
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-KSB

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

For the fiscal year ended December 31, 2001

or

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

For the transition period from _____ to _____

Commission File Number 001-16391

TASER INTERNATIONAL, INC.

(Name of small business issuer as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

**7860 E. McClain Drive, Suite 2,
Scottsdale, Arizona**

(Address of principal executive offices)

86-0741227

*(I.R.S. Employer
Identification Number)*

85260

(Zip Code)

(480) 991-0797

(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act: NONE

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

Common Stock, \$0.00001 par value per share

Warrant, right to purchase one share of Common Stock

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The issuer's revenues for the fiscal year ended December 31, 2001 were \$6,853,272.

The aggregate market value of the Common Stock held by non-affiliates of the issuer, based on the average of the high and low sales prices of the issuer's Common Stock on March 14, 2002 as reported by Nasdaq, was \$25,703,906. 1,240,572 shares of Common Stock held by each current executive officer, director, and non-executive manager of the issuer have been excluded from this computation in that such persons may be deemed to be affiliates of the issuer.

The number of shares of Common Stock outstanding as of March 14, 2002 was 2,821,378.

Transitional Small Business Disclosure Format: Yes No

DOCUMENTS INCORPORATED BY REFERENCE

Parts of registrant's proxy statement dated on or about March 25, 2002 prepared in connection with the annual meeting of stockholders to be held May 1, 2002 are incorporated by reference into Part III of this report.

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We own the following registered trademarks: TASER® and AIR TASER®. We also have the following unregistered trademarks: TASER-Wave™, T-WAVE™, AUTO TASER™, ADVANCED TASER™ and AFID™. Each other trademark, trade name or service mark appearing in this report belongs to its respective holder.

PART I

The 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 without limitation, statements regarding our expectations, beliefs, intentions or 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: (1) expected revenue and earnings growth; (2) estimates regarding the size of target markets; (3) our ability to successfully penetrate the law enforcement market; (4) growth expectations for existing accounts; (5) our ability to expand product sales to the private security, military, commercial airlines, and consumer self-defense markets; and (6) our target business model. These statements are qualified by important factors that could cause our actual results to differ materially from those reflected by the forward-looking statements. Such factors include but are not limited to: (1) market acceptance of our products; (2) our ability to establish and expand direct and indirect distribution channels; (3) our ability to attract and retain the endorsement of key opinion-leaders in the law enforcement community; (4) the level of product technology and price competition for our ADVANCED TASER products; (5) the degree and rate of growth of the markets in which we compete and the accompanying demand for our products; and (6) other factors detailed in our filings with the Securities and Exchange Commission, including, without limitation, those factors detailed in Exhibit 99.1 to this report.

Item 1. Description of Business

Overview

TASER International, Inc. began operations in Arizona in 1993 for the purpose of developing and manufacturing less-lethal self-defense devices. From inception until the introduction in 1994 of our first product the AIR TASER, we were in the developmental stage and focused our efforts on product development, raising capital, hiring key employees and developing marketing materials to promote our product line.

In 1995 and 1996, we concentrated our efforts on promoting retail sales and establishing distribution channels for the AIR TASER product line. However, our marketing efforts were limited by a non-compete agreement that prohibited the marketing or selling of our products to the U.S. law enforcement and military markets. Accordingly, initial sales of the AIR TASER were limited to the consumer market. While early sales in this market were promising, by the end of 1996, we were unable to establish consistent sales channels in the consumer marketplace and sales declined. In late 1996, we relocated our production facilities to Mexico to reduce production costs while we evaluated complementary product lines.

In 1997, we introduced our second product line, the AUTO TASER. The initial market response to the AUTO TASER suggested the demand for this product would more than compensate for the declining AIR TASER sales and provide working capital resources to develop the next generation of AIR TASER products for the law enforcement community. Because of strong pressure from pre-production orders, we accelerated the development of the AUTO TASER. As a result of this acceleration, production costs of the AUTO TASER far exceeded initial projections, and we experienced a substantial amount of AUTO TASER returns due to product defects.

In 1998, the non-compete agreement that had precluded sales of our products to the law enforcement and military markets expired. In anticipation of its expiration, we focused our research and development efforts on the ADVANCED TASER product line. Our change in focus from the consumer market to the law enforcement market resulted from a market analysis that suggested the most effective method of penetrating

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the consumer and private security markets was through the de facto endorsement of our products by the law enforcement community. In order to enter the law enforcement market we would have to make material changes to our existing technology and channel all of our resources toward success in this market.

In August 1999, we discontinued the AUTO TASER product line and closed our production facility in Mexico. Following closure of our facility in Mexico, we out-sourced the production of the AIR TASER and certain non-proprietary assemblies to a third-party assembler. Our primary objective was to complete development of the ADVANCED TASER. In December 1999, we introduced the ADVANCED TASER for sale in the law enforcement market.

The first full year of ADVANCED TASER product line sales was 2000. Although we had limited financial resources, we spent the year building the distribution channel for marketing the product line and developing a nationwide training campaign to introduce the product line to law enforcement agencies, primarily in North America. We also began evaluating the prospect of returning manufacturing to the United States.

In 2001, we made significant changes to support the growing demand for the ADVANCED TASER product line. We discontinued outsourcing of the final assembly of our products and moved these operations back into our Scottsdale facility. In addition we developed a manufacturing infrastructure inclusive of direct assembly and material management to support product demand. We also completed in 2001, an initial public offering of 800,000 units, at \$13.00 per unit, each consisting of one and one half shares of common stock and one and one half warrants, each whole warrant to purchase one share of common stock, with net proceeds to us of approximately \$8.4 million. Proceeds from the offering were used to retire debt, increase inventory and working capital and fund future sales and marketing programs.

We relocated our corporate headquarters to a larger, more modern facility in January of 2001. Our new Scottsdale facility provided sufficient space for our manufacturing, warehousing, and office needs. We also established a new support infrastructure in connection with bringing our manufacturing operations back to Scottsdale. We hired a full-time production manager and a warehouse manager to control the flow of materials and our use of labor, and we hired and trained 21 additional employees.

Also in 2001, we hired a new Executive Vice President of Sales and Marketing primarily to further our penetration of the law enforcement market. We contracted with 51 independent sales representatives to expand our sales and marketing efforts, and we sold or provided ADVANCED TASERs to more than 1,000 police agencies across the U.S. and Europe. 2001 also marked the introduction of our products to the airline industry. Immediately following the tragic events of September 11, 2001, leading commercial airlines contacted us with regard to using the ADVANCED TASER on board commercial aircraft. In December 2001, United Airlines became the first U.S. airline to purchase our products. United's initial order was for 1,300 ADVANCED TASERs units, plus cartridges and holstering accessories. These units are being warehoused for United pending final approval by the Federal Aviation Administration for their deployment on commercial aircraft.

PRODUCTS

Our weapons use compressed nitrogen to shoot two small, electrified probes up to a maximum distance of 21 feet. The probes and compressed nitrogen are stored in a replaceable cartridge attached to the base of the weapon. Our proprietary replacement cartridges are sold separately.

After firing, the probes discharged from our cartridges remain connected to the weapon by high-voltage insulated wires that transmit electrical pulses into the target. These electrical pulses, which we call TASER-Waves or T-Waves, are transmitted through the body's nerves in a manner similar to the transmission of signals used by the brain to communicate with the body. The T-Waves temporarily overwhelm the normal electrical signals within the body's nerve fibers, impairing subjects' ability to control their bodies or perform coordinated actions. T-Waves can penetrate up to two inches of clothing and up to a class 3 bullet resistant vest, the second most protective of seven classes of bullet resistant vests. The initial effect lasts up to five seconds and the charge can be repeated for up to approximately ten minutes by repeatedly firing the weapon.

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Since all our weapons use the same cartridges, we can support multiple platforms and still achieve economies of scale in cartridge production. Our cartridges contain numerous colored, confetti-like tags bearing the cartridge's serial number. These tags, referred to as Anti-Felon Identification tags, or AFIDs, are scattered when one of our weapons is fired. We require sellers of our products to participate in the AFID program by registering buyers of our cartridges. In many cases, we can use AFIDs to identify the registered owner of cartridges fired.

We introduced our initial product, the AIR TASER, in 1994. We designed the AIR TASER to look like a cellular telephone rather than a weapon to target the consumer electronics market. Currently, the AIR TASER product line consists of the AIR TASER, a cartridge that shoots two small, electrified probes up to 15 feet, an optional laser sight, and a number of holstering accessories. We continue to target the AIR TASER line to the consumer market.

We developed the ADVANCED TASER product line, launched in December 1999, primarily for the law enforcement and corrections market. The ADVANCED TASER is our primary product. We sell the M26 version of this weapon exclusively to law enforcement and corrections agencies and as of 2001, the commercial airline industry. Currently, the ADVANCED TASER M26 product line consists of the ADVANCED TASER, a cartridge that shoots two small, electrified probes up to 21 feet, TASER-labeled rechargeable batteries, NiMH battery charger, and a number of holstering accessories.

In addition to the law enforcement line of ADVANCED TASER products, we also developed a less powerful consumer version of the ADVANCED TASER M26 for the consumer market. This line includes the ADVANCED TASER M18L, with integrated laser sight, the ADVANCED TASER M18 without an integrated laser sight, a cartridge that shoots two small, electrified probes up to 15 feet, and a number of holstering accessories.

Our most inexpensive consumer product is the entry-level consumer AIR TASER, with a retail price of \$120. Our high-end consumer model, the ADVANCED TASER M18L with integrated laser sight, retails for \$600. The ADVANCED TASER M26 is currently our best selling item. Law enforcement distributors sell the M26 to police and corrections agencies for \$400. Retail cartridge prices range from \$16 to \$30 per unit. We will make M26 sales to the commercial airline industry directly at law enforcement prices.

We offer a lifetime warranty on the AIR TASER. Under this warranty, we will replace any AIR TASER that fails to operate properly for a \$25 fee. The AIR TASER is designed to disable an attacker for up to 30 seconds, and we encourage consumers to leave the unit and flee after firing it. As a result, we also provide free replacement units to consumers who follow this suggested procedure. To qualify for the replacement unit, users must file a police report that describes the incident and confirms the use of the AIR TASER. Warranty costs under the AIR TASER replacement policy have been minimal to date. Historically, approximately 2% of the AIR TASERS sold by us were returned by end users in connection with a warranty claim.

We offer a one year no-questions-asked replacement policy on the ADVANCED TASER. If after the warranty expires, the weapon fails to operate properly for any reason, we will replace it for a fee of \$75. This fee is intended to help defray the handling and repair costs associated with product returns. This policy is attractive to our law enforcement and corrections agency customers. In particular, it avoids disputes regarding the source or cause of any defect. Based upon our 2000 and 2001 warranty return information, we have created a reserve for ADVANCED TASER product returns equivalent to 7% of the sales volume shipped in 2001, multiplied by a factor representing the scrap cost associated with each returned unit. Warranty costs under the ADVANCED TASER replacement policy totaled \$11,500 in 2001, and \$50,000 in 2000. The figure for 2000 included \$41,000 recorded in connection with a series of ADVANCED TASERS that we recalled in the fourth quarter of 2000 due to a defective electronic component.

MARKETS

Law enforcement and corrections

Federal, state and local law enforcement agencies in the United States currently represent the primary target market for the ADVANCED TASER. Acceptance of the ADVANCED TASER by United States police departments has been fairly rapid since its introduction in December 1999.

In the law enforcement market, over 1,000 law enforcement agencies have made initial purchases of the ADVANCED TASER for testing or deployment. These agencies include the United States Secret Service, Los Angeles Police Department, Los Angeles County Sheriff's Department, New York Police Department, the Royal Canadian Mounted Police, Miami Police Department, Denver Police Department, Fort Worth (TX) Police Department, Orange County (FL) Sheriff's Department, Ohio State Troopers, Phoenix (AZ) Police Department, Chandler (AZ) Police Department, Philadelphia Police Department, Seattle Police Department, and Minneapolis Police Department. In addition, 25 police departments, including San Diego, Reno, Sacramento, Albuquerque, Citrus County (FL) Sheriff's Office and Clay County (FL) Sheriff's Office have purchased enough of our weapons to issue one to each of their patrol officers.

We believe the ADVANCED TASER could prove equally suitable for use in correctional facilities and have begun to see ADVANCED TASER deployments in correctional facilities such as those operated by Los Angeles Custody Division and the State of Wisconsin.

Commercial airlines

The commercial airlines became a new market for us in 2001. Following the events of September 11, 2001, the commercial airline industry began implementing added security measures to protect both its passengers and crew. These measures included reinforcement of cockpit doors, increased airport security, and the testing of effective weapons for storage and use on board planes. The ADVANCED TASER is one alternative now under review by the Federal Aviation Administration (FAA), the U.S. Department of Justice, the U.S. Congress, many leading commercial carriers, and one significant aircraft manufacturer. United Airlines became the first major carrier to commit to our ADVANCED TASER product for on board security. United purchased 1,300 of our weapons in December 2001, and intends to install the weapons on board their entire fleet pending FAA approval. We believe the FAA will approve the ADVANCED TASER for use on board commercial aircraft. However, as approval is uncertain, we have not included revenue from this market in our 2002 financial guidance.

Private security firms and guard services

We are still in the early stage of pursuing additional opportunities for sales of the ADVANCED TASER in private security markets, and have made only limited sales to date. However, a report of the Security Industry Association for 1999-2000, estimated that there were over 1.7 million privately employed security guards or personnel in the United States. They represent a broad range of individuals, including bodyguards, commercial and government building security guards, commercial money carrier employees and many others, and represent a large potential market.

Consumer/personal protection

Prior to the introduction of the ADVANCED TASER in 1999, the majority of our annual revenue was derived from consumer sales. However, since the introduction of the ADVANCED TASER in 2000, our annual revenue from consumer sales has dropped to an average range of \$1.0 to \$1.5 million per year. We expect consumer sales to remain in this range in 2002, with growth appearing in 2003 as a result of acceptance of the ADVANCED TASER by the law enforcement community. We believe consumer sales could contribute a substantial portion of our revenues beyond 2003, particularly if the ADVANCED TASER becomes more established in the law enforcement and airline industries.

Military

Military police forces may use the ADVANCED TASER for purposes similar to those of civilian police units and to reduce the possibility of civilian casualties resulting from combat operations in populated environments. We have not formally pursued sales opportunities in the military market, but are consulting with military experts regarding use of our products. During 2001, we did sell 50 ADVANCED TASERS to the U.S. Air Force, and the U.S. Marine Corps completed its evaluation of the weapon and recommended an undisclosed quantity for deployment. We have not included revenues from military agencies in our 2002 financial guidance.

SALES AND MARKETING

Law enforcement and corrections agencies represent our primary target market. In this market, the decision to purchase the ADVANCED TASER is normally made by a group of people including the agency head, his training staff, and weapons experts. The decision sometimes involves political decision-makers such as city council members. The decision-making process can take as little as a few weeks or as long as several years.

United States distribution

With the exception of several accounts to which we sell directly, the vast majority of our law enforcement agency sales in the United States occur through our network of more than 25 law enforcement distributors. To service these distributors and assist us in expanding sales to new agencies, we have retained the services of six independent manufacturer's representative firms, which collectively employ more than 50 sales representatives. These representatives call on potential distributors and utilize their expansive contacts within the law enforcement community to open new sales opportunities for us. We compensate our representatives solely on a commission basis, calculated as a percentage of the sales they complete. The commissions paid to our representatives are accrued at the end of each quarter, and paid to the representative firms on the 15th day of the month following payment by our customers.

Sales in the consumer market are made through the same group of representatives, as well as many of the same independent distributors. However, as of December 31, 2001, we had also established relationships with eleven new commercial distributors in the United States. Due to the confidential nature of the relationships established with the major U.S. airlines, we currently intend to make all future sales of our products directly to the commercial airline industry. These direct sales will enable us to assist the airlines in the development of training and tactical applications, and to provide on-site equipment maintenance services as they are required.

International distribution

We concentrated our marketing resources on penetrating the United States law enforcement and corrections market in 2000 and 2001. Accordingly, our international sales efforts in these years were limited to select presentations and training seminars conducted by TASER personnel. These presentations included the introduction of the ADVANCED TASER in Europe and parts of the Middle East, South America and Asia. During the fourth quarter of 2001 and early 2002, we retained the services of three international manufacturer's representatives to continue our pursuit of these key markets. Also during this period, we began screening qualified importers to represent us in more than 30 countries around the world. Our sales outside the U.S. and Canada accounted for 9% and 18% of total revenues in 2001 and 2000 respectively. We do not anticipate that the total sales generated outside the U.S. and Canada will exceed 10% of our total sales in 2002.

We have worked in the past with more than 20 foreign distributors. These foreign distributors purchase products from us and resell them to sub-distributors, retail dealers or end users. We continue to provide most foreign distributors with short-term exclusive contracts to sell our products in a designated region. Although many of these relationships are inactive, we continue to ship products as ordered.

Training programs

Most law enforcement and corrections agencies will not purchase new weapons until a training program is in place to certify all officers in their proper use. We offer an eight-hour class that certifies law enforcement and corrections agency trainers as instructors in the use of the ADVANCED TASER. We have certified approximately 3,900 law enforcement training officers as ADVANCED TASER instructors. Our certification program is designed to make it easier for departments to comply with these training requirements.

151 of our certified instructors have undergone further training and become certified as master instructors. We authorize these individuals to train other law enforcement and corrections agency trainers, not just end-users within these organizations. 40 of our master instructors have agreed to conduct ADVANCED TASER training classes on a regular basis. These instructors independently organize and promote their own training sessions, and we provide them with logistical support. They are independent professional trainers, serve as local TASER experts, and assist our distributors in conducting TASER demonstrations at other police departments within regions. Through 2000 we did not charge for attendance at these classes. However, effective January 1, 2001, our charge for training is \$195 per attendee. We pay master instructors a per-session training fee for each session they conduct. These training sessions have led directly to the sale of ADVANCED TASERs to a number of police departments.

