action of a majority of the directors then in office or the vote of the holders of not less than 66.67% of the Voting Stock, voting together as a single class, at an annual meeting of the stockholders or any special meeting of the stockholders.

ARTICLE XI: BOOKS AND RECORDS

Section 11.01. Books and Records.

The Board of Directors of the Corporation shall cause to be kept:

Section 11.01-a. A share register not more than one year old, giving the names and addresses of the stockholders, the number and classes held by each, and the dates on which the certificated or uncertificated shares were issued;

Section 11.01-b. Records of all proceedings of stockholders and directors; and

Section 11.01-c. Such other records and books of account as shall be necessary and appropriate to the conduct of the corporate business.

Section 11.02. Computerized Records.

The records maintained by the Corporation, including its share register, financial records, and minute books, may utilize any information storage technique, including, for example, computer memory or micro images, even though that makes them illegible visually, if the records can be converted, by machine and within a reasonable time, into a form that is legible visually and whose contents are assembled by related subject matter to permit convenient use by persons in the normal course of business.

Section 11.03. Examination and Copying by Stockholders.

Every stockholder of record of the Corporation shall have a right to examine, in person or by agent or attorney, at any reasonable time or times, at the place or places where usually kept, and upon the showing of a proper purpose, the Corporation's stock ledger, a list of its stockholders and its other books and records, and to make copies or extracts therefrom.

ARTICLE XII: LOANS AND ADVANCES

Section 12.01. Loans, Guarantees, and Suretyship.

The Corporation may lend money to, guarantee an obligation of, become a surety for, or otherwise financially assist a person, if the transaction, or a class of transactions to which the transaction belongs, is approved by the affirmative vote of a majority of the directors present at a lawfully convened meeting and such action: (a) is in the usual and regular course of business of the Corporation; (b) is with, or for the benefit of, a related corporation, an organization with which the Corporation has the power to make donations; (c) is with, or for the benefit of, an officer or other employee of the Corporation or a subsidiary, including an officer or employee who is a director of the Corporation or a subsidiary, and may reasonably be expected, in the judgment of the Board of Directors, to benefit the Corporation; or (d) has been approved by the affirmative vote of the holders of seventy-five percent (75%) of the Voting Stock, voting together as a single class. The loan, guarantee, or other assistance may be with or without interest and may be

unsecured or may be secured in any manner that a majority of the Board of Directors approves, including, without limitation, a pledge of or other security interest in shares of the Corporation.

Section 12.02. Advances to Officers, Directors, and Employees.

The Corporation may, without a vote of the directors, advance money to its directors, officers, or employees to cover expenses that can reasonably be anticipated to be incurred by them in the performance of their duties and for which they would be entitled to reimbursement in the absence of an advance.

ARTICLE XIII: INDEMNIFICATION

Section 13.01. Directors and Officers

Section 13.01-a. Indemnity in Third-Party Proceedings. The Corporation shall indemnify its directors and officers in accordance with the provisions of this Section 13.01- a if the director or officer was or is a party to, or is threatened to be made a party to, any proceeding (other than a proceeding by or in the right of the Corporation to procure a judgment in its favor), against all expenses, judgments, fines and amounts paid in settlement, actually and reasonably incurred by the director or officer in connection with such proceeding if the director or officer acted in good faith and in a manner the director or officer reasonably believed was in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, the director or officer, in addition, had no reasonable cause to believe that the director's or officer's conduct was unlawful; provided, however, that the director or officer shall not be entitled to indemnification under this Section 13.01-a: (1) in connection with any proceeding charging improper personal benefit to the director or officer in which the director or officer is adjudged liable on the basis that personal benefit was improperly received by the director or officer unless and only to the extent that the court conducting such proceeding or any other court of competent jurisdiction determines upon application that, despite the adjudication of liability, the director or officer is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, or (2) in connection with any proceeding (or part thereof) initiated by such person or any proceeding by such person against the Corporation or its directors, officers, employees or other agents unless: (A) such indemnification is expressly required to be made by law, (B) the proceeding was authorized by the Board of Directors, or (C) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the Delaware General Corporation Law.