MANUFACTURING

On March 1, 2001, we relocated all final assembly operations to our corporate headquarters in Scottsdale, Arizona. Our headquarters has approximately 6,000 square feet of product assembly and warehouse space. We own all of the equipment required to manufacture and assemble our finished products, as well as all molds, schematics, and prototypes utilized by our vendors in the production of required raw materials and sub-assemblies.

With our current work force, on a single shift, we are able to produce approximately 30,000 cartridges per month, and more than 3,000 TASERs. We can expand our production capabilities by adding additional personnel and a second shift with negligible new investment in tooling and equipment.

We purchase finished circuit boards and injection-molded plastic components from vendors located in the Phoenix area. Although we currently obtain these components from single source suppliers, we own the injection molded component tooling used in their production. As a result, we believe we could obtain alternative suppliers without incurring significant production delays. We also purchase small, machined parts from a vendor in Taiwan, China, and custom cartridge assemblies from a proprietary vendor in Arizona. We believe that these or readily available alternative suppliers can consistently meet our needs for these components. We acquire most of our components on a purchase order basis and do not have long-term contracts with suppliers. We believe that our relationships with our suppliers are good.

COMPETITION

Law enforcement and corrections market

In the law enforcement and corrections market, the ADVANCED TASER competes directly with the conducted energy weapon sold by Electronic Medical Research Laboratories, Inc., doing business as Tasertron. Tasertron is the sole remaining manufacturer of the original TASER weapon introduced in the 1970's. As of December 31, 2001, over 1,000 police departments had purchased, in the aggregate, approximately 15,000 ADVANCED TASERs. We believe that approximately 350 police departments currently deploy the Tasertron weapon, with less than 7,500 units deployed primarily at the tactical supervisors level. We believe the ADVANCED TASER also competes indirectly with a variety of other less-lethal alternatives. In the consumer market, the AIR TASER competes directly with a conducted energy weapon introduced by Bestex, Inc. in 1996, called the Dual Defense, and indirectly with other less-lethal alternatives.

Tasertron had an exclusive license to sell TASER products in the North American law enforcement and corrections market until February 1998. Since its introduction, the ADVANCED TASER has competed

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successfully against the Tasertron unit, even in agencies that had previously purchased weapons from Tasertron. Other less-lethal weapons, sold by companies such as Armor Holdings Inc. and Jaycor, Inc., compete with our ADVANCED TASER indirectly. We believe the ADVANCED TASER's versatility, effectiveness, and low injury rate enable it to compete effectively against other less-lethal alternatives.

Consumer market

Conducted energy weapons have gained limited acceptance in the consumer market for less-lethal weapons. These weapons compete with other less-lethal weapons such as stun guns, batons and clubs, and chemical sprays. The primary competitive factors in the consumer market include a weapon's cost, effectiveness, and ease of use. The widespread adoption of the ADVANCED TASER by prominent law enforcement agencies may help us overcome a perceived historic lack of consumer confidence in conducted energy weapons.

REGULATION

United States regulation

The AIR TASER and ADVANCED TASER, as well as the cartridges used by both weapons, are subject to identical regulations. Neither weapon is considered to be a "firearm" by the Bureau of Alcohol, Tobacco, and Firearms. Therefore, no firearms-related regulations apply to the sale and distribution of our weapons within the United States. In the 1980s however, many states introduced regulations restricting the sale and use of stun guns, inexpensive hand-held shock devices. We believe existing stun gun regulations also apply to our weapon systems.

In many cases, the law enforcement and corrections market is subject to different regulations than the consumer market. Where different regulations exist, we assume the regulations affecting the consumer market also apply to the private security markets except as the applicable regulations otherwise specifically provide. Based on a review of current regulations, we have determined the following states regulate the sale and use of our weapon systems:

STATE	LAW ENFORCEMENT USE	CONSUMER USE
Connecticut	Legal	Legal, subject to restrictions
Florida	Legal	Legal, subject to restrictions
Hawaii	Legal	Prohibited
Illinois	Legal	Legal, subject to restrictions
Indiana	Legal	Legal, subject to restrictions
Massachusetts	Legal	Prohibited
Michigan	Prohibited (except for evaluation)	Prohibited
New Jersey	Prohibited	Prohibited
New York	Legal	Prohibited
North Carolina	Legal	Legal, subject to restrictions
North Dakota	Legal	Legal, subject to restrictions
Rhode Island	Prohibited	Prohibited
Washington	Legal	Legal, subject to restrictions
Wisconsin	Legal	Prohibited

The following cities and counties also regulate our weapon systems:

CITY OF COUNTY	LAW ENFORCEMENT USE	CONSUMER USE
Annapolis	Legal	Prohibited
Baltimore	Legal	Prohibited
Chicago	Legal	Prohibited
Howard County, MD	Legal	Prohibited
Lynn County, OH	Legal	Legal, subject to restrictions
New York City	Legal	Prohibited
Philadelphia	Legal	Prohibited
Washington, D.C.	Legal	Prohibited

United States export regulation

Our weapon systems are considered a crime control product by the United States Department of Commerce. Accordingly, the export of our weapon systems is regulated under export administration regulations. As a result, we must obtain export licenses from the Department of Commerce for all shipments to foreign countries other than Canada. Most of our requests for export licenses have been granted, and the need to obtain these licenses has not caused a material delay in our shipments. The need to obtain licenses, however, has limited or impeded our ability to ship to certain foreign markets. Export regulations also prohibit the further shipment of our products from foreign markets in which we hold a valid export license for the products to foreign markets in which we do not hold a valid export license.

In addition, in the fall of 2000, the Department of Commerce introduced new regulations restricting the export of technology used in our weapon systems. These regulations apply to both the technology incorporated in our weapon systems and in the processes used to produce them. The technology export regulations do not apply to production that takes place within the United States, but are applicable to all sub-assemblies and controlled items manufactured outside the United States.

Foreign regulation

Foreign regulations which may affect our weapon systems are numerous and often unclear. We prefer to work with a distributor who is familiar with the applicable import regulations in each of our foreign markets. Experience with foreign distributors in the past indicates that restrictions may prohibit certain sales of our products in a number of countries. The countries in which we are aware of restrictions include: Belgium, Denmark, Hong Kong, Italy, Japan, New Zealand, Norway, Sweden, Switzerland and the United Kingdom. Additionally, Australia, Canada and India permit our products to be sold only to law enforcement and corrections agencies.

INTELLECTUAL PROPERTY

We protect our intellectual property with a variety of patents and trademarks. In addition, we use confidentiality agreements with employees, consultants and key suppliers to ensure the confidentiality of our trade secrets.

We hold a United States patent on the construction of the gas cylinder used to store the compressed nitrogen in our cartridges. This patent expires in 2015. We and two other companies are the only licensees for use in electronic weapons of the technology described in a United States patent held by John H. Cover, Jr. The licenses held by the other licensees may not be transferred and their rights under the licenses may not be expanded or modified without our approval. Mr. Cover's patent covers the process by which compressed gases launch the probes in our cartridges and expires in 2009. Using this compressed gas technology instead of gunpowder prevents our products from being classified as firearms by the Bureau of Alcohol, Tobacco and Firearms. We also have a broad-based patent application pending that covers the energy wave form we developed for the ADVANCED TASER.

We own the AIR TASER and TASER registered trademarks as well as several unregistered trademarks. In addition, in 2001, we purchased the internet domain name "TASER.com".

RESEARCH AND DEVELOPMENT

Our research and development initiatives are led by our internal personnel and make use of specialized consultants when necessary. These initiatives include bio-medical research and electrical and mechanical engineering design. We expect that future development projects will focus on reducing the size, extending the range, and improving the functionality of our weapons. Our total contracted research and development expenditures were \$43,400 in 2001 and \$7,100 in 2000.

EMPLOYEES

As of December 31, 2001, we had 49 full-time employees. Eight of these employees were involved in sales, marketing and training. One was employed in research, development and engineering. Seven were employed in administrative functions inclusive of executive management, information systems, finance, accounting, and investor relations. Two were employed in manufacturing support functions. The remaining 31 employees were all direct manufacturing and assembly operators. Our employees are not covered by any collective bargaining agreement, and we have never experienced a work stoppage. We believe that our relations with our employees are good.

CORPORATE INFORMATION

We were incorporated in Arizona in September 1993 as ICER Corporation. We changed our name to AIR TASER, Inc. in December 1993, and to TASER International, Incorporated in April 1998. In February 2001, we reincorporated in Delaware as TASER International, Inc.

Item 2. Description of Property

We conduct our operations from a modern 11,800 square-foot facility in Scottsdale, Arizona. The monthly rent for this facility is approximately \$11,500. Our lease expires on December 31, 2005. We believe this facility will meet our needs for the next three years and that additional space will be available on reasonable terms upon the expiration of our current lease or if we sooner require additional space.

Item 3. Legal Proceedings

In February 2000, Thomas N. Hennigan, a distributor of our products from late 1997 through early 2000, sued us in the United States District Court, Southern District of New York. Mr. Hennigan claims the exclusive right to sell our products to many of the largest law enforcement, corrections, and military agencies in the United States. He seeks monetary damages in the aggregate amount of \$400 million against us and certain of our officers allegedly arising in connection with his service to us as a distributor on theories of our failure to pay commissions, breach of contract, interference with contract, and on related theories. We signed no contract with Mr. Hennigan. We also believe that he has no reasonable basis for claims to informal or implied contractual rights. As a result, we believe his claims are without merit, and the litigation will have no material adverse effect on our business, operating results or financial condition. Mr. Hennigan's suit was dismissed in February 2001 for lack of jurisdiction of the New York court. The case is now pending in the United States District Court for the District of Arizona. Mr. Hennigan died in April 2001. The case is now being prosecuted by his estate.

In early April 2001, James F. McNulty Jr. sued us in the United States District Court, Central District of California. The lawsuit alleges that certain technology used in the firing mechanism for our weapons infringes upon a patent for which Mr. McNulty holds a license, and seeks injunctive relief and unspecified monetary damages. We believe we do not infringe this patent, that Mr. McNulty's claims are without merit and that the litigation will not have a material adverse effect on our business, operating results or financial condition. In February 2002, we won a motion for summary judgement that limits Mr. McNulty's right to sue for damages only to damages incurred after February 2001.

In May 2001, the Company filed a complaint against Electronic Medical Research Laboratories, Inc., doing business as Tasertron, in the United States District Court for the District of Arizona. The complaint alleges trademark infringement, unfair competition and interference with contractual relations, and seeks monetary damages and injunctive relief.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II**Item 5. Market for Common Equity and Related Stockholder Matters****Market Information**

Our Common Stock is quoted under the symbol "TASR" on The Nasdaq SmallCap Stock Market.

Our Warrants to purchase one share of Common Stock are quoted under the symbol "TASRW" on The Nasdaq SmallCap Stock Market.

The following tables set forth the high and low closing sales prices per share, and per warrant, for our Common Stock and Warrants as reported by Nasdaq for each quarter since our initial listing of these securities on The Nasdaq Stock Market in May of 2001:

Common Stock "TASR"

2001 Fiscal Quarters	High	Low
June 30, 2001(1)	\$ 7.30	\$5.35
September 30, 2001	\$ 9.31	\$5.60
December 31, 2001	\$15.14	\$8.25

- (1) From May 8, through June 7, 2001, our Common Stock traded on The Nasdaq SmallCap Stock Market only as a component of a unit consisting of one and one-half shares of Common Stock and one and one half Warrants each whole Warrant to purchase one share of Common Stock. This unit traded under the symbol "TASRU". As of June 7, 2001, our Common Stock and Warrants began trading separately. These prices reflect the sales prices of our Common Stock beginning June 7, 2001.

Public Warrants "TASRW"

2001 Fiscal Quarters	High	Low
June 30, 2001(1)	\$2.45	\$1.40
September 30, 2001	\$3.20	\$1.25
December 31, 2001	\$6.75	\$2.55

- (1) From May 8, through June 7, 2001 our Warrants traded on The Nasdaq SmallCap Stock Market only as a component of a unit consisting of one and one half shares of Common Stock and one and one half Warrants, each whole Warrant to purchase one share of Common Stock. This unit traded under the symbol "TASRU". As of June 7, 2001, our Common Stock and Warrants began trading separately. These prices reflect sales prices for our Warrants beginning June 7, 2001.

Holders

As of March 14, 2002 there were approximately 30 holders of record of our Common Stock, and approximately 5 holders of record of our public warrants.

Dividends

We have never declared or paid dividends on our Common Stock.

Recent sales of unregistered securities

In January 2001, pursuant to an exemption under Section 4 (2) of the Securities Act, we issued 5,000 warrants to an unrelated private lender, as a loan guarantee. These warrants are exercisable at \$10.00 per share and expire January 1, 2006. In 2001, we recorded the fair value of these

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warrants, at the time of issuance, approximately \$10,060, as additional paid-in capital. The corresponding interest expense was recorded ratably over the life of the loan. The private lender is an accredited and sophisticated investor with knowledge and experience in financial and business matters, and with access to information about us necessary to make an informed business decision in connection with such grant of warrants to him.

In connection with our initial public offering, pursuant to an exemption under Section 4 (2) of the Securities Act, we agreed to issue to the underwriter warrants to purchase 80,000 units, each unit consisting of one and one half shares of Common Stock, and one and one half warrants, each whole warrant to purchase one share of Common Stock. The exercise price of the underwriter's warrant is \$15.60. The underwriter's warrants will be exercisable for units at any time until May 8, 2006. We will cause the registration statement to remain in effect until the earlier of the time that all of the underwriter's warrants have been exercised or May 8, 2006. The common stock and warrants issued to the underwriter upon exercise of these warrants will be freely trade-able.

Also in connection with our public offering, pursuant to an exemption under Section 4 (2) of the Securities Act, we issued warrants to purchase 5,769 shares of common stock at a price of \$7.80 per share to our principal outside law firm as consideration for legal services rendered during the offering. In 2001 we recorded the fair value of these warrants, at the time of issuance, approximately \$12,627, in our financial statements. The law firm is a sophisticated investor with knowledge and experience in financial and business matters, and with access to information about us necessary to make an informed business decision in connection with such grant of warrants to it. The firm exercised these warrants in January 2002.

Equity compensation plan information

The following table provides details of our equity compensation plans:

Name of Plan	Number of securities authorized for issuance under the plan	Number of securities awarded plus number of securities to be issued upon exercise of options, warrants or rights granted during last fiscal year	Number of securities to be issued upon exercise of outstanding options, warrants or rights	Number of securities remaining available for future issuance
1999 Stock Option Plan	833,333	143,322	143,322	690,011
2001 Stock Option Plan	550,000	401,724	401,724	148,276
Individual Arrangements	0	0	0	0
Total	1,383,333	545,046	545,046	838,287

Use of proceeds from registered securities

On May 7, 2001, the SEC declared effective Amendment No. 4 to our Registration Statement on Form SB-2. We completed our related initial public offering of 800,000 units on May 11, 2001. The initial public offering price was \$13.00 per unit. The gross proceeds of the offering were \$10,400,000. Our net proceeds from the offering, after deducting the underwriters discount, fees and expenses, aggregated approximately \$8,400,000.

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Through December 31, 2001, we had used approximately \$3.6 million of the net proceeds from the offering as follows:

Repayment of note payable to stockholder	\$ 100,000
Accrued interest on notes payable to stockholders	268,000
Repayment of notes due to unrelated private lender, including accrued interest	612,800
Repayment of note to third party lender	190,000
Purchases of inventory	572,000
Research and development expenditures	43,000
Production tooling and equipment	203,000
Other working capital/general corporate purposes	1,611,200
Total	<u>\$3,600,000</u>

Item 6. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion of the results of operations and analysis of financial condition for the two years ended December 31, 2001 and 2000 may be understood more fully by reference to the financial statements and notes to the financial statements included elsewhere within this report.

PLAN OF OPERATION

We develop, assemble and market less-lethal, conducted energy weapons primarily for use in the law enforcement and corrections market. Over 1,000 police departments in the United States have made initial purchases of our products and 25 police departments, including San Diego, Reno, Sacramento, and Albuquerque, have purchased our products for every patrol officer.

We intend to continue to focus our resources and sales efforts in 2002 and 2003 on further penetration of the law enforcement market with our ADVANCED TASER product line. We also intend to introduce our consumer version to the consumer market in early 2002 with the goal of establishing supply relationships with 500 retail stores by the end of 2002. We believe that our projected operating income in 2002 when added to our cash balance of \$5.6 million as of December 31, 2001 will be adequate to fund our operations in 2002.

However, should the FAA approve the ADVANCED TASERs for use on board commercial aircraft, we may need additional resources to meet demand for our weapons in the law enforcement, commercial airline and consumer markets as early as the fourth quarter of 2002. We believe funding will be available at terms favorable to us, both through our existing credit lines, and possible additional equity financing.

During 2002, we will also continue our research and development efforts. We have begun working on several future product enhancements, and intend to complete at least one new project by the end of 2002. We expect our research and development expenditures will total \$100,000 in 2002.

MANAGEMENTS DISCUSSION OF THE YEARS ENDED DECEMBER 31, 2001 AND 2000

Overview

Fiscal 2000 was the first full year of ADVANCED TASER product line sales. Although we had limited financial resources, we spent the year building the distribution channel for marketing the product line and developing a nationwide training campaign to introduce the ADVANCED TASER to law enforcement agencies, primarily in North America. We also began evaluating the prospect of returning the manufacturing of our products to the United States.

In 2001, we made several significant changes to support the growing demand for the ADVANCED TASER product line. We discontinued outsourcing of the final assembly of our products, moved these

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operations to our Scottsdale headquarters, and developed a manufacturing infrastructure inclusive of direct assembly and material management to support product demand.

We completed an initial public offering of securities in May of 2001. In this offering, we sold 800,000 units for \$13.00 each, with net proceeds to us of \$8.4 million. Each unit included one and one half shares of common stock and one and one half warrants, each whole warrant to purchase one share of Common Stock. The warrants are exercisable within five years, to purchase common stock for \$9.53 per share.

Summary financial statements

The selected statement of operations data and balance sheet data presented below set forth a summary of data relating to our results of operations as of, and for the years ended, December 31, 2001 and 2000. This data has been derived from our audited financial statements and should be read in conjunction with the financial statements and notes included elsewhere in this report.

	December 31, 2001	December 31, 2000
Statements of Operations Data:		
Net Sales	\$ 6,853,272	\$ 3,412,620
Gross Margin	3,938,842	1,574,231
Sales, general and administrative expenses	3,123,224	1,617,605
Income from Operations	772,256	(50,511)
Interest Income	90,285	103
Interest Expense	246,776	426,362
Net Income (Loss) before Taxes	620,025	(473,247)
Income Tax Provision	104,996	0
Net Income (Loss)	\$ 515,029	\$ (473,247)
Basic earnings (loss) per share	\$ 0.22	\$ (0.19)
Diluted earnings (loss) per share	\$ 0.17	\$ (0.19)
Balance Sheet Data:		
Working Capital (Deficit)	\$ 4,966,184	\$ (1,069,344)
Property and equipment, net	560,423	274,273
Other Assets, net	72,416	0
Deferred Tax Assets	60,840	0
Total Assets	8,054,679	1,039,066
Total Long Term Debt	50,979	2,822,144
Deferred Tax Liability	19,311	0
Total Stockholders Equity (Deficit)	\$ 5,528,733	\$ (3,617,215)

Results of operations

Net Sales. Net Sales increased by \$3.44 million, or 100.8%, to \$6.85 million in the 2001 compared to \$3.41 million in 2000. This increase was almost entirely due to the increased sales of the ADVANCED TASER. Specifically, ADVANCED TASER sales increased \$3.36 million, and the AIR TASER line increased \$63,000. It is our policy to recognize revenue when product is shipped, and title passes, and when the training or other service has been completed.

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For the years ended December 31, 2001 and 2000, sales by product line were as follows (amounts in thousands):

<u>Product Line</u>	<u>2001</u>	<u>%</u>	<u>2000</u>	<u>%</u>
ADVANCED TASER (including cartridges and accessories)	\$5,460	79.7%	\$2,099	61.5%
AIR TASER (including cartridges and accessories)	1,304	19.0%	1,241	36.4%
AUTO TASER (discontinued product line)	0	0.0%	24	.7%
Miscellaneous sales (training, freight, services & equipment)	89	1.3%	49	1.4%
Net Sales	<u>\$6,853</u>	<u>100.0%</u>	<u>\$3,413</u>	<u>100.0%</u>

Cost of products sold. Cost of products sold increased by \$1.1 million, or 58.5% to \$2.9 million in 2001 compared to \$1.8 million in 2000. However, as a percentage of net sales, costs of products sold decreased 11.4% to 42.5% of sales, down from 53.9% in 2000. This decrease was a result of three key factors: higher sales volume, a significant shift in the mix of products sold, and reduction in manufacturing costs associated with bringing manufacturing and assembly operations in house during the first quarter of 2001. Specifically, the direct costs of product sold decreased 6.0% of sales, a savings derived through decreased material and scrap costs, as well as improved labor efficiency. Indirect cost of products sold also were reduced by 5.4% of sales, as a result of the increased sales volume and margins earned relative to the fixed portion of our manufacturing overhead.

Gross Margin: Gross margins improved by \$2.3 million, or 150%, to \$3.9 million for the year ended December 31, 2001 compared to \$1.6 million for the year ended December 31, 2000. This increase is largely attributable to the higher level of ADVANCED TASER product sales, and the decreased percentage of sales expended for manufacturing expenses. As a percentage of sales, gross margins improved to 57.5% in 2001, up from 46.1% in 2000.

Sales, general and administrative expenses. Net sales, general and administrative expenses increased \$1.5 million, or 93.1% to \$3.1 million in 2001 from \$1.6 million in 2000. However, as a percentage of sales, sales, general and administrative expenses decreased by 1.8%, to 45.6%, from 47.4% in 2000.

The largest increases in administrative costs incurred were in the areas of legal costs, investor relations and salaries expense. Legal costs increased by \$157,000, or 132% to \$276,000 in 2001 from \$119,000 in 2000. Of the \$276,000 in fees expensed in 2001, \$187,000 was associated with the lawsuits involving the Company. In two of the cases, TASER is defending against claims pertaining to patent infringement and breach of contract. In the third case we have alleged that Electronic Medical Research Laboratories, Inc., doing business as Tasertron, has infringed our trademark rights. Also included in our increased legal expenditures was \$89,000 of fees associated with establishing corporate record keeping systems to comply with both SEC and Nasdaq requirements.

Investor Relations was a new category of expenditures for us in 2001. Prior to our initial public offering in May of 2001, we created a new investor relations executive position to manage the increased volume of investor-related correspondence and communications. This new position along with the costs required to support the new investor base and corporate reporting charges increased administrative expenses by \$192,000 in 2001. Additional increases in administrative expenditures in 2001 resulted from franchise taxes and Directors and Officers liability insurance.

The most significant increase in sales expenses in 2001, as compared to 2000, was commissions. In total, \$459,000 was expensed for our internal and external sales forces as compared to the approximately \$80,000 expensed in fiscal 2000. The bulk of this expense, \$378,000, was recorded in the fourth quarter of 2001 as a result of the United Airlines and Los Angeles Police Department orders. The other large increases in sales expenditures came in the areas of trade shows, training expenditures and marketing collateral materials. The increases to these expenses in 2001, as compared to 2000 were \$47,000, \$31,000, and \$103,000 respectively.

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Interest Income. Interest income increased to \$90,000 in 2001. This additional income resulted from earnings on the investment of proceeds received from our IPO which were not immediately required for operations. As of December 31, 2001, we had \$4.9 million of cash in interest bearing accounts.

Interest Expense. Interest expense decreased by \$179,600, or 42.1%, to \$247,000 in 2001 as compared to \$426,000 in 2000. This decrease was a result of the reduction of both long and short-term debt made possible by the proceeds of our initial public offering completed in May, 2001.

Income Taxes. As of December 31, 2001, we recorded \$105,000 as a provision for income taxes payable to both the Internal Revenue Service, and the Arizona Department of Revenue. Prior to 2001, we were an S-Corporation, which allowed all the tax attributes to flow through to the stockholders. In early 2001, our tax reporting status was changed to that of a C-Corporation. When we changed our reporting status, our accumulated shareholder deficit was converted to additional paid-in capital. As a result of the conversion from an S-Corporation to a C-Corporation, there are no net operating loss carry forwards available to us. The cumulative effect of the change in the method of accounting for income taxes was approximately \$140,000. This benefit was the result of differences in basis between financial reporting and tax reporting that were recognized in our fourth quarter following our final tax review and year-end audit, and, after it was evident that we would have adequate pre-tax earnings to offset the pending adjustment to unused tax deductions attributable to prior years.

Net Income. Net income increased by \$988,000, to \$515,000 in 2001 as compared to a net loss of \$473,000 in 2000. The increase in net income resulted primarily from the increased sales volume and the improved gross margins attributed to sales of our ADVANCED TASER line. The increase in net income resulted in an improvement of \$0.41 basic earnings per share for the same periods, improving to income per basic share of \$0.22 for 2001, compared to a loss per basic share of \$0.19 in 2000. Basic earnings per share calculations were based upon weighted average shares of 2,303,386 in 2001 and 2,482,976 in 2000. Additionally, diluted earnings per share increased to earning per share of \$0.17 in 2001 as compared with a loss of \$0.19 per share for 2000. Diluted earnings per share calculations were based upon weighted average shares of 3,029,330 in 2001 and 2,482,976 shares in 2000.

Liquidity and Capital Resources

We have previously sustained significant operating losses. From our inception through December 31, 2000, we financed our operations through advances from and investments by major stockholders, and bank financing guaranteed by major stockholders. In 2001, we generated both net income and cash flow from operations. Management believe that the funds generated in 2001, coupled with anticipated cash flow in 2002, and the net proceeds remaining from our initial public offering, will be adequate to fund currently projected future operations and growth.

Liquidity. As of December 31, 2001 we had working capital of \$5.0 million compared to a working capital deficiency of \$1.1 million at December 31, 2000. The improvement in working capital from 2000 to 2001 was due to our initial public offering completed in May of 2001 and our net income of \$515,000 in 2001.

During 2001, we used \$555,000 of cash in operations compared to \$116,290 generated by operations in 2000. The increase in cash used in operations was due primarily to our increased investment in raw materials inventory, the reduction of accrued interest expense, and an increase in accounts receivable resulting from \$1.6 million of net sales in the month of December 2001. Reduction of customer deposits, as we shipped previously paid orders, also resulted in a use of cash. We also used \$453,000 of cash in investing activities during 2001, compared to \$100,000 of cash used in investing activities in 2000. The funds invested in 2001 were used to purchase production equipment required to increase production capacity, to purchase office equipment to furnish our new corporate offices, and to purchase the TASER Trademark and TASER.com web-site. The net cash flows provided by financing activities were \$6.4 million in 2001, as compared to \$135,000 for 2000. This increase in cash flows from financing activities was a direct result of the net proceeds from our initial public offering less debt repayment.

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Capital Resources. Historically, we have funded operating losses and expansion of its business through loans from two shareholders and an unrelated private investor. Notes payable to related parties were \$455,691 as of December 31, 2001. This amount was repaid in February, 2002. We had cash of \$5.6 million at December 31, 2001 as a result of our net income of \$515,000 in 2001 and net proceeds from the initial public offering. After payment of debt and accounts payable outstanding as of December 31, 2001, we believe our monthly cash flow from operations will be adequate to cover monthly obligations.

We have obtained a revolving line of credit from a domestic bank with a total availability of \$1.5 million. The line is secured by substantially all of our assets, other than intellectual property, and bears interest at prime plus 1%, 4.75% at December 31, 2001. The line of credit matures on April 30, 2002 and requires monthly payments of interest only. The outstanding balance under the line of credit at December 31, 2001 was \$761,000. We are currently evaluating our options with regard to the renewal of the line of credit or acquisition of an alternative line and believe that a renewed or replacement line of credit will be available on terms favorable to us.

We anticipate that cash generated from operations, available borrowings under its line of credit and the proceeds from its initial public offering will be sufficient to provide for working capital needs and to fund future growth.

Item 7. *Financial Statements*

The information required by this Item is incorporated by reference to the Financial Statements beginning on page F-1 herein.

Item 8. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

PART III

Item 9. *Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act*

The information concerning the identification and business experience of directors is incorporated by reference to the information set forth in our definitive proxy statement for our 2002 Annual Meeting of Stockholders under the heading "Election of Directors," which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year dated December 31, 2001.

The information concerning the identification and business experience of our executive officers is incorporated by reference to the information set forth in our definitive proxy statement for our 2002 Annual Meeting of Stockholders under the heading "Executive Officers", which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year dated December 31, 2001.

The information concerning compliance with Section 16(a) of the Exchange Act is incorporated by reference to the information set forth in our definitive proxy statement for our 2002 Annual Meeting of Stockholders under the heading "Security Ownership of Certain Beneficial Owners and Management — Section 16(a) Beneficial Ownership Reporting Compliance," which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year dated December 31, 2001.

The information concerning significant employees and family relationships is incorporated by reference to the information set forth in our definitive proxy statement for our 2002 Annual Meeting of Stockholders under the heading "Significant Employees and Family Relationships", which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year dated December 31, 2001.

Item 10. *Executive Compensation*

The information concerning executive compensation is incorporated by reference to the information set forth in our definitive proxy statement for our 2002 Annual Meeting of Stockholders under the heading

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“Executive Compensation”, which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year dated December 31, 2001.

Item 11. Security Ownership of Certain Beneficial Owners and Management

The information concerning security ownership of certain beneficial owners and management is incorporated by reference to the information set forth in our definitive proxy statement for the 2002 Annual Meeting of Stockholders under the heading “Security Ownership of Certain Beneficial Owners and Management,” which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year dated December 31, 2001.

Item 12. Certain Relationships and Related Transactions

The information concerning certain relationships and related transactions is incorporated by reference to the information set forth in our definitive proxy statement for our 2002 Annual Meeting of Stockholders under the heading “Certain Transactions,” which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year dated December 31, 2001.

Item 13. Exhibits and Reports on Form 8-K

(a) Exhibits to Form 10-KSB

- 3.1 Company’s Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
- 3.2 Company’s Bylaws, as amended (incorporated by reference to Exhibit 3.2 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended),
- 4.1 Reference is made to pages 1 – 4 of Exhibit 3.1 and pages 1 – 5 and 12 – 14 of Exhibit 3.2
- 4.2 Form of Common Stock Certificate (incorporated by reference to Exhibit 4.2 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
- 4.3 Form of Public Warrant (incorporated by reference to Exhibit 4.3 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
- 4.4 Form of Unit Certificate (incorporated by reference to Exhibit 4.4 to Registration Statement on Form SB-2 file February 14, 2001 (Registration No. 333-55658), as amended)
- 4.5 Form of Warrant and Unit Agreement (incorporated by reference to Exhibit 4.5 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
- 4.6 Form of Underwriters’ Warrant (incorporated by reference to Exhibit 4.6 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
- 10.1 Employment Agreement with Patrick W. Smith, dated July 1, 1998 (incorporated by reference to Exhibit 10.1 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)(1)
- 10.2 Employment Agreement with Thomas P. Smith, dated November 15, 2000 (incorporated by reference to Exhibit 10.2 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)(1)
- 10.3 Employment Agreement with Kathleen C. Hanrahan, dated November 15, 2000 (incorporated by reference to Exhibit 10.3 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)(1)
- 10.4 Form of Indemnification Agreement between the Company and its directors (incorporated by reference to Exhibit 10.4 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
- 10.5 Form of Indemnification Agreement between the Company and its officers (incorporated by reference to Exhibit 10.5 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)

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10.6	1999 Employee Stock Option Plan (incorporated by reference to Exhibit 10.6 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)(1)
10.7	2001 Stock Option Plan (incorporated by reference to Exhibit 10.7 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)(1)
10.8	Form of Warrant issued to Bruce Culver and Phil Smith (incorporated by reference to Exhibit 10.8 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.9	Licensing Agreement with respect to intellectual property dated October 14, 1993, as amended, by and between the Company and John H. Cover Jr., and related documents (incorporated by reference to Exhibit 10.9 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.10	Promissory Note, dated October 24, 2000, payable to Bank of America in the amount of \$60,000 and related guarantee and security documents (incorporated by reference to Exhibit 10.12 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.11	Form of Promissory Note issued to stockholders (incorporated by reference to Exhibit 10.13 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.12	Lease between the Company and Norton P. Remes and Joan A. Remes Revocable Trust, dated November 17, 2000 (incorporated by reference to Exhibit 10.14 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended),
10.13	Equipment Lease between the Company and Thomas P. Smith, dated August 21, 1998.
10.14	Letter of Agreement with respect to services, dated May 26, 2000, by and between the Company and Malcolm W. Sherman (incorporated by reference to Exhibit 10.16 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended),
10.15	Form of Sales Representative Agreement with respect to services by and between the Company and Sales Representatives
10.16	Loan and Security Agreement, dated April 26, 2001, between the Company and Silicon Valley Bank (incorporated by reference to Exhibit 10.19 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.17	Lease Agreement, dated April 17, 2001, between the Company and GE Capital Corporation in the amount of \$37,945.
23.1	Consent of Arthur Andersen LLP, independent public accounts
99.1	Certain Factors to Consider in Connection with Forward-Looking Statements

(1) Management Contract or Compensatory Plan or Arrangement

(b) Reports on Form 8-K

None

FINANCIAL STATEMENTS:

The Financial Statements and Schedules listed below are located after the signature page and begin on page F-1.

Report of Independent Public Accountants	F-2
Balance Sheets as of December 31, 2001 and 2000	F-3
Statements of Operations for the Years Ended December 31, 2001 and 2000	F-4
Statements of Stockholders' (Deficit) Equity for the Years Ended December 31, 2001 and 2000	F-5
Statements of Cash Flows for the Years Ended December 31, 2001 and 2000	F-6
Notes to Financial Statements	F-7

SIGNATURES

In accordance with 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.

TASER INTERNATIONAL, INC.
(Registrant)

Date: March 15, 2002

/s/ PATRICK W. SMITH

Patrick W. Smith,
Chief Executive Officer

In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 15, 2002

/s/ PATRICK W. SMITH

Patrick W. Smith,
Chief Executive Officer and Director

Date: March 15, 2002

/s/ THOMAS P. SMITH

Thomas P. Smith,
President and Director

Date: March 15, 2002

/s/ KATHLEEN C. HANRAHAN

Kathleen C. Hanrahan,
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: March 15, 2002

/s/ PHILLIPS W. SMITH

Phillips W. Smith,
Director and Chairman of the Board

Date: March 15, 2002

/s/ KARL F. WALTER

Karl F. Walter,
Director

Date: March 15, 2002

/s/ BRUCE R. CULVER

Bruce R. Culver,
Director

Date: March 15, 2002

/s/ MATTHEW R. MCBRADY

Matthew R. McBrady
Director

TASER INTERNATIONAL, INC.
Financial Statements
As of December 31, 2001 and 2000
Together with Report of
Independent Public Accountants

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of

TASER International, Inc.:

We have audited the accompanying balance sheets of TASER INTERNATIONAL, INC. (a Delaware corporation) as of December 31, 2001 and 2000, and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the two years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TASER International, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 6 to the financial statements, effective January 1, 2001, concurrent with its change in tax status from an S corporation to a C corporation, the Company changed its method of accounting for income taxes and adopted the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*.