Section 13.01-b. Indemnity in Proceedings by or in the Right of the Corporation. The Corporation shall indemnify its directors and officers in accordance with the provisions of this Section 13.01-b if the director or officer was or is a party to, or is threatened to be made a party to, any proceeding by or in the right of the Corporation to procure a judgment in its favor, against all expenses actually and reasonably incurred by the director or officer in connection with the defense or settlement of such proceeding if the director or officer acted in good faith and in a manner the director or officer reasonably believed was in or not opposed to the best interests of the corporation; provided, however, that the director or officer shall not be entitled to indemnification under this Section 13.01-b: (1) in connection with any proceeding in which the director or officer has been adjudged liable to the Corporation unless and only to the extent that the court conducting such proceeding, or the Delaware Court of Chancery, determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the director or officer is fairly and reasonably entitled to indemnification for such expenses as such court shall deem proper, or (2) in connection with any proceeding (or part thereof) initiated by such person or any proceeding by such person against the Corporation or its directors, officers, employees or other agents unless (A) such indemnification is expressly required to be made by law, (B) the proceeding was authorized by the Board of Directors, or (A) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the Delaware General Corporation Law.

Section 13.02. Employees and Other Agents

The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article XIII to directors and officers of the Corporation.

Section 13.03. Good Faith.

Section 13.03-a. For purposes of any determination under this Article XIII, a director or officer shall be deemed to have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding to have had no reasonable cause to believe that his or her conduct was unlawful, if his or her action is based on information, opinions, reports and statements, including financial statements and other financial data, in each case prepared or presented by:

1. one or more officers or employees of the Corporation whom the director or officer believed to be reliable

and competent in the matters presented;

2. counsel, independent accountants or other persons as to matters which the director or officer believed to be within such person's professional or expert competence; or

3. with respect to a director, a committee of the Board of Directors upon which such director does not serve, as to matters within such committee's designated authority, which committee the director believes to merit confidence; so long as, in each case, the director or executive officer acts without knowledge that would cause such reliance to be unwarranted.

Section 13.03-b. The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of *nolo contendere* or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal proceeding, that he had reasonable cause to believe that his or her conduct was unlawful.

Section 13.03-c. The provisions of this Section 13.03 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth by the Delaware General Corporation Law.

Section 13.04. Advances of Expenses

The Corporation shall pay the expenses incurred by its directors or officers in any proceeding (other than a proceeding brought for an accounting of profits made from the purchase and sale by the director or officer of securities of the corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provision of any state statutory law or common law) in advance of the final disposition of the proceeding at the written request of the director or officer, if the director or officer: (a) furnishes the Corporation a written affirmation of the director's or officer's good faith belief that the director or officer is entitled to be indemnified under this Article XIII, and (b) furnishes the Corporation a written undertaking to repay the advance to the extent that it is ultimately determined that the director or officer is not entitled to be indemnified by the Corporation. Such undertaking shall be an unlimited general obligation of the director or officer but need not be secured. Advances pursuant to this Section 13.04 shall be made no later than 10 days after receipt by the Corporation of the affirmation and undertaking described in clauses (a) and (b) above, and shall be made without regard to the director's or officer's ability to repay the amount advanced and without regard to the director's or officer's ultimate entitlement to indemnification under this Article XIII. The Corporation may establish a trust, escrow account or other secured funding source for the payment of advances made and to be made pursuant to this Section 13.04 or of other liability incurred by the director or officer in connection with any proceeding.

Section 13.05. Enforcement

Without the necessity of entering into an express contract, all rights to indemnification and advances to directors and officers under this Article XIII shall be deemed to be contractual rights and be effective to the same extent and as if provided for in a contract between the Corporation and the director or officer. Any director or officer may enforce any right to indemnification or advances under this Article XIII in any court of competent jurisdiction if: (a) the Corporation denies the claim for indemnification or advances, in whole or in part, or (b) the Corporation does not dispose of such claim within 45 days of request therefor. It shall be a defense to any such enforcement action (other than an action brought to enforce a claim for advancement of expenses pursuant to, and in compliance with, Section 13.01 of this Article XIII) that the director or officer is not entitled to indemnification under this Article XIII. However, except as provided in Section 13.12 of this Article XIII, the Corporation shall not assert any defense to an action brought to enforce a claim for advancement of expenses pursuant to Section 13.04 of this Article XIII if the director or officer has tendered to the Corporation the affirmation and undertaking required thereunder. The burden of proving by clear and convincing evidence that indemnification is not appropriate shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors or independent legal counsel) to have made a determination prior to the commencement of such action that indemnification is proper in the circumstances because the director or officer has met the applicable standard of conduct nor an actual determination by the Corporation (including its Board of Directors or independent legal counsel) that indemnification is improper because the director or officer has not met such applicable standard of conduct, shall be asserted as a defense to the action or create a presumption that the director or officer is not entitled to indemnification under this Article XIII or otherwise. The director's or officer's expenses incurred in connection with successfully establishing such person's right to indemnification or advances, in whole or in part, in any proceeding shall also be paid or reimbursed by the Corporation.