Phoenix, Arizona

February 4, 2002

TASER INTERNATIONAL, INC.**Balance Sheets
December 31, 2001 and 2000**

	2001	2000
Assets		
Current Assets:		
Cash and cash equivalents	\$5,636,100	\$ 206,408
Accounts receivable, net of allowance of \$29,000 in 2001 and \$55,000 in 2000	765,328	312,681
Inventory	801,926	221,169
Prepays and other	103,829	24,535
Income tax receivable	53,817	—
Deferred income tax asset	60,840	—
	<hr/>	<hr/>
Total current assets	7,421,840	764,793
Property and Equipment, net	560,423	274,273
Other Assets, net	72,416	—
	<hr/>	<hr/>
Total assets	\$8,054,679	\$ 1,039,066
	<hr/>	<hr/>
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities:		
Current portion of note payable	\$ —	\$ 100,000
Current portion of note payable to related parties	455,691	124,574
Current portion of capital lease obligations	51,834	22,171
Revolving line of credit	760,838	—
Accounts payable and accrued liabilities	1,154,280	589,949
Customer deposits	32,123	539,329
Inventory financing payable	—	189,980
Accrued interest, primarily to related parties	890	268,134
	<hr/>	<hr/>
Total current liabilities	2,455,656	1,834,137
Notes Payable to Related Parties, net of current portion	—	2,778,219
Capital Lease Obligations, net of current portion	50,979	43,925
Deferred Income Tax Liability	19,311	—
	<hr/>	<hr/>
Total liabilities	2,525,946	4,656,281
	<hr/>	<hr/>
Commitments and Contingencies		
Stockholders' Equity (Deficit):		
Preferred stock, 0.00001 par value per share; 25 million shares authorized; 0 shares issued and outstanding at December 31, 2001 and 2000	—	—
Common stock, 0.00001 par value per share; 50 million shares authorized; 2,734,473 and 3,177,421 issued and outstanding at December 31, 2001 and 2000	27	32
Additional paid-in capital	5,073,617	4,256,558
Deferred compensation	(59,940)	(79,920)
Common stock held in treasury, at cost, 0 and 1,666,667 shares at December 31, 2001 and 2000	—	(1,000,000)
Retained earnings (accumulated deficit)	515,029	(6,793,885)
	<hr/>	<hr/>
Total stockholders' equity (deficit)	5,528,733	(3,617,215)
	<hr/>	<hr/>
Total liabilities and stockholders' equity (deficit)	\$8,054,679	\$ 1,039,066
	<hr/>	<hr/>

The accompanying notes are an integral part of these balance sheets.

TASER INTERNATIONAL, INC.**Statements of Operations
For the Years Ended December 31, 2001 and 2000**

	2001	2000
Net Sales	\$6,853,272	\$3,412,620
Cost of Products Sold:		
Direct manufacturing expense	2,304,669	1,350,175
Indirect manufacturing expense	609,761	488,214
	<hr/>	<hr/>
Gross margin	3,938,842	1,574,231
Sales, general and administrative expenses	3,123,224	1,617,605
Research and development expenses	43,362	7,137
	<hr/>	<hr/>
Income (loss) from operations	772,256	(50,511)
Interest Income	90,285	103
Interest Expense	246,776	426,362
Other Income, net	4,260	3,523
	<hr/>	<hr/>
Net income (loss) before income taxes	620,025	(473,247)
Provision for income taxes	104,996	—
	<hr/>	<hr/>
Net income (loss)	\$ 515,029	\$ (473,247)
	<hr/>	<hr/>
Net income (loss) per share:		
Basic	\$ 0.22	\$ (0.19)
Diluted	0.17	(0.19)
Weighted average number of common and common equivalent shares outstanding:		
Basic	2,303,386	2,482,976
Diluted	3,029,330	2,482,976

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

TASER INTERNATIONAL, INC.

Statements of Stockholders' Equity (Deficit)

For the Years Ended December 31, 2001 and 2000

	Common Stock		Additional Paid-in Capital	Treasury Stock		Deferred Compensation	Retained Earnings (Deficit)
	Shares	Amount		Shares	Amount		
Balance, December 31, 1999	3,177,421	\$ 32	\$ 4,068,814	—	\$ —	\$ —	\$(6,320,638)
Repurchase of shares from stockholder for note payable	—	—	—	(1,666,667)	(1,000,000)	—	—
Stock options granted for payment of Board fee	—	—	79,920	—	—	(79,920)	—
Stock options granted for payment of consulting fee	—	—	13,917	—	—	—	—
Stock options and warrants granted for loan guarantees	—	—	93,907	—	—	—	—
Net loss	—	—	—	—	—	—	(473,247)
Balance, December 31, 2000	3,177,421	32	4,256,558	(1,666,667)	(1,000,000)	(79,920)	(6,793,885)
Issuance of shares pursuant to IPO, net of issuance costs	1,200,000	12	8,370,152	—	—	—	—
Cancellation of treasury shares	(1,666,667)	(17)	(999,983)	1,666,667	1,000,000	—	—
Discount on retirement of related party note	—	—	61,690	—	—	—	—
Elimination of accumulated deficit upon conversion from S to C corporation	—	—	(6,793,885)	—	—	—	6,793,885
Conversion of stock options	23,722	—	27,336	—	—	—	—
Stock options and warrants granted for payment of consulting fees	—	—	53,844	—	—	—	—
Stock options and warrants granted for loan guarantees	—	—	10,060	—	—	—	—
Cancellation of partial shares	(3)	—	—	—	—	—	—
Income tax effect of stock options exercised	—	—	87,845	—	—	—	—
Amortization of deferred compensation	—	—	—	—	—	19,980	—
Net income	—	—	—	—	—	—	515,029
Balance, December 31, 2001	2,734,473	\$ 27	\$ 5,073,617	—	\$ —	\$ (59,940)	\$ 515,029

[Additional columns below]

[Continued from above table, first column(s) repeated]

**Total
Stockholders'
Equity**

	(Deficit)
Balance, December 31, 1999	\$ (2,251,792)
Repurchase of shares from stockholder for note payable	(1,000,000)
Stock options granted for payment of Board fee	—
Stock options granted for payment of consulting fee	13,917
Stock options and warrants granted for loan guarantees	93,907
Net loss	(473,247)
	<hr/>
Balance, December 31, 2000	(3,617,215)
Issuance of shares pursuant to IPO, net of issuance costs	8,370,164
Cancellation of treasury shares	—
Discount on retirement of related party note	61,690
Elimination of accumulated deficit upon conversion from S to C corporation	—
Conversion of stock options	27,336
Stock options and warrants granted for payment of consulting fees	53,844
Stock options and warrants granted for loan guarantees	10,060
Cancellation of partial shares	—
Income tax effect of stock options exercised	87,845
Amortization of deferred compensation	19,980
Net income	515,029
	<hr/>
Balance, December 31, 2001	\$ 5,528,733

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

TASER INTERNATIONAL, INC.

Statements of Cash Flows

For the Years Ended December 31, 2001 and 2000

	2001	2000
Cash Flows from Operating Activities:		
Net income (loss)	\$ 515,029	\$ (473,247)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities —		
Depreciation and amortization	176,519	124,803
Amortization of deferred compensation	19,980	—
Compensatory stock options and warrants	63,904	187,744
Stock option tax benefits	87,845	—
Deferred compensation	—	(79,920)
Change in assets and liabilities:		
Accounts receivable	(452,647)	(190,760)
Inventory	(580,757)	(63,002)
Prepays and other	(79,294)	(10,492)
Deferred income tax asset	(60,840)	—
Income tax receivable	(53,817)	—
Accounts payable and accrued liabilities	564,331	14,960
Customer deposits	(507,206)	477,012
Accrued interest	(267,244)	129,192
Deferred tax liability	19,311	—
Net cash (used in) provided by operating activities	(554,886)	116,290
Cash Flows from Investing Activities:		
Purchases of property and equipment, net	(368,140)	(99,759)
Purchases of other assets	(85,000)	—
Net cash used in investing activities	(453,140)	(99,759)
Cash Flows from Financing Activities:		
Payments under capital leases	(45,228)	(16,266)
Payments on notes payable	(4,485,412)	(12,000)
Net proceeds from notes payable to related parties	—	163,238
Borrowings under line of credit	2,260,838	—
Payments under product financing payable	(189,980)	—
Proceeds from notes payable	500,000	—
Proceeds from Initial Public Offering, net of issuance costs	8,370,164	—
Proceeds from options exercised	27,336	—
Net cash provided by financing activities	6,437,718	134,972
Net Increase in Cash and Cash Equivalents	5,429,692	151,503
Cash and Cash Equivalents, beginning of year	206,408	54,905
Cash and Cash Equivalents, end of year	\$ 5,636,100	\$ 206,408
Supplemental Disclosure:		
Cash paid for interest	\$ 514,020	\$ 239,552
Income taxes paid	\$ 112,500	\$ —
Noncash Investing and Financing Activities:		
Acquisition of property and equipment under capital leases	\$ 81,945	\$ 43,207
Exchange of shares from related party for note payable	\$ —	\$1,000,000
Discount on prepayment of note payable	\$ 61,690	\$ —
Fair value of stock options issued for payment of consulting and legal fees	\$ 53,844	\$ 13,917

Fair value of stock options and warrants issued for loan guarantees	\$ 10,060	\$ 93,907
Fair value of stock options and warrants issued for Board fees	\$ —	\$ 79,920

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

TASER INTERNATIONAL, INC.

**Notes to Financial Statements
December 31, 2001 and 2000**

1. The Company

a. History and Nature of Organization

TASER International, Inc. (TASER or the Company) was incorporated and began operations in Arizona in 1993 for the purpose of developing and manufacturing less-lethal, self-defense devices. From its inception until the Company commenced production in December 1994, the Company was in the development stage. On May 11, 2001, the Company completed its initial public offering (IPO) of 800,000 units at a price of \$13 per unit, consisting of one and one-half shares of common stock and one and one-half warrants, each whole warrant to purchase one share of common stock. The net proceeds received, after the underwriting discount and financing costs, totaled approximately \$8.4 million.

b. Reincorporation and Restatement of Shares

In February 2001, the Company reincorporated in the State of Delaware. In connection with the reincorporation, the Company completed a 1-for-6 share reverse stock split. The accompanying financial statements and footnotes have been restated for the lower number of shares of common stock outstanding for all periods presented.

2. Summary of Significant Accounting Policies

a. Cash and Cash Equivalents

Cash and cash equivalents include funds on hand and short-term investments with original maturities of three months or less. At December 31, 2001, cash and cash equivalents included \$4.9 million deposited in highly liquid certificates of deposit and money market funds. These accounts earned interest at an average rate of 1.86% during 2001. Of the \$4.9 million, \$1.5 million of cash and cash equivalents are required to be maintained as a compensating balance under the Company's line of credit agreement (Note 7).

b. Inventory

Inventories are stated at the lower of cost or market; cost is determined using the most recent acquisition cost which approximates the first-in, first-out (FIFO) method. Inventories consisted of the following at December 31:

	2001	2000
Raw materials and work-in-process	\$678,406	\$153,506
Finished goods	123,520	67,663
	<u>\$801,926</u>	<u>\$221,169</u>

Inventory costs in 2000 include primarily the cost paid to an outsourced manufacturer, which included charges for material, labor and overhead. Inventory costs in 2001 included manufacturing costs, including materials, labor and overhead related to finished goods and components.

c. Property and Equipment

Property and equipment are stated at cost. Additions and improvements are capitalized while ordinary maintenance and repair expenditures are charged to expense as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

d. Long-Lived Assets

The Company periodically evaluates the carrying value of long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*. Under SFAS 121, long-lived assets to be held and used in operations are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss is recognized if the sum of the expected long-term undiscounted cash flow is less than the carrying amount of the long-lived assets being evaluated. The Company has not recognized any impairment losses during the two-year period ended December 31, 2001.

e. Customer Deposits

The Company requires certain deposits in advance of shipment for foreign customer sales orders. At December 31, 2000, customer deposits consisted primarily of one foreign customer sales order.

f. Cost of Products Sold

During 2000 and early 2001, the Company outsourced the assembly of its finished goods, but continued to manufacture certain small, proprietary components internally. Prior to August 1999, all finished goods were assembled internally. At December 31, 2000, cost of products sold represents net amounts paid to a vendor to acquire finished goods sold to customers and the manufacturing costs, including material, labor and overhead related to the proprietary components the Company manufactures internally. In mid 2001, the Company discontinued their use of a contract assembler, and consolidated their product manufacturing and assembly operations at their new facility in Scottsdale, Arizona. At December 31, 2001, costs of products sold included the manufacturing costs, including materials, labor and overhead related to finished goods and components. Shipping costs incurred related to product delivery are also included in cost of products sold.

g. Revenue Recognition

The Company recognizes revenues when products are shipped and title passes, and all sales are final. The Company charges certain of its customers shipping fees, which are recorded as a component of net sales.

On December 3, 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements*, which provides additional guidance in applying generally accepted accounting principles for revenue recognition in financial statements. The issuance of SAB No. 101 did not have a material impact on the revenue recognition method of the Company.

h. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

i. Advertising Costs

The Company expenses the production cost of advertising as incurred or the first time the advertising takes place. The Company incurred advertising costs of \$19,872 and \$35,035 in 2001 and 2000, respectively. Advertising costs are included in sales, general and administrative expenses in the accompanying statements of operations.

j. Warranty Costs

The Company warrants its product from manufacturing defects for their lives and will replace any defective AIR TASER units with a new one for a \$25 fee, and defective ADVANCED TASER units for a \$75 fee. In 2000, the Company recalled a series of ADVANCED TASERS due to a defective component in

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connection with which the Company incurred warranty expense of approximately \$9,000 and recorded an additional charge of \$41,000 to cover estimated future warranty costs based upon the number of units sold and the estimated defect rate using its prior actual experience. Accrued warranty expense of \$43,000 and \$50,000 in 2001 and 2000, respectively, are included in accounts payable and accrued liabilities in the accompanying balance sheets.

k. Research and Development Expenses

The Company expenses research and development costs as incurred. The Company incurred product development expense of \$43,362 and \$7,137 in 2001 and 2000, respectively.

l. Income Taxes

The Company, from inception to December 31, 2000, qualified as an S corporation under the Internal Revenue Code, and accordingly, was not directly subject to income taxes. There is no provision or benefit for income taxes reflected in the accompanying 2000 financial statements, since items of taxable income and losses are reported in the individual returns of stockholders.

In 2001, the Company reincorporated in the State of Delaware and elected to be taxed as a C corporation. Net operating losses (NOLs) prior to the change to a C corporation accrued to the individual stockholders. Accordingly, such losses were not available to reduce future taxes payable by the Company as a C corporation.

Upon termination of the S status, the Company was required to implement SFAS No. 109, *Accounting for Income Taxes*, which requires the calculation of existing temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Based on the criteria described in SFAS No. 109, had the Company been a C corporation in 2000, no federal or state income tax benefit would have been recorded for the NOLs discussed above. Accordingly, no pro forma benefit for federal or state income taxes is recorded as if the Company were taxed as a C corporation for any of the periods presented. Additionally, the accumulated deficit at the time of the S election termination was reclassified to additional paid-in capital.

m. Concentration of Credit Risk and Major Customers

Financial instruments that potentially subject the Company to concentrations of credit risk consist of accounts receivable, accounts payable and notes payable to related parties. Sales are typically made on credit and the Company generally does not require collateral. The Company performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for estimated potential losses. Accounts receivable are presented net of an allowance for doubtful accounts. No provision for bad debts was recorded for the year ended December 31, 2001 and \$72,905 was recorded for the year ended December 31, 2000.

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For the years ended December 31, 2001 and 2000, sales by product were as follows:

	2001	2000
	(000s omitted)	
Sales by product line:		
ADVANCED TASER	\$5,460	\$2,099
AIR TASER	1,304	1,241
AUTO TASER	—	24
Other	89	49
	<u>\$6,853</u>	<u>\$3,413</u>
Geographic:		
United States	91	82
Other countries	9	18
	<u>100%</u>	<u>100%</u>

Sales to customers outside of the United States are denominated in U.S. dollars.

The Company had no major customers accounting for more than 10% of sales in 2000. In 2001, three different customers accounted for 10% or more of sales in that year, as follows:

	2001
Customer 1	12.8%
Customer 2	10.9
Customer 3	10.8
	<u>34.5%</u>

Receivables from two customers comprise 46.2% of accounts receivable at December 31, 2001. These balances were fully collected subsequent to year end. Receivables from one customer comprised 44.3% of accounts receivable at December 31, 2000, representing a concentration of credit risk as defined by SFAS No. 105, *Disclosure of Information About Financial Instruments With Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*.

n. Financial Instruments

The Company's financial instruments include cash, accounts receivable and accounts payable. Due to the short-term nature of these instruments, the fair value of these instruments approximates their recorded value.

The Company has a note payable to a shareholder which, based on the short-term nature of the note and financing obtained from outside sources, the Company believes is stated at its estimated fair market value. The revolving line of credit and capital lease obligations approximate fair value as rates on these instruments, in the aggregate, approximate market rates currently available for instruments with similar terms and remaining maturities.

o. Segment Information

The Company adopted SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*. This statement requires disclosure of certain information about the Company's operating segments, products, geographic areas in which it operates and major customers. This statement also allows a company to aggregate similar segments for reporting purposes. Management has determined that its operations can be aggregated into one reportable segment. Therefore, no separate segment disclosures have been included in the accompanying notes to the financial statements.

p. Stock-Based Compensation

The Company measures compensation costs related to stock option plans using the intrinsic value method and provides pro forma disclosures of net income (loss) and earnings (loss) per common share as if the fair value based method had been applied in measuring compensation costs. Accordingly, compensation cost for stock options is measured as the excess, if any, of the fair value of the Company's common stock at the date of measurement over the amount an employee must pay to acquire the stock and is amortized over the vesting period, generally three to four years.

q. Comprehensive Income

The Company has adopted SFAS No. 130, *Reporting Comprehensive Income*. This statement requires that all components of comprehensive income be reported in the financial statements in the period in which they are recognized. During the years ended December 31, 2001 and 2000, the Company did not have any components of comprehensive income requiring separate reporting in the Company's financial statements.

r. Income (Loss) Per Common Share

Income (loss) per common share is computed in accordance with SFAS No. 128, *Earnings Per Share*. Basic income (loss) per common share is based upon the weighted average shares outstanding. Diluted income (loss) per common share is based on the weighted average shares outstanding and dilutive common stock equivalents. Approximately 725,944 options and warrants were included as common stock equivalents in the computation of diluted earnings per share for 2001. Approximately 186,049 options and warrants were not included in the computation of diluted earnings per share for 2000, as their effect would be anti-dilutive.

s. Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Under SFAS 133, all derivatives are required to be recognized in the balance sheet at fair value. Gains or losses from changes in fair value would be recognized in earnings in the period of change unless the derivative is designated as a hedging instrument. In June 1999, the Financial Accounting Standards Board issued SFAS No. 137, which amended SFAS 133, delaying its effective date to fiscal years beginning after June 15, 2000. The Company does not currently hold any derivative instruments nor does it engage in hedging activities. The adoption of SFAS No. 133 did not have a material impact on the Company's financial position or results of operations.

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44 ("FIN 44"), *Accounting for Certain Transactions Involving Stock Compensation — an Interpretation of APB Opinion No. 25*. FIN 44 is intended to clarify the application of APB No. 25 by providing guidance regarding among other issues: the definition of an employee for purposes of applying APB Opinion No. 25; the criteria for determining whether a plan qualifies as a noncompensatory plan; the accounting consequence of various modifications to the terms of the previously fixed stock options or awards; and the accounting for an exchange of stock compensation awards in a business combination. FIN 44 was effective July 1, 2000 but certain provisions covered specific events occurring after December 15, 1998 or January 12, 2000. The adoption of FIN 44 did not have a material impact on the Company's financial position or results of operations.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that all business combinations initiated after June 30, 2001, use the purchase method of accounting and prohibits the use of the pooling-of interest method. SFAS No. 142 changes the method by which companies may recognize intangible assets in purchase business combinations and generally requires identifiable intangible assets to be recognized separately from goodwill. In addition, it eliminates the amortization of all existing and newly acquired goodwill on a prospective basis and requires companies to assess goodwill for impairment, at least annually, based on the fair value of the reporting unit. The Company adopted SFAS Nos. 141 and 142 on January 1, 2002.

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Management has determined that adoption of these standards did not have a material impact on the Company's financial statements.

Additionally, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations* and SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* during 2001. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and related asset retirement costs. SFAS No. 143 is effective for financial statements with fiscal years beginning after June 15, 2002. This statement is not expected to have a material impact on the Company's financial statements. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company adopted SFAS No. 144 on January 1, 2002. Management has determined that adoption of this standard did not have a material impact on the Company's financial statements.

t. Basis of Presentation

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

3. Property and Equipment

Property and equipment consist of the following at December 31, 2001 and 2000:

	Estimated Useful Lives	2001	2000
Leasehold improvements	lesser of life of asset or lease term	\$ 63,393	\$ 5,000
Production equipment	5 years	592,472	380,326
Telephone and office equipment	5 years	32,786	31,535
Computer equipment	3 – 5 years	467,057	383,492
Furniture and fixtures	5 – 7 years	148,894	57,542
		<u>1,304,602</u>	<u>857,895</u>
Less: accumulated depreciation		<u>(744,179)</u>	<u>(583,622)</u>
		<u>\$ 560,423</u>	<u>\$ 274,273</u>

4. Other Assets

Other assets consist of the following at December 31, 2001 and 2000:

	2001	2000
TASER Trademark	\$ 25,000	\$ —
TASER.com domain name	60,000	—
	<u>85,000</u>	<u>—</u>
Less: Accumulated amortization	<u>(12,584)</u>	<u>—</u>
	<u>\$ 72,416</u>	<u>\$ —</u>

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These other assets are being amortized over 5 years, their estimated useful lives.

5. Commitments and Contingencies

a. Operating Leases

The Company has entered into operating leases for office space and equipment. Rent expense under these leases for the years ended December 31, 2001 and 2000, was \$139,033 and \$93,241, respectively. Future minimum lease payments under operating leases as of December 31, 2001, are as follows:

2002	\$142,643
2003	146,363
2004	150,193
2005	154,139
2006	18,673
Thereafter	124,484
	<hr/>
Total	\$736,495

b. Litigation

From time to time, the Company is involved in certain legal actions and claims arising in the normal course of business. Management is of the opinion that it maintains adequate insurance and that such matters will be resolved without a material effect on the Company's financial position or results of operations.

In February 2000, the Company was named a defendant in a suit with a former distributor in the state of New York asserting certain rights of exclusive representation with respect to the Company's products. The suit was dismissed in February 2001 for lack of jurisdiction of the New York court. In March 2001, the former distributor appealed the dismissal. The case is now pending in the state of Arizona. Management believes this matter will be resolved without a material effect on the Company's financial condition or results of operations.

In early April 2001, a patent licensee sued the Company in the United States District Court, Central District of California. The lawsuit alleges that certain technology used in the firing mechanism for the Company's weapons infringes upon a patent for which the licensee holds a license, and seeks injunctive relief and unspecified monetary damages. The Company believes it does not infringe this patent, that the licensee's claims are without merit and that the litigation will have no material adverse effect on the Company's financial condition or results of operations.

c. Employment Agreements

The Company has employment agreements with its President, Chief Executive Officer (CEO) and Chief Financial Officer (CFO). The Company may terminate the agreements with or without cause. Should the Company terminate the agreements without cause, upon a change of control of the Company or death of the employee, the President, CEO and CFO are entitled to additional compensation. Under these circumstances, these officers may receive the amounts remaining under their contracts upon termination, which could total \$660,000.

6. Income Taxes

Concurrent with the change in tax status discussed in Note 2, the Company adopted the provisions of SFAS No. 109. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on

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the deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The cumulative effect of the change in the method of accounting for income taxes was approximately \$140,000.

Pro forma income taxes have not been provided for 2000. As a result of the losses recognized in that period, any income tax benefit would have been fully offset by the establishment of a valuation allowance for deferred tax assets had the Company been taxed as a subchapter C corporation.

Significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2001
Current deferred tax assets:	
Nondeductible reserves for bad debts, sales returns and other	\$ 60,840
Total deferred tax asset	<u>\$ 60,840</u>
Long-term deferred tax (assets) liabilities:	
Tax over book depreciation of property and equipment	\$ 22,666
Amortization of other assets	(3,355)
Net deferred tax liability	<u>\$ 19,311</u>

Significant components of the federal and state income tax expense are as follows:

	Year Ended December 31, 2001
Current:	
Federal provision	\$ 119,968
State provision	26,558
Total current	<u>146,526</u>
Deferred:	
Federal benefit	(35,300)
State benefit	(6,230)
Total deferred	<u>(41,530)</u>
Provision for income taxes	<u>\$ 104,996</u>

A reconciliation of the Company's effective income tax rate to the federal statutory rate follows:

Federal statutory rate	34%
State tax, net of federal benefit	6
Change in method of accounting for income taxes	(23)
	<u>17%</u>

7. Line of Credit

In April 2001, the Company obtained a revolving line of credit with a bank with a total commitment of up to \$1,500,000. The line was fully used to repay a \$1,500,000 promissory note to Mr. Bruce R. Culver, a director of the Company, is secured by assets of Mr. Culver and substantially all of the Company's assets other than intellectual property, and has an interest rate of bank prime plus 1% (4.75% at December 31, 2001). The line matures on April 30, 2002 and requires the Company to make monthly interest payments only until such date. The line of credit was repaid in full in June 2001 from the proceeds of the Company's IPO. In July 2001,

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the Company drew \$760,838 under the line of credit to prepay amounts due Mr. Bruce Culver, a stockholder and director (Note 9). This amount was outstanding under the line of credit at December 31, 2001.

8. Inventory Financing Agreement

In 1995, the Company entered into an inventory financing agreement with its warehouse. Under the agreement, the Company had the right to sell its product to the warehouse at a stated price up to quantities totaling the lesser of \$500,000 or the number of units sold in the last two months. The Company repurchased the product once sold to a third party at the stated price plus 2% per month (24% annually). In June 1998, the agreement expired and the Company issued a \$189,980 note for the amount due. The note included interest at a rate of 10% and matured March 31, 2000. As of December 31, 2000, no amounts of principal had been paid on this note and the balance was recorded as a current payable. In 2001, the note was repaid in full at the close of the IPO in May 2001.

9. Related Party Transactions and Notes Payable

At December 31, 2001 and 2000 debt obligations were as follows:

	2001	2000
Notes payable to stockholders, interest at varying rates of 9% to 27%, principal and interest due through July 1, 2002	\$ 455,691	\$2,878,010
Note payable to stockholder, interest at 9.18% payable monthly, principal matures July 15, 2001	—	24,783
Note payable to unrelated private lender, interest at 11%, payable monthly, principal matured December 31, 2000	—	100,000
Capital leases, interest at varying rates of 7% to 23%, due in monthly installments through December 2005, secured by equipment	102,813	66,096
	558,504	3,068,889
Less: current portion	(507,525)	(246,745)
Total	\$ 50,979	\$2,822,144

At December 31, 2001, aggregate annual maturities of long-term debt and capital leases were as follows:

2002	\$507,525
2003	37,827
2004	12,608
2005	544
	\$558,504

During 1998, Mr. Phillips W. Smith, the Company's chairman, loaned the Company approximately \$725,691. In March 1998, \$150,000 was converted into 20,833 shares of common stock at an estimated fair value of \$7.20 per share and \$120,000 was repaid. In December 1998, the Company issued a promissory note for \$455,691, the remaining amount due. The note carried interest at 9% (increased to 10% in January 2001) and its maturity was extended to July 1, 2002.

In addition during 1998, Mr. Bruce R. Culver, a director of the Company, loaned the Company approximately \$622,525. In March 1998, \$150,000 was converted into 20,833 shares of common stock at an estimated market value of \$7.20 per share. In December 1998, the Company issued a promissory note for \$472,525, the remaining amount due. The note carried interest at 9% (increased to 10% in January 2001) and its maturity was extended to July 1, 2002.

In January 1999, Mr. Culver loaned the Company \$1,500,000. In return, the Company issued a promissory note for \$500,000 at an effective interest rate of 27.12% to mature October 31, 2000 and issued 1,666,667 shares of common stock to Mr. Culver at a fair market value of \$0.60 per share. The stock issued

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was subject to a repurchase agreement which allowed the Company to repurchase the shares issued at cost if certain criteria were met. In July 2000, the Company repurchased the 1,666,667 shares under the agreement in exchange for a promissory note for \$1,000,000. This \$1,000,000 note and the \$500,000 note issued in January 1999 were consolidated into a new note for \$1,500,000 which carried interest at bank prime (9.5% at December 31, 2000) plus 1%. The Company repaid the new note in full with the proceeds of a loan from a commercial bank in April 2001.

In March 1999, the Company issued a promissory note to Mr. Culver for \$100,000 at an interest rate of 10% which matures on July 1, 2002.

In March 1999, the Company issued a promissory note to Mr. Smith for \$99,794 at an interest rate of 10% which matured December 31, 2000 and was repaid in full.

In July 1999, the Company issued a promissory note to Mr. Culver for \$50,000 to fund working capital needs at an interest rate of 10% which matures July 1, 2002.

In May 2000, the Company issued a promissory note to Mr. Culver for \$200,000 to fund working capital needs at an interest rate of 10% which matures on July 1, 2002.

On July 24, 2001, the Company's Board of Directors approved the prepayment of the total remaining amount due Mr. Culver, a stockholder and director, of \$822,528. The terms of the prepayment included a 7.5% discount, or \$61,690 off the face of the note, which was applied to additional paid-in capital. The funds used to pay this note were obtained from the Company's existing line of credit (Note 7).

In July 1999, the Company issued a promissory note to Mr. Malcolm Sherman, a stockholder, for \$75,000 to acquire production equipment. The note carried interest at 9.18%, matured July 1, 2001 and was repaid in full.

In September 1997, the Company issued a promissory note to an unrelated private lender to fund working capital for \$112,000 at an interest rate of 11% which matured June 30, 2002. In June 2001, the note was paid in full.

In January 2001, the Company issued a promissory note to an unrelated private lender to fund working capital for \$500,000 at an interest rate of 18% which was repaid at the close of the IPO in May 2001.

10. Related Party Transactions

The Company leases an aircraft from its President and is obligated under an operating lease to pay a negotiated rate of \$1,560 per month for rent. This lease expires August 2013. Rent expense for this aircraft for each of the twelve months ended December 31, 2001 and 2000 was \$18,673. In October 2001, the Company entered into an agreement with the President to pay approximately \$29,000 for the replacement of the aircraft's engine. The Company has capitalized the cost of the engine in leasehold improvements at December 31, 2001. This amount is being depreciated over the asset's useful life of five years.

The Company has a note receivable from a stockholder, the proceeds of which were used by the shareholder to exercise his options. The note bears interest at 10% and is due December 2002. The amount remaining on the note totaled \$5,501 at December 31, 2001.

Certain officers and a director of the Company have personally guaranteed the Company's revolving line of credit and certain capital leases.

11. Stockholders' Equity

a. Common Stock

Concurrent with the re-incorporation in Delaware effective February 2001, the Company adopted a certificate of incorporation and authorized the issuance of two classes of stock to be designated "common stock" and "preferred stock", provided that both common and preferred stock shall have a par value of

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\$0.00001 per share and authorized the Company to issue 50 million shares of common stock and 25 million shares of preferred stock.

Additionally, effective February 2001, the Company declared a 1-for-6 reverse stock split of common stock. All references to the number of shares, per share amounts, conversion amounts and stock option and warrant data of the Company's common stock have been restated to reflect this reverse stock split for all periods presented.

b. Preferred Stock

The Company is authorized to issue up to 25 million shares of preferred stock, \$0.00001 par value. The power to issue any shares of preferred stock of any class or any series of any class and designations, voting powers, preferences, and relative participating, optional or other rights, if any, or the qualifications, limitations, or restrictions thereof, shall be determined by the Board of Directors.

c. Warrants

At December 31, 2001, the Company had warrants outstanding to purchase 53,496 shares of common stock at prices ranging from \$0.22 to \$21.00 per share with an average exercise price of \$4.56 per share and a weighted average remaining life of 2.93 years. A summary of warrants outstanding and exercisable at December 31, 2001 is presented in the table below:

Outstanding		
Weighted Average Exercise Price	Warrants	Expiration Date
\$ 0.22	16,667	1/1/03
21.00	3,333	7/31/05
3.30	22,727	7/31/05
10.00	5,000	1/1/06
7.80	5,769	4/1/06
\$ 4.56	53,496	

In 2000, the Company issued 22,727 warrants to a stockholder as consideration for his provision of a \$1,500,000 loan to the Company. The warrants are exercisable at \$3.30 per share and expire July 31, 2005. These warrants have been recorded at their estimated fair value of \$77,862 and amortized into interest expense in the accompanying financial statements.

In January 2001, the Company issued 5,000 warrants to an unrelated private lender as a loan guarantee. These warrants are exercisable at \$10 per share and expire January 1, 2006. The fair value of these warrants of approximately \$10,060 was expensed ratably over the life of the debt. In May 2001, the Company issued 5,769 warrants to its legal counsel for consulting services related to the IPO. These warrants are exercisable at \$7.80 per share and expire April 2006. The fair value of these warrants of approximately \$12,627 was recorded in the Company's financial statements in 2001.

d. Deferred Compensation

During 2000, two non-employee Board of Director members received their director fees for services relating to 2001 to 2004 through the issuance of, in the aggregate, 13,334 options at an exercise price of \$3.30 per share. These options were recorded at their estimated fair value of \$79,920 as deferred compensation in the accompanying balance sheets and are being amortized into expense over a four-year period.

e. Stock Option Plans

The Company has historically issued stock options for various equity owners and key employees as a means of attracting and retaining quality personnel. The option holders have the right to purchase a stated amount of shares at the estimated market value on the grant date. The options issued under the Company's 1999 Stock Option Plan (the "1999 Plan") generally vest over a three-year period. The options issued under the Company's 2001 Stock Option Plan (the "2001 Plan") generally vest over a four-year period.