Section 13.06. Non-Exclusivity of Rights

The rights conferred on any person by this Article XIII shall not be exclusive of any other right which such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding office. The Corporation is authorized to enter into individual contracts with any or all of its directors, officers, employees or agents

respecting indemnification and advances, to the fullest extent not prohibited by the Delaware General Corporation Law.

Section 13.07. Survival of Rights

The rights conferred on any person by this Article XIII shall continue as to a person who has ceased to be a director, officer, employee or other agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 13.08. Insurance

To the fullest extent permitted by the Delaware General Corporation Law, the Corporation, upon approval by the Board of Directors, may purchase insurance on behalf of any person required or permitted to be indemnified pursuant to this Article XIII.

Section 13.09. Amendments

Any repeal or modification of this Article XIII shall only be prospective and shall not affect the rights under this Article XIII in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any proceeding against any director, officer, employee or agent of the Corporation.

Section 13.10. Savings Clause

If this Article XIII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director and officer to the full extent not prohibited by any applicable portion of this Article XIII that shall not have been invalidated, or by any other applicable law.

Section 13.11. Certain Definitions

For the purposes of this Article XIII, the following definitions shall apply:

Section 13.11-a. The term **“proceeding”** shall include any threatened, pending or completed action, suit or proceeding, whether brought in the right of the Corporation or otherwise, and whether of a civil, criminal, administrative or investigative nature, in which the director or officer may be or may have been involved as a party, witness or otherwise, by reason of the fact that the director or officer is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, whether or not serving in such capacity at the time any liability or expense is incurred for which indemnification or reimbursement can be provided under this Article XIII.

Section 13.11-b. The term **“expenses”** includes, without limitation thereto, expenses of investigations, judicial or administrative proceedings or appeals, attorney, accountant and other professional fees and disbursements and any expenses of establishing a right to indemnification under this Article XIII, but shall not include amounts paid in settlement by the director or officer or the amount of judgments or fines against the director or officer.

Section 13.11-c. References to **“other enterprise”** include, without limitation, employee benefit plans; references to **“fines”** include, without limitation, any excise taxes assessed on a person with respect to any employee benefit plan; references to **“serving at the request of the Corporation”** include, without limitation, any service as a director, officer, employee or agent which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or its beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner **“not opposed to the best interests of the Corporation”** as referred to in this Article XIII.

Section 13.11-d. References to **“the Corporation”** shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer or employee of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this Article XIII with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

Section 13.11-e. The meaning of the phrase **“to the fullest extent permitted by law”** shall include, but not be limited to: (i) to the fullest extent authorized or permitted by any amendments to or replacements of the Delaware General Corporation Law adopted after the date of this Article XIII that increase the extent to which a corporation may indemnify its directors and officers, and (ii) to the fullest extent permitted by the provision of the Delaware General Corporation Law that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the Delaware General Corporation Law.

Section 13.12. Notification and Defense of Claim

As a condition precedent to indemnification under this Article XIII, not later than 30 days after receipt by the director or officer of notice of the commencement of any proceeding the director or officer shall, if a claim in respect of the proceeding is to be made against the Corporation under this Article XIII, notify the Corporation in writing of the commencement of the proceeding. The failure to properly notify the Corporation shall not relieve the Corporation from any liability which it may have to the director or officer otherwise than under this Article XIII. With respect to any proceeding as to which the director or officer so notifies the Corporation of the commencement:

Section 13.12-a. The Corporation shall be entitled to participate in the proceeding at its own expense.

Section 13.12-b. Except as otherwise provided in this Section 13.12, the Corporation may, at its option and jointly with any other indemnifying party similarly notified and electing to assume such defense, assume the defense of the proceeding, with legal counsel reasonably satisfactory to the director or officer. The director or officer shall have the right to use separate legal counsel in the proceeding, but the Corporation shall not be liable to the director or officer under this Article XIII for the fees and expenses of separate legal counsel incurred after notice from the Corporation of its assumption of the defense, unless (1) the director or officer reasonably concludes that there may be a conflict of interest between the Corporation and the director or officer in the conduct of the defense of the proceeding, or (2) the Corporation does not use legal counsel to assume the defense of such proceeding. The Corporation shall not be entitled to assume the defense of any proceeding brought by or on behalf of the Corporation or as to which the director or officer has made the conclusion provided for in (1) above.

Section 13.12-c. If two or more persons who may be entitled to indemnification from the Corporation, including the director or officer seeking indemnification, are parties to any proceeding, the Corporation may require the director or officer to use the same legal counsel as the other parties. The director or officer shall have the right to use separate legal counsel in the proceeding, but the Corporation shall not be liable to the director or officer under this Article XIII for the fees and expenses of separate legal counsel incurred after notice from the Corporation of the requirement to use the same legal counsel as the other parties, unless the director or officer reasonably concludes that there may be a conflict of interest between the director or officer and any of the other parties required by the Corporation to be represented by the same legal counsel.