A summary of the Company's stock options at December 31, 2001 and 2000 and for the years then ended is presented in the table below:

	2001		2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	143,322	\$ 1.14	124,875	\$ 0.82
Granted	401,724	7.29	21,863	2.83
Exercised	(23,722)	1.15	—	—
Expired/terminated	—	—	(3,416)	0.22
Options outstanding, end of year	521,324	\$ 5.88	143,322	\$ 1.14
Exercisable at end of year	223,670	\$ 4.81	84,979	\$ 1.02
Options available for grant at end of year	148,276	\$ —	690,011	\$ —
Weighted average fair value of options granted in the year	—	\$ 4.08	—	\$ 5.21

Stock options outstanding and exercisable at December 31, 2001 are as follows:

Exercise Price	Outstanding		Exercisable
	Options	Average Life(a)	Options
\$ 0.22	3,333	3.50	3,333
0.60	63,500	7.00	61,486
0.60	5,333	2.41	4,176
0.66	29,642	2.00	28,623
7.20	3,958	8.74	3,958
3.30	13,834	8.90	3,598
7.21	120,000	4.00	27,500
6.55	170,000	9.00	38,959
6.55	3,000	9.40	—
6.55	1,000	4.00	1,000
6.55	13,224	4.42	13,224
6.85	50,000	9.50	—
8.82	500	9.67	42
8.25	1,500	9.75	63
10.58	5,000	9.75	208
10.80	17,500	9.86	17,500
11.88	20,000	4.88	20,000
\$ 5.88	521,324	6.91	223,670

(a) Average contractual life remaining in years.

The Company measures the compensation cost of its stock option plan, using the intrinsic value based method of accounting prescribed in Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees*. Accordingly, no compensation cost has been recognized for its stock option plan. The weighted average remaining contractual life of those options is approximately 7.0 years. For SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), the Company estimated the fair value of each option grant as of the date of grant using the Black Scholes option pricing model (beginning in 2001). Prior to the Company's IPO, the Company followed rules acceptable for private companies. The following assumptions were used for each year:

	2001	2000
Volatility	42.0%	—
Risk-free interest rate	5.0%	5.0%
Dividend rate	0.0%	0.0%
Expected life of options	10 years	10 years

Had the Company's compensation cost been determined using the fair value of approximately \$407,000 in 2001 and \$8,300 in 2000, based on the method of accounting prescribed by SFAS No. 123, the Company's net income (loss) and net income (loss) per common share would have been adjusted to the following pro forma amounts (amounts in thousands except per common share amounts):

	Year Ended December 31,	
	2001	2000
Net income (loss) available to common stockholders:		
As reported	\$ 515	\$ (473)
Pro forma	108	\$ (482)
Basic net income (loss) per common share:		
As reported	\$0.22	\$ (0.19)
Pro forma	0.05	\$ (0.19)
Diluted net income (loss) per common share:		
As reported	\$0.17	\$ (0.19)
Pro forma	0.04	\$ (0.19)

In January 2001, the Company adopted the 2001 Plan which provides for officers, key employees and consultants to receive nontransferable stock options to purchase up to 550,000 shares of the Company's common stock. In January 2001, the Company granted 120,000 five-year and 171,000 ten-year, stockholders and one consultant at exercise prices equal or greater than the value of the common stock portion of the initial per unit public offering price in the Company's contemplated IPO. Total compensation costs associated with the option granted to the consultant is approximately \$2,898. In May 2001, the Company granted 11,449 five-year options under the 2001 Plan, to its outside legal counsel in return for legal services. The options are exercisable at \$6.55 per share and expire May 2006. The options have been recorded at their estimated fair value of \$33,177 and amortized into expense in the accompanying financial statements. Also in May 2001, the Company granted 1,775 five-year options to consultants for services rendered. The options are exercisable at \$6.55 per share and expire May 2006. These options have been recorded at their estimated fair value of \$5,144 and amortized into expense in the accompanying financial statements.

In November 2001, the Company granted 37,500 ten-year options to employees and stockholders at an exercise price equal or greater than the value of the common stock on the date of grant. The options vest over a one-month period.

Also in 2001, the Company granted 60,000 ten-year options to employees at an exercise price equal or greater than the value of the common stock on the date of grant. The options vest over a four-year period.

12. Income (Loss) Per Share

Basic net income (loss) per common share is based upon the weighted average number of common shares outstanding during the period.

In periods of losses, diluted net loss per share is based upon the weighted average number of common shares outstanding during the period. As the Company had a net loss for the year ended December 31 2000, the Company's common stock options and warrants were anti-dilutive.

Income (loss) per share is calculated as follows for the years ended December 31:

	<u>2001</u>	<u>2000</u>
Basic:		
Net income (loss)	\$ 515,029	\$ (473,247)
Weighted average shares outstanding	2,303,386	2,482,976
	<hr/>	<hr/>
Net income (loss) per share	\$ 0.22	\$ (0.19)
	<hr/>	<hr/>
Diluted:		
Net income (loss)	\$ 515,029	\$ (473,247)
Weighted average shares used in basic calculation	2,303,386	2,482,976
Stock options and warrants	725,944	—
	<hr/>	<hr/>
Weighted average common and common equivalent shares outstanding	3,029,330	2,482,976
	<hr/>	<hr/>
Net income (loss) per share	\$ 0.17	\$ (0.19)
	<hr/>	<hr/>

13. Subsequent Event

In February 2002, the Company's Board of Directors approved the prepayment of the total remaining principal amount due under a note payable to Mr. Phillips Smith, a stockholder and director of \$455,691. The balance was paid in full in February 2002.

EXHIBIT INDEX

Exhibit No.	Description
3.1	Company's Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
3.2	Company's Bylaws, as amended (incorporated by reference to Exhibit 3.2 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
4.1	Reference is made to pages 1 – 4 of Exhibit 3.1 and pages 1 – 5 and 12 – 14 of Exhibit 3.2
4.2	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.2 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
4.3	Form of Public Warrant (incorporated by reference to Exhibit 4.3 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
4.4	Form of Unit Certificate (incorporated by reference to Exhibit 4.4 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
4.5	Form of Warrant and Unit Agreement (incorporated by reference to Exhibit 4.5 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
4.6	Form of Underwriters' Warrant (incorporated by reference to Exhibit 4.6 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.1	Employment Agreement with Patrick W. Smith, dated July 1, 1998 (incorporated by reference to Exhibit 10.1 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)(1)
10.2	Employment Agreement with Thomas P. Smith, dated November 15, 2000 (incorporated by reference to Exhibit 10.2 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)(1)
10.3	Employment Agreement with Kathleen C. Hanrahan, dated November 15, 2000 (incorporated by reference to Exhibit 10.3 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)(1)
10.4	Form of Indemnification Agreement between the Company and its directors (incorporated by reference to Exhibit 10.4 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.5	Form of Indemnification Agreement between the Company and its officers (incorporated by reference to Exhibit 10.5 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.6	1999 Employee Stock Option Plan (incorporated by reference to Exhibit 10.6 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)(1)
10.7	2001 Stock Option Plan (incorporated by reference to Exhibit 10.7 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)(1)
10.8	Form of Warrant issued to Bruce Culver and Phil Smith (incorporated by reference to Exhibit 10.8 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.9	Licensing Agreement with respect to intellectual property dated October 14, 1993, as amended, by and between the Company and John H. Cover Jr., and related documents (incorporated by reference to Exhibit 10.9 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.10	Promissory Note, dated October 24, 2000, payable to Bank of America in the amount of \$60,000 and related guarantee and security documents (incorporated by reference to Exhibit 10.12 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)

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Exhibit No.	Description
10.11	Form of Promissory Note issued to stockholders (incorporated by reference to Exhibit 10.13 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.12	Lease between the Company and Norton P. Remes and Joan A. Remes Revocable Trust, dated November 17, 2000 (incorporated by reference to Exhibit 10.14 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.13	Equipment Lease between the Company and Thomas P. Smith, dated August 21, 1998.
10.14	Letter of Agreement with respect to services, dated May 26, 2000, by and between the Company and Malcolm W. Sherman (incorporated by reference to Exhibit 10.16 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.15	Form of Sales Representative Agreement with respect to services by and between the Company and Sales Representatives
10.16	Loan and Security Agreement, dated April 26, 2001, between the Company and Silicon Valley Bank (incorporated by reference to Exhibit 10.19 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
10.17	Lease Agreement, dated April 17, 2001, between the Company and GE Capital Corporation in the amount of \$37,945.
23.1	Consent of Arthur Andersen LLP, independent public accounts
99.1	Certain Factors to Consider in Connection with Forward-Looking Statements

(1) Management Contract or Compensatory Plan or Arrangement

EQUIPMENT LEASE

This Equipment Lease (this "Lease") is made effective as of August 21, 1998, between Thomas P. Smith (the "Lessor"), 7500 E. Deer Valley Rd. #15, Scottsdale, AZ 85255, and Taser International, Inc. (the "Lessee"), 7339 E. Evans Road, Scottsdale, Arizona 85260, and states the agreement of the parties as follows:

EQUIPMENT SUBJECT TO LEASE. The Lessor shall lease the equipment listed on the attached Exhibit "A".

PAYMENT TERMS. Payments in the amount of \$1,556.05 shall be due on the first day of each month, with the first payment due on September 25, 1998 and terminate on August 25, 2013. The lease payments shall be due whether or not the Lessee has received notice of a payment due.

SERVICE CHARGE. If any Lease installment is not paid within 10 day(s) after the due date, the Lessee shall pay to the Lessor a service charge of 5% of the late payment.

NON-SUFFICIENT FUNDS. The Lessee shall be charged \$20.00 for each check that is returned to the Lessor for lack of sufficient funds.

LEASE TERM. This Lease shall begin on the above effective date and shall terminate on August 25, 2013, unless otherwise terminated in a manner consistent with the terms of this Lease.

CARE AND OPERATION OF EQUIPMENT. The equipment may only be used and operated in a careful and proper manner. Its use must comply with all laws, ordinances, and regulations relating to the possession, use, or maintenance of the equipment, including registration and/or licensing requirements, if any.

ALTERATIONS. Lessee shall make no alterations to the equipment without the prior written consent of the Lessor. All alterations shall be the property of the Lessor and subject to the terms of this Lease.

MAINTENANCE AND REPAIR. The Lessee shall maintain at the Lessee's cost, the equipment in good repair and operating condition, allowing for reasonable wear and tear. Such costs shall include labor, material, parts, and similar items.

LESSOR'S RIGHT OF INSPECTION. The Lessor shall have the right to inspect the equipment during Lessee's normal business hours.

RETURN OF EQUIPMENT. At the end of the Lease term, the Lessee shall be obligated to return the equipment to the Lessor at the Lessee's expense.

OPTION TO RENEW. If the Lessee is not in default upon the expiration of this lease, the Lessee shall have the option to renew this Lease for a similar term on such terms as the parties may agree at the time of such renewal.

ACCEPTANCE OF EQUIPMENT. The Lessee shall inspect each item of equipment delivered pursuant to this Lease. The Lessee shall immediately notify the Lessor of any discrepancies between such item of equipment and the description of the equipment in the Equipment Schedule. If the Lessee fails to provide such notice before accepting delivery of the equipment, the Lessee will be conclusively presumed to have accepted the equipment as specified in the Equipment Schedule.

OWNERSHIP AND STATUS OF EQUIPMENT. The equipment will be deemed to be personal property, regardless of the manner in which it may be attached to any other property. The Lessor shall be deemed to have retained title to the equipment at all times, unless the Lessor transfers the title by sale. The Lessee shall immediately advise the Lessor regarding any notice of any claim, levy, lien, or legal process issued against the equipment.

RISK OF LOSS OR DAMAGE. The Lessee assumes all risks of loss or damage to the equipment from any cause, and agrees to return it to the Lessor in the condition received from the Lessor, with the exception of normal wear and tear, unless otherwise provided in this Lease.

INDEMNITY OF LESSOR FOR LOSS OR DAMAGES. Unless otherwise provided in this Lease, if the equipment is damaged or lost, the Lessor shall have the option of requiring the Lessee to repair the equipment to a state of good working order,

or replace the equipment with like equipment in good repair, which equipment shall become the property of the Lessor and subject to this Lease.

LIABILITY AND INDEMNITY. Liability for injury, disability, and death of workers and other persons caused by operating, handling, or transporting the equipment during the term of this Lease is the obligation of the Lessor. Lessor shall maintain liability insurance of at least \$1,000,000.00. Payment for Insurance shall be paid by Lessee.

CASUALTY INSURANCE. The Lessor shall insure the equipment in an amount of at least \$196,000.00. Payment for Insurance shall be paid by Lessee.

TAXES AND FEES. During the term of this Lease, the Lessee shall pay all applicable taxes, assessments, and license and registration fees on the equipment.

DEFAULT. The occurrence of any of the following shall constitute a default under this Lease:

A. The failure to make a required payment under this Lease when due.

B. The violation of any other provision or requirement that is not corrected within

30 day(s) after written notice of the violation is given.

C. The insolvency or bankruptcy of the Lessee.

D. The subjection of any of Lessee's property to any levy, seizure, assignment, application or sale for or by any creditor or government agency.

RIGHTS ON DEFAULT. In addition to any other rights afforded the Lessor by law, if the Lessee is in default under this Lease, without notice to or demand on the Lessee, the Lessor may take possession of the equipment as provided by law, deduct the costs of recovery (including attorney fees and legal costs), repair, and related costs, and hold the Lessee responsible for any deficiency. The rights and remedies of the Lessor provided by law and this Agreement shall be cumulative in nature. The Lessor shall be obligated to re-lease the equipment, or otherwise mitigate the damages from the default, only as required by law.

NOTICE. All notices required or permitted under this Lease shall be deemed delivered when delivered in person or by mail, postage prepaid, addressed to the appropriate party at the address shown for that party at the beginning of this Lease.

ASSIGNMENT. The Lessee shall not assign or sublet any interest in this Lease or the equipment or permit the equipment to be used by anyone other than the Lessee or Lessee's employees, without Lessor's prior written consent.

ENTIRE AGREEMENT AND MODIFICATION. This Lease constitutes the entire agreement between the parties. No modification or amendment of this Lease shall be effective unless in writing and signed by both parties. This Lease replaces any and all prior agreements between the parties.

GOVERNING LAW. This Lease shall be construed in accordance with the laws of the State of Arizona.

SEVERABILITY. If any portion of this Lease shall be held to be invalid or unenforceable for any reason, the remaining provisions shall continue to be valid and enforceable. If a court finds that any provision of this Lease is invalid or unenforceable, but that by limiting such provision, it would become valid and enforceable, then such provision shall be deemed to be written, construed, and enforced as so limited.

WAIVER. The failure of either party to enforce any provision of this Lease shall not be construed as a waiver or limitation of that party's right to subsequently enforce and compel strict compliance with every provision of this Lease.

CERTIFICATION. Lessee certifies that the application, statements, trade references, and financial reports submitted to Lessor are true and correct and any material misrepresentation will constitute a default under this Lease.

ARBITRATION. Any controversy or claim relating to this Lease, including the construction or application of this Lease, will be settled by binding arbitration under the rules of the American Arbitration Association, and any judgment granted by the arbitrator(s) may be enforced in any court of proper jurisdiction.

Lessor:
Thomas P Smith

/s/ Thomas P Smith

Thomas P Smith

Lessee:
Taser International, Inc.

By: /s/ Patrick W. Smith

Patrick W. Smith
President

EXHIBIT A
EQUIPMENT SCHEDULE

Equipment Description: Cessna 414

[TASER INTERNATIONAL LOGO]

7860 E. McClain Drive, Suite #2, Scottsdale, Arizona 85260, U.S.A.

Tel.: (480) 991-0797, Fax: (480) 991-0791 *www.TASER.com

INDEPENDENT SALES REPRESENTATIVE AGREEMENT

This agreement, entered into as of _____, 2001, by and between TASER(R) International, a corporation organized and existing under the laws of the State of Delaware (hereinafter referred to as TASER), and _____, (hereinafter referred to as Sales Representative).

WHEREAS, TASER is engaged in the manufacture, sale and distribution of Less-Lethal Defense products and related accessories suitable for law enforcement and commercial markets; and

WHEREAS, TASER and the Sales Representative desire to enter into a relationship, whereby Sales Representative will promote the sale of TASER products in the geographical areas hereinafter described, upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, for good and valuable considerations, the receipt and sufficiency of which is hereby acknowledged, it is mutually agreed upon as follows:

1. TERRITORY:

The Sales Representative's territory will consist of the area described below:

It is understood that TASER has the right to select and appoint Distributors in Sales Representative's territory. TASER reserves the right to amend the forgoing territory in its sole discretion, if the Sales Representative does not meet annual sales objectives, Amendment of the forgoing can occur anytime during the contract period.

2. DUTIES OF SALES REPRESENTATIVE

The Sales Representative will use its best efforts to solicit orders for the sale of TASER products by presenting TASER's products in a clear, understandable and professional manner. In this regard, Sales Representative will present TASER products and accessories to federal, state and local law enforcement personnel, wholesalers, retailers, and consumers within the Sales Representative's territory. Sales Representative will at all times emphasize and adhere to all regulations and practices relating to user safety, shall at all times maintain a professional

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appearance and shall provide after-sales service to any customer who has purchased or purchases TASER products and accessories. Sales Representatives agree to submit updated company resume's. These resume's shall include a complete listing of all other products for which the group has a representative, location of any offices and numbers of all representatives employed by the Sales Representatives Group, and the particular territories assigned to said Group's representatives. Also, if there are representatives who are not TASER active within the group, the number and names of those individuals should also be supplied with the Company resume.

3. SOLICITATION AND / OR PURCHASE ORDERS

All Sales Representatives' solicitations and/or purchase orders will be conducted in accordance with such procedures, prices, and terms and conditions as TASER may specify from time to time. All purchase orders or sales orders are subject to TASER's approval. TASER will prepare and deliver all invoices for billing to customers. Sales Representative must assist TASER

in collecting unpaid invoices upon request by TASER. In addition, Sales Representative will assist TASER in the resolution of any and all disputes, adjustments, or other differences between TASER and any customers and / or distributors.

4. NO AGENCY

Sales Representative is an independent contractor and under no circumstances will Sales Representative commit TASER to the delivery of TASER products and accessories purport to legally bind TASER in any matter, or hold himself out as an employee or agent with legal authority to bind TASER. All accepted purchase orders, whether or not delivery dates are specified, shall be subject to delays in manufacture or delivery due to any cause beyond TASER's reasonable control. In keeping with the foregoing, no representative may carry a business card that is TASER exclusive. As a broad parameter, Sales Representative Groups may include the TASER logo on the bottom of their card, however a sample must be submitted to TASER, prior to the printing of the same for TASER's written approval.