Section 13.12-d. The Corporation shall not be liable to indemnify the director or officer under this Article XIII for any amounts paid in settlement of any proceeding effected without its written consent, which shall not be unreasonably withheld. The director or officer shall permit the Corporation to settle any proceeding that the Corporation assumes the defense of, except that the Corporation shall not settle any action or claim in any manner that would impose any penalty or limitation on the director or officer without such person's written consent.

Section 13.13. Exclusions

Notwithstanding any provision in this Article XIII, the Corporation shall not be obligated under this Article XIII to make any indemnification in connection with any claim made against any director or officer: (a) for which payment is required to be made to or on behalf of the director or officer under any insurance policy, except with respect to any excess amount to which the director or officer is entitled under this Article XIII beyond the amount of payment under such insurance policy; (b) if a court having jurisdiction in the matter finally determines that such indemnification is not lawful under any applicable statute or public policy; (c) in connection with any proceeding (or part of any proceeding) initiated by the director or officer, or any proceeding by the director or officer against the Corporation or its directors, officers, employees or other persons entitled to be indemnified by the Corporation, unless: (1) the Corporation is expressly required by law to make the indemnification; (2) the proceeding was authorized by the Board of Directors of the Corporation; or (3) the director or officer initiated the proceeding pursuant to Section 13.05 of this Article XIII and the director or officer is successful in whole or in part in such proceeding; or (d) for an accounting of profits made from the purchase and sale by the director or officer of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provision of any state statutory law or common law.

Section 13.14. Subrogation

In the event of payment under this Article XIII, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the director or officer. The director or officer shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Corporation effectively to bring suit to enforce such rights.

ARTICLE XIV: DEFINITIONS AND USAGE

Whenever the context of these Bylaws requires, the plural shall be read to include the singular, and vice versa; and word; of the masculine gender shall refer to the feminine gender, and vice versa; and words of the neuter gender shall refer to any

gender.

The undersigned, Secretary of the Corporation, hereby certifies that the foregoing is a true and complete copy of the Corporation 's Bylaws as amended effective April 10, 2001 and the same have not been modified and remain in full force and effect on the date of this certificate.

**AMENDMENT NO. [3]
TO THE
AMENDED AND RESTATED
BYLAWS
OF
TASER INTERNATIONAL, INC.
(which is changing its name to Axon Enterprise, Inc.)**

April 5, 2017

Pursuant to the resolutions adopted by the Board of Directors of Axon Enterprise, Inc., formerly TASER International, Inc., a Delaware corporation (the "**Company**"), dated April 5, 2017, the Bylaws of the Company are hereby amended as follows:

1. All references to TASER International, Inc. shall be amended and replaced by the new name of the corporation, Axon Enterprise, Inc., including, but not limited to, changing the title of the Bylaws from "Bylaws of TASER International, Inc." to "Bylaws of Axon Enterprise, Inc." and amending Section 1.01 as follows:

"Section 1.01 Registered Office.

The registered office of Axon Enterprise, Inc. (the "Corporation") in the State of Delaware shall be that set forth in the Certificate of Incorporation or in the most recent amendment of the Certificate of Incorporation or in a certificate prepared by the Board of Directors and filed with the Secretary of State of Delaware changing the registered office."

2. Except as otherwise set forth herein, all other provisions of the Bylaws shall remain in full force and effect.

[The remainder of this page has been intentionally left blank.]

CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify:

1. That I am the duly elected and acting Secretary of TASER International, Inc. (which will henceforth be known as Axon Enterprise, Inc.), a Delaware corporation; and

2. That the foregoing Amendment No. [3] to the Bylaws, comprising two (2) pages, including this Certificate of Secretary, constitutes the Amendment No. [3] to the Bylaws of said corporation as duly adopted by the Board of Directors by Action by Written Consent of said corporation on or about the date hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 5th day of April, 2017.

By: __

Name: Douglas E. Klint

Title: General Counsel and Corporate Secretary

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Axon Enterprise, Inc. (the "Company") for the quarterly period ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Patrick W. Smith, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Patrick W. Smith

Patrick W. Smith
Chief Executive Officer
May 10, 2018

In connection with the Quarterly Report on Form 10-Q of Axon Enterprise, Inc. (the "Company") for the quarterly period ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jawad A. Ahsan, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jawad A. Ahsan

Jawad A. Ahsan
Chief Financial Officer
May 10, 2018