5. RULES OF CONDUCT

In the course of representing TASER, Sales Representative shall adhere to the following rules of conduct, which include, but are not limited to:

- (a) Sales representative shall not disparage, denigrate, "run down" or make any negative comments regarding another manufacturer or competitors' product.
- (b) Sales Representative shall not solicit or sell TASER products, or enter into a type of arrangement, wherein the sale of TASER products is made

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conditional in any way on a user's purchase of another company's products.

- (c) Sales Representative shall at all times maintain a professional appearance and shall not perform any of his duties set forth in this agreement, while intoxicated in any manner or under the influence of any illegal drug.
- (d) Under no circumstances shall the representative market, sell, distribute, solicit, or be involved in any way with another manufacturer of less-lethal weapons and/or accessories, without the express written approval of TASER.
- (e) Under no circumstances shall the representative market, sell or demonstrate TASER products and accessories together with any after-market product that has not been approved by TASER for use. Furthermore, no TASER demonstration sample will be equipped or modified with any after-market accessory or component, including, but not limited to sights, holsters, or batteries not recommended for use by TASER.
- (f) Sales Representatives understand and agree that any failure to enforce the paragraphs contained in section 5 of this agreement is not to be considered a waiver of TASER's rights hereunder and representative hereby waives any right they may have to the defense of laches.

Any violation of any of the above provisions shall be grounds for immediate termination by TASER of this Agreement.

6. PERSONNEL

Sales Representative shall maintain a mutually agreed upon number of personnel to adequately provide the services required under this agreement, including, but not limited to, after-sales service. Sales Representative shall not use any person to perform any duties under this Agreement, unless said person has completed all the following:

- (a) Successfully passed the TASER presentation and Product Training Course, Safety Course, and any other tests or courses TASER deems necessary to perform the duties as provided herein.
- (b) Received TASER written approval to market TASER less-lethal weapons and accessories.

In the event any person employed by, or affiliated with Sales Representative, performs any duties related to TASER, which arise out of, or refer in any way to this agreement or this paragraph, Sales Representative shall waive their right to receive commissions and TASER shall have the right to immediately terminate this Agreement. Sales

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Representative agrees and understands that the Sales Management of TASER may, at any time, request that a member of the representative group take a TASER Course and successfully pass in order to represent TASER products.

7. USE OF INFORMATION

Only TASER approved information, and terms and conditions will be used in any advertising, sales promotions, solicitation and other duties set forth in this Agreement. Sales Representative will not undertake to design or re-engineer TASER products and accessories, or advise any person on any technical specification, training practices, use of force recommendations, bulletins, or accepted practices of applicable TASER safety matters.

IN THE EVENT SALES REPRESENTATIVE ADVISES ANY PERSON CONTRARY TO TASER POLICIES, SPECIFICATIONS, TERMS AND CONDITIONS OR PROCEDURES CONCERNING TASER'S PRODUCT LINE, OR THE PROPER USE OF TASER PRODUCTS, OR INDUCES ANY PERSON TO USE OR APPLY TASER'S PRODUCTS BY MISREPRESENTATION OF THE PRODUCT, ITS CHARACTERISTICS, USE, COST, AVAILABILITY, SAFETY OR APPLICATIONS, SALES REPRESENTATIVE SHALL INDEMNIFY, DEFEND, PAY, SAVE AND HOLD TASER HARMLESS FROM ANY AND ALL CLAIMS, COSTS, JUDGEMENTS, AND DAMAGES, INCLUDING REASONABLE ATTORNEY'S FEES AND EXPENSES OF COUNCIL, WHICH ARE INCURRED AS A DIRECT OR INDIRECT CONSEQUENCE THEREOF.

8. REPORTING AND SALES FORECASTS

Sales Representative must quarterly and as soon as available provide TASER with:

- (a) Market information available from Customers, including, but not limited to, competitive pricing on less-lethal weapons and applicable accessories, new product information introduced by potential competitors, warranties (and requirement for such warranties) being issued by competitors; delivery schedules of competitors; competitors training policies, procedures and associated costs; feedback from customers with respect to competitors' policies, procedures, and problem areas. Notwithstanding the forgoing, in no event shall the above information or any other information be obtained from competitors by Sales Representative. In no event shall the above information or any documents or information required by TASER pursuant to this agreement be released, disclosed, or disseminated in any way to other personnel, firm, or other entity during the term of this Agreement and for a period of two (2) years after its termination without TASER's express written consent.
- (b) Forecasts by territory, with respect to the total number of TASER less-lethal weapons expected to be sold (broken down and separated by law

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enforcement and commercial sales, by state). These forecasts will be updated at least every 3 months, and sooner if a moderate market change occurs, that impacts the sales forecast and production schedule. Failure to make satisfactory progress toward meeting sales forecasts and previously agreed upon sales goals shall be grounds for termination of this Sales Representative Agreement.

- (c) The Sales Representative shall submit monthly a sales activity report within the assigned territory. This report can be given verbally to the US Sales Manager or in writing.
- (d) Copies of all correspondence between Sales Representative and customers, including, but not limited to, quotations, proposals, TASER presentation appointments and warranty matters.
- (e) All reports, forecasts, or correspondence required by this paragraph must be submitted to the Sales Representative's Regional Sales Manager/Director, or the TASER US Sales Manager for verification and follow-up, no later than fifteen (15) days after the close of each quarter or year.
- (f) Attached hereto and made a part hereof are copies of forecasts prepared by TASER based on the historical data for the assigned territory(s) in regard to the Sales Representative's performance. These forecasts will be used in evaluating the Sales Representative's performance during the semi-annual reviews. TASER reserves the right not to renew or to terminate Sales Representative's Agreements if the Sales Representative does not meet the law enforcement sales target of 50% of sales in the forecasts attached hereto.

9. COMMISSIONS

Subject to the terms and conditions of this Sales Representative Agreement, Sales Representative will receive a commission on net sales (excluding freight charges, distributor overages, trade-ins or upgrades, and/or applicable taxes and discounts taken by the customer) to approved customers in accordance with the following schedule:

- (a) Seven percent (7%) of the total net sales shall be paid to the Sales Representative within forty-five (45) days of payment by the customer to TASER, for orders shipped into a Sales Representative's territory.
- (b) An additional three percent (3%) of net sales, if the Sales Representative surpasses the law enforcement sales forecast within a three (3) months period.

- (c) In the event TASER is not paid within sixty (60) days of specified invoice terms, Sales Representative shall receive no commission for late payment of an invoice. This paragraph is not applicable to law enforcement orders, which will be handled on a case-by-case basis.
- (d) Any dispute or claim with respect to the entitlement and/or amount of commissions shall be made in writing to TASER within forty-five (45) days from the end of the month for which commissions are claimed as to entitlement and/or amount. Failure to timely raise in writing any claims or disputes with respect to entitlement or amount shall constitute a total waiver by Sales Representative for any such commissions.
- (e) No commissions are payable for Export orders shipped and/or invoiced into a Sales Representatives territory.

10. HOUSE ACCOUNTS

TASER shall have the unqualified and absolute right at any time to designate any competitive bidding or procurement for any Governmental entity (Military,

Federal, State, Municipal, and local levels) as a House Account, for which Sales Representative shall receive no commission, unless otherwise mutually agreed upon in writing with TASER. Sales Representatives shall receive no commissions on house accounts. TASER also reserves the right to designate any commercial accounts as house accounts if, in TASER's sole discretion, the Sales Representative is not properly servicing those accounts.

11. SAMPLES

Any samples provided by TASER to Sales Representative shall remain the property of TASER, cannot be sold or transferred to any other person and must be returned to TASER upon request. It shall be the responsibility of the Sales Representative group principal to ensure that each of their Sales Representative, who is TASER active, has in his or her possession, or has readily available access to a complete line of TASER products. All samples are subject to review at any time by TASER and under no circumstances may be sold, transferred, conveyed, pledged, or hypothecated to any individual or any other entity, unless approved in advance in writing by TASER. Failure of Sales Representative to maintain samples in a perfect working order shall be a cause to immediately terminate this Sales Representative Agreement.

12. TRADE SHOWS AND CONVENTIONS

Sales Representative shall cover all trade shows, conventions and seminars of interest to law enforcement, and potential purchasers of TASER products in the assigned territory, and shall send adequate TASER representation to national trade shows, including, but not limited to; IACP and NOBLE convention. Sales Representative also agrees to attend any and all other law enforcement trade shows/conventions/seminars

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within his territory deemed necessary by TASER, at the cost of the Sales Representative, unless TASER agrees to share certain cost in writing.

13. MEETINGS

Sales Representative shall send its representatives to any TASER sales meeting and to national trade show meetings, shows, or training programs as requested by TASER.

14. TECHNICAL SUPPORT AND INSURANCE

TASER shall provide Sales Representatives with leads, technical and training support, sales samples and literature, sales terms and conditions, pricing policies, bulletins, and sales promotional materials, as they are available by TASER.

15. NO SUBCONTRACTING OR ASSIGNMENT

Subcontracting or assignment of this Sales Representative Agreement is prohibited. Under no circumstances will Sales Representative subcontract, assign, delegate or otherwise have any person or entity perform any of the duties and obligations of Sales Representative under this agreement without TASER's express written consent.

16. GOVERNING LAW

This Sales Representative Agreement shall be deemed to have been made in Arizona and shall be governed and construed in accordance with the laws of the State of Arizona, the sites of TASER's Business Offices. Should a disagreement arise over any of the provisions relating to a sales representative agreement, TASER International and the sales representative shall first meet to settle any dispute. If this is unsuccessful, both parties (TASER International and named Sales Representative) hereby agree that any unresolved disputes shall be settled in binding arbitration under the rules of the American Arbitration Association. Specifically, this agreement sets forth the entire understanding and agreement of the parties hereto with respect to the subject matter hereof and supersedes all other representations and understandings both written and oral. This agreement is drafted under the laws of the state of Arizona, and the venue for any legal recourse shall take place under laws as written in Arizona, and the venue for any legal recourse shall take place under these laws and be

adjudicated within its jurisdiction. Further, the parties agree that any controversy or claim arising out of, or relating to, this agreement, or the breach thereof, shall be settled by arbitration in accordance with the rules of the American Arbitration Association in the state of Arizona, USA under their auspices and the parties agree to have any dispute heard and adjudicated under these rules in the state of Arizona, USA and both parties agree to be bound by the decision of the arbitrator and to pay their proportionate fees as required under the rules of the association and judgment upon the award rendered by the arbitrator(s) may be entered into any court having jurisdiction thereof.

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17. TERMS

This Sales Representative Agreement shall continue in force for one year, renewable for additional one-year term by mutual agreement. It is, however, expressly understood that TASER has complete and sole discretion to appoint, terminate, renew, decrease or add to its staff of Sales Representatives, at any time, for any reason. In such event, the Sales Representative shall be given 60 days written notice if his/her services are no longer required by TASER, after which time the Agreement with said representatives will be terminated.

18. DISPUTES

Any claim, matter or controversy arising out of or relating to this Sales Representative Agreement, or the breach thereof, shall be decided by arbitration in accordance with the Commercial Industry Rules of the American Arbitration Association governing at that time, unless the parties mutually agree otherwise in writing. Any arbitration shall be held in Phoenix, AZ. The prevailing party in any such arbitration shall be entitled to recover reasonable attorney's fees, expenses of council, expert witness fees and any other arbitration expenses. The award of the arbitrators shall be final and binding, and be enforced in any court of competent jurisdiction.

19. TERMINATION

In the event this agreement is terminated for any reason, Sales Representative shall be entitled to no compensation or damages of any variety whatsoever, it being understood that the sales and marketing of TASER products is covered by any commissions paid or earned by Sales Representative. The Sales Representative understands that, by signing this Agreement, the following paragraph specifically eliminates any claim they might have to damages in quantum meruit. Furthermore, Sales Representative agrees that no commissions will be due for orders received more than thirty (30) days after Sales Representative's termination.

20. ENTIRE AGREEMENT

This Sales Representative Agreement embodies the entire agreement between the parties hereto, and there are no verbal or collateral agreements between them. All preliminary negotiations, representation and discussions are deemed merged herein. This Sales Representative Agreement may be altered or modified only in writing and signed by all parties hereto.

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IN WITNESS WHEREOF, the parties have executed this Agreement in Scottsdale, Arizona, on the date and year above first written.

TASER INTERNATIONAL

SALES REPRESENTATIVE

By: _____

By: _____

Title: _____

Title: _____

WITNESS

WITNESS

Initial Term stated in the applicable Schedule. The Monthly Rent accrues from the Lease Commencement Date. If Monthly Rent is not paid within ten (10) days of its due date, Lessee agrees to pay a late charge of ten cents (\$0.10) per dollar on, and in addition to, such Monthly Rent, but not exceeding the lawful maximum, if any. Advance Rent, if any, is applied to the first Monthly Rent due and then to the final Monthly Rents or at Lessor's option, to the payment of any overdue obligation of Lessee. Lessor is not required to: (i) refund any Advance Rent or Monthly Rent; (ii) pay any interest on Advance Rent; or (iii) keep Advance Rent in a separate account.

(b) Lessee agrees that the Monthly Rent and Advance Rent have been calculated on the assumption that the effective corporate income tax rate (exclusive of any minimum tax rate) for Lessor will be 35%. If Lessor is not taxed at such tax rate during the Initial Term because of Congressional enactment of any law, Lessor has the right to increase the Monthly Rent and Advance Rent and adjust the Casualty Value (Section 8) in such a manner as will both (i) take into account that such assumption is no longer correct and (ii) preserve Lessor's after tax economic yields and cash flows. A change in the Monthly Rent, Advance Rent, or Casualty Value is effective on the effective date of such law.

(c) At the end of the term of a Lease, or in the event of a Default, until Lessee has complied with Section 6(d) ("Use, Operation, Return of Equipment") or has purchased the Equipment pursuant to Section 14 ("Option"), Lessee shall pay Lessor Monthly Rent, as liquidated damages for lost rentals and not as a penalty, such payment to be computed on a daily basis (with one day's rent being 1/30th of the Monthly Rent) until the Equipment is returned or purchased. Lessee's obligations and all other provisions of this Lease continue until such time.

5. TAXES. Lessee agrees to pay promptly as additional rent all license and registration fees and all taxes (excluding taxes on Lessor's net income) together with penalties and interest (collectively, "Taxes") assessed against Lessor, Lessee, the applicable Lease, the Equipment, the purchase (including purchase by Lessee), sale, ownership, delivery, leasing, possession, use, operation or return of the Equipment or its proceeds (such additional rent, together with Monthly Rent and Advance Rent is hereinafter collectively referred to as "Rent"). Where permitted by applicable law, except for Type A Leases, Lessee will report all Taxes. Notwithstanding anything to the contrary in the Agreement, if and to the extent that any Taxes are reported or paid by Lessor, Lessee will reimburse Lessor on demand for any such Taxes, or at Lessor's option, Lessee shall pay a portion of estimated Taxes along with each payment of Monthly Rent.

Lessee's Initials: /s/ TS

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6. USE, OPERATION, RETURN OF EQUIPMENT. (a) Lessee agrees at its own expense to: (i) maintain the Equipment under a manufacturer's service and maintenance contract for the term of the applicable Lease and in any event in good operating condition; (ii) use the Equipment solely for business purposes, in the manner for which it was intended and in compliance with all applicable laws and manufacturer requirements or recommendations; (iii) pay all expenses, fines, and penalties related to the use, operation, condition or maintenance of the Equipment; and (iv) comply with all license and copyright requirements of any software ("Software") used in connection with the Equipment.

(b) Lessee agrees not to attach to the Equipment any accessory, equipment or device not leased from Lessor unless it is easily removable without damaging the Equipment. Lessee agrees to pay all costs for parts, alterations, and additions to the Equipment (including those required by law), all of which will become the property of Lessor. Lessee agrees not to install any Equipment or Software, if any, inside any other personal property, Lessor and Lessee intend that the Equipment is to remain personal property of Lessor.

(c) Provided that there is no Default (Section 13), Lessee is authorized on behalf of Lessor to enforce in its own name (and at its own expense) any warranty, indemnity or right to damages related to the Equipment which Lessor has against the Supplier.

(d) At the end of the term of a Lease, or in the event of a Default, Lessee agrees, at its own expense and risk, (i) to pay for any repairs required to place the Equipment in the same condition as when received by Lessee, reasonable wear and tear excepted; (ii) without unreasonable delay, to cause

the Equipment to be disassembled, deinstalled, inspected, tested and crated in accordance with manufacturer recommendations, and any and all local, state and federal regulatory requirements then in effect and (iii) to deliver on Air Ride suspended Transport the Equipment freight prepaid, to a carrier selected by Lessor for shipment to a location selected by Lessor. Any such Equipment shall be accompanied by all accessories originally included with the Equipment, including but not limited to, users manuals, service records and certification from the manufacturer that the Equipment performs in accordance with original specifications and qualifies for continued maintenance under a manufacturer's service and maintenance contract. Equipment that is returned will include the latest software release provided by the manufacturer to the Lessee for the Equipment.

(e) At Lessor's request, Lessee, at its expense, shall store the Equipment for a period of up to ninety (90) days after the end of the term of the applicable Lease. During such period, Lessee shall comply with all of the terms of the Lease, except the obligation to pay Rent, and Lessor shall have access to the Equipment upon reasonable notice for the purpose of showing the Equipment to potential purchasers.

7. DISCLAIMER. LESSEE AGREES THAT: (1) LESSOR IS NOT THE MANUFACTURER OR SUPPLIER OF THE EQUIPMENT OR SOFTWARE (IF ANY) OR THE REPRESENTATIVE OF EITHER; (2) LESSOR IS NOT REQUIRED TO ENFORCE ANY MANUFACTURER'S WARRANTIES ON BEHALF OF ITSELF OR OF LESSEE; (3) LESSOR IS NOT OBLIGATED TO INSPECT THE EQUIPMENT OR SOFTWARE; (4) LESSOR DOES NOT MAKE, AND HAS NOT MADE, ANY WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE DESIGN, COMPLIANCE WITH SPECIFICATIONS, OPERATION OR CONDITION OF, OR AS TO THE QUALITY OF THE MATERIAL, EQUIPMENT OR WORKMANSHIP OR SOFTWARE; (5) LESSOR DOES NOT MAKE ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF, OR AS TO TITLE TO, OR ANY OTHER REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, WITH RESPECT TO THE EQUIPMENT OR SOFTWARE. LESSEE FURTHER AGREES THAT LESSOR SHALL NOT BE LIABLE FOR ANY LIABILITY, LOSS OR DAMAGE CAUSED DIRECTLY OR INDIRECTLY BY THE EQUIPMENT OR SOFTWARE OR BY ITS INADEQUACY OR BY ANY EQUIPMENT OR SOFTWARE DEFECT, WHETHER OR NOT LESSOR HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH LIABILITY, LOSS OR DAMAGE. LESSOR SHALL NOT HAVE ANY LIABILITY TO LESSEE OR ANY OTHER PERSON WITH RESPECT TO ANY OF THE FOLLOWING, REGARDLESS OF ANY NEGLIGENCE OF LESSOR: (1) THE USE, OPERATION OR PERFORMANCE OF THE EQUIPMENT OR SOFTWARE; (2) ANY INTERRUPTION OF SERVICE, LOSS OF BUSINESS OR ANTICIPATED PROFITS OR LOSS OF GOODWILL OR ANY INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES OR ANY OTHER COMMERCIAL OR ECONOMIC LOSSES OF ANY KIND WHICH ARE ATTRIBUTABLE TO THE EQUIPMENT OR SOFTWARE; OR (3) THE DELIVERY, SERVICING, MAINTENANCE, REPAIR, IMPROVEMENT OR REPLACEMENT OF THE EQUIPMENT OR SOFTWARE.

8. LOSS OR DAMAGE; CASUALTY VALUE. Lessee assumes the risk of any disappearance of or damage to any part of the Equipment from any cause whatsoever. Within ten (10) days of learning of any condemnation or other circumstance where the Equipment is, in Lessee's reasonable opinion, irreparably damaged or permanently unfit for use ("Casualty") Lessee will provide Lessor full details of the Casualty and will pay to Lessor an amount equal to (i) the sum of all future Monthly Rents payable for the Equipment under the applicable Lease, with each such payment discounted to its net present value at a simple interest rate equal to six percent (6%) per annum (or if not permitted by applicable law, the lowest permitted rate) from the due date of each such payment to the Monthly Rent payment date immediately preceding the date of the Casualty; plus an amount equal to the Casualty Value Percentage of the Total Price of the Equipment ("Casualty Value"); plus (ii) any other amounts due under the applicable Lease. Monthly Rent will continue to accrue without abatement until Lessor receives the Casualty Value and all other amounts (including Monthly Rent payments) then due under the applicable Lease, at which time the Lease will terminate. At Lessor's request, Lessee agrees to sell the Equipment on an "AS IS, WHERE IS" basis without representation or warranty, and to remit to Lessor any sales or insurance proceeds received (less any sums paid by Lessee as Casualty Value).

9. INSURANCE. Lessee agrees, at its own expense, to keep the Equipment insured with companies acceptable to Lessor and to maintain primary coverage consisting of (i) actual cash value all risk insurance on the Equipment, naming Lessor as loss payee and (ii) single limit public liability and property damage insurance of not less than \$300,000 per occurrence (or such other amounts as Lessor may require by notice to Lessee) naming Lessee as insured and Lessor as additional insured. The insurance will provide for not less than thirty (30) days notice to Lessor of material changes in or cancellation of the policy. Premiums for all such insurance will be prepaid. Lessee will deliver evidence of such insurance to Lessor upon request, and will promptly provide to Lessor all information pertinent to any occurrence which may become the basis of a claim. Lessee will not make claim adjustments with insurers except with

Lessor's prior written consent. If Lessee fails to provide any insurance required by the Agreement, Lessor may but is not obligated to insure its own interest in the Equipment and Lessee agrees to pay the direct or financed cost thereof (at the highest annual rate permitted by applicable law) and charge for costs in connection therewith promptly upon receipt of invoices.

10. REPRESENTATIONS AND WARRANTIES OF LESSEE. Lessee represents and warrants to Lessor that as of the date of each Lease and of each Certificate of Acceptance:

(a) Lessee has adequate power and capacity to enter into the Lease, any documents relative to the purchase of the Equipment leased under such Lease and any other documents required to be delivered in connection with this Lease (collectively, the "Documents"); the Documents have been duly authorized, executed and delivered by Lessee and constitute valid, legal and binding agreements, enforceable in accordance with their terms; there are no proceedings presently pending or threatened against Lessee which will impair its ability to perform under the Lease; and all information supplied to Lessor is accurate and complete.

(b) Lessee's entering into the Lease and leasing the Equipment does not and will not: (i) violate any judgement, order, or law applicable to the Lease, Lessee or Lessee's certificate of incorporation or by-laws (if Lessee is a corporation) or Lessee's partnership agreement (if Lessee is a partnership); or (ii) result in the creation of any lien, security interest or other encumbrance upon the Equipment.

(c) All financial data of Lessee or of any consolidated group of companies of which Lessee is a member ("Lessee Group"), delivered to Lessor have been prepared in accordance with generally accepted accounting principles applied on a consistent basis with prior periods and fairly present the financial position and results from operations of Lessee, or of the Lessee Group, as of the stated date and period(s). Since the date of the most recently delivered financial data, there has been no material adverse change in the financial or operating condition of Lessee or of the Lessee Group.

(d) If Lessee is a corporation or partnership, it is and will be validly existing and in good standing under laws of the state of its incorporation or organization; the persons signing the Lease are acting with the full authority of its board of directors or partners (if Lessee is a partnership) and hold the offices indicated below their signatures, which are genuine.

11. LESSEE'S AGREEMENTS. (a) Lessee agrees that it will keep the Equipment free and clear from all claims, liens and encumbrances and will not assign, sublet, or grant a security interest in the Equipment or in this Lease without Lessor's prior written consent. If and to the extent that the Lease is deemed a security agreement under the Uniform Commercial Code, and otherwise for precautionary purposes only, Lessee grants Lessor a first priority security interest in its interest in the Equipment and in all Equipment leased pursuant to any Schedule. Such security interest shall secure Lessee's

obligations with respect to all Schedules, Leases and agreements between Lessee and Lessor. Lessee will notify Lessor in writing, with full particulars, within ten (10) days after it learns of the attachment of any lien to any Equipment and of the Equipment's location.

(b) Lessee will not relocate any unit of Equipment from the Equipment Location stated on a Schedule without the prior written approval of Lessor (which shall not be unreasonably withheld). Lessee agrees to notify Lessor immediately in writing of any change in Lessee's corporate or business name or in the location of its chief executive office.

(c) If this is a Type A Lease, Lessee will not take or fail to take any action which Lessor determines will result in the disqualification of any Equipment for, or the recapture of, all or any portion of the accelerated cost recovery deductions permitted by the Internal Revenue Code of 1986, as amended. Lessee will indemnify Lessor for any loss in Lessor's after tax economic yields and cash flows caused by Lessee's acts or failures to act.

(d) Lessor may inspect the Equipment during normal business hours. At Lessor's request, Lessee will attach identifying labels supplied by Lessor showing Lessor's ownership in a prominent position on each unit of Equipment.

(e) LESSOR MAY ASSIGN EACH LEASE. LESSEE WAIVES AND AGREES NOT TO ASSERT AGAINST ANY ASSIGNEE ANY DEFENSE, SET OFF, RECOUPMENT, CLAIM OR COUNTERCLAIM WHICH LESSEE HAS OR MAY AT ANY TIME HAVE AGAINST LESSOR FOR ANY REASON WHATSOEVER.

(f) Within one hundred twenty (120) days of the close of each fiscal year of Lessee, Lessee will deliver to Lessor Lessee's balance sheet and profit and loss statement, certified by a recognized firm of certified public accountants. Upon request, Lessee will deliver to Lessor duplicate copies of Lessee's most

recent quarterly financial report.

12. INDEMNIFICATION. Lessee agrees to indemnify, defend and keep harmless Lessor, its agents, successors and assigns, from and against any all losses, damages, penalties, claims and actions, including legal expenses, arising out of or in connection with (i) the selection, manufacture, purchase, acceptance or rejection of Equipment, the ownership of Equipment during the term of a Lease, and the delivery, lease, possession, maintenance, use, condition, return or operation of Equipment or (ii) the condition of Equipment sold or disposed of after or as a result of use by Lessee or any permitted sublessee of Lessee.

13. DEFAULT. (a) Lessor may declare a Lease in default (a "Default"), if, with respect to such Lease; (i) Lessor has not received Monthly Rent or any other Rent (Sections 5 and 15) within ten (10) days after its due date; or (ii) Lessee or any guarantor violates any other term of a Lease or any term of a guaranty and fails to correct such violation within ten (10) days after written notice from Lessor; or (iii) Lessee violates the terms of any license or agreement for Software; or (iv) Lessee or any guarantor becomes insolvent, is liquidated or dissolved, stops doing business or assigns its rights or property for the benefit of creditors; or (v) a petition is filed by or against Lessee or any guarantor under Title 11 of the United States Code or any successor or similar law; or (vi) (for individuals) Lessee or any guarantor dies or a guardian is appointed for Lessee's or guarantor's person; or (vii) Lessee (or any affiliate) is in default of or fails to fulfill the terms of any other agreement between Lessee and Lessor or any affiliate of either.

(b) At any time after a Default, Lessor may declare a default under any other Lease or agreement between Lessee (and any affiliate) and Lessor or its affiliate. Lessor may also enter, with or without legal process, any premises and take possession of the Equipment. Immediately after a Default, Lessee will pay to Lessor, as liquidated damages for loss of a bargain and not as a penalty, an amount equal to the sum of (i) all Rents, including Monthly Rent, and other sums (e.g. late charges, indemnification, liens) then due under each Lease; plus (ii) the Casualty Value of the Equipment, calculated as of the Monthly Rent payment date immediately preceding the Default; together with interest on such sum accruing to the date of payment at the Overdue Rate (Section 15). Lessee waives notice of intention to accelerate and notice of acceleration. After a Default, at the request of Lessor, Lessee will return the Equipment as required by Section 6. Lessor may, but is not required to, sell or lease the Equipment in bulk or in individual pieces. If the Lessor intends to sell the Equipment, it may do so in a public or private sale and is not required to give notice of such sale. The Equipment need not be displayed at the sale. Lessor may, without paying rent or providing insurance, use the Equipment Location to store the Equipment or conduct any sale. The proceeds of any sale or lease will be applied in the following order of priorities: (1) to pay all of Lessor's expenses in taking, removing, holding, repairing and disposing of Equipment; then (2) to pay any late charges and interest accrued at the Overdue Rate; then (3) to pay accrued but unpaid Monthly Rent together with any unpaid Casualty Value. Rent interest and all other due but unpaid sums (including any indemnification and sums due under other Leases or agreements in default). Any remaining proceeds will reimburse Lessee for payments which it made to reduce the amounts owed to Lessor in the preceding sentence. Lessor will keep any excess. If the proceeds of any sale or lease are not enough to pay the amounts owed to Lessor under this Section, Lessee will pay the deficiency.

(c) Lessor's remedies for Default may be exercised instead of or in addition to each other or any other legal or equitable remedies. Lessor has the right to set-off any sums received from any source (including insurance proceeds) against Lessee's obligations under each Lease. Lessee waives its right to object to the notice of the time or place of sale or lease and to the manner and place of any advertising. Lessee waives any defense based on statutes of limitations or laches in actions for damages. Lessor's waiver of any Default is not a waiver of its rights with respect to a different or later Default.

14. OPTION. (a) LEASE TYPE A ONLY: So long as no Default has occurred, Lessee has the option (1) to purchase all but not less than all of the Equipment under a Lease at the end of the Initial Term on an AS-IS WHERE-IS basis without representation or warranty, for a cash purchase price equal to the Equipment's Fair Market Value (plus any applicable sales taxes) determined as of the end of the Initial Term; or (ii) to extend the Initial Term of a Lease at the then Fair Market Rental of the Equipment. Lessee must give irrevocable written notice at least sixty (60) days before the end of the Initial Term to Lessor that it will purchase the Equipment or extend the Initial Term. If the Lease is renewed, the Lessee's obligations (other than the amount of Monthly Rent to be paid) will remain unchanged. If Lessee fails to

timely exercise one of such options, this Lease shall automatically continue on the same periodic basis in effect at such time with Rent payable in the same amount and frequency in effect at such time until the Equipment is returned or purchased in accordance with the terms hereof. Lessee's obligations and all other provisions of this Lease shall continue until such time. "Fair Market Value" or "Fair Market Rental" means the price or rental which a willing buyer or lessee (who is neither a lessee in possession nor a used equipment dealer) would pay for the Equipment in an arm's length transaction to a willing seller or lessor who is under no compulsion to sell or lease the Equipment. In determining "Fair Market Value" or "Fair Market Rental"; (i) the Equipment is assumed to have been maintained and returned as required by the Lease; (ii) in the case of any installed Equipment, the Equipment will be valued on an installed basis; and (iii) cost of removal from the Equipment's current location will not be included.

(b) LEASE TYPE B ONLY: So long as no Default has occurred, Lessee may purchase all but not less than all the Equipment under a Lease on an "AS IS, WHERE IS" basis, without representation or warranty, at the end of the Initial Term for a price equal to the Option Price (plus applicable sales tax) stated on a Schedule. Unless the Option Price is \$1.00, Lessee must give Lessor irrevocable written notice at least thirty (30) days before the end of the Initial Term that it will purchase the Equipment.

15. MISCELLANEOUS. (a) LEASE TYPE B ONLY: Lessee agrees that for income tax purposes only, Lessor is treating Lessee as owner of the Equipment and that Lessee has not received tax advice from Lessor or the Supplier. Lessee understands that the Equipment may be purchased for cash and that by signing this Agreement and entering into the applicable Lease, Lessee has chosen to lease the Equipment. By signing this Agreement, Lessee agrees to pay a lease charge and lease charge rate. The total lease charge is equal to (i) the Monthly Rent multiplied by the number of months in the initial Term, plus (ii) the Option Price, minus (iii) the Total Price set forth in the applicable Schedule. The lease charge portion of the Monthly Rent payments may be determined by applying to the Total Price the rate which will amortize such Total Price (adjusting for any Advance Rent) down to the Option Price at a constant rate over the Initial Term by payment of the Monthly Rent. The lease charge rate is the constant rate referred to in the preceding sentence. The lease charge rate can also be calculated using the Total Price as the present value, the Option Price as the future value, the Monthly Rent as the payment and the term as stated herein. The lease charge rate may be higher or lower than the actual interest rate because of the amortization of certain payments made to or by the vendor. If this transaction were re-characterized as a financing, no lease charge, late charge, or post maturity interest charge is intended to exceed the maximum amount of time price differential or interest, as applicable, permitted to be charged or collected by applicable law. If this transaction were re-characterized as a financing and one or more of such charges exceed such maximum, then such charges will be reduced to the legally permitted maximum charge and any excess charge will be used to reduce the initial value of the Total Price or refunded.

(b) Time is of the essence of each Lease. Lessor's failure at any time to require that Lessee strictly perform its obligations under any Lease will not prevent Lessor from later requiring such performance. Lessee agrees, upon Lessor's request, to sign any document presented by Lessor from time to time to protect Lessor's rights in the Equipment. LESSEE AND LESSOR EACH WAIVE ALL RIGHTS TO TRIAL BY JURY IN ANY LITIGATION ARISING FROM OR RELATED TO A LEASE. Lessee also agrees to pay Lessor's attorneys' fees and out-of-pocket expenses in protecting or enforcing its rights under a Lease. Lessee will pay attorney's fees and costs of collection, up to the amount permitted by law. Lessor and Lessee agree that legal fees and costs up to twenty percent (20%) of the amount then due under this Lease are reasonable.

(c) All required notices will be considered to have been given if sent by registered or certified mail or overnight courier service to the Lessor at the address stated above and to the Lessee at its address stated in the Lease, or at such other place as such addressee may have designated in writing.

(d) Each Lease constitutes the entire agreement of the parties with respect to the lease of the Equipment and supersedes and incorporates all prior oral or written agreements or statements. So long as there is no Default, Lessor shall not interfere with Lessee's quiet enjoyment of Equipment. If a provision of a Lease is declared invalid under law, the affected provision will be considered omitted or modified to conform to applicable law. All other provisions will remain in full force and effect.

(e) If Lessee fails to comply with any provision of a Lease, Lessor has the right, but is not obligated, to have such provision brought into compliance. This right is in addition to the Lessor's right to declare a Default. All expenses incurred by Lessor in bringing about such compliance will

be considered Rent which is due to Lessor within five (5) days after the date Lessor sends to Lessee a written request for payment.

(f) All overdue payments will bear interest at the Overdue Rate, which is the lower of twenty percent (20%) per annum or the maximum rate allowed by law. Interest will accrue daily until payment in full is received.

(g) All of Lessor's rights (including indemnity rights) under a Lease survive the Lease's expiration or termination, and are enforceable by Lessor, its successors and assigns.

(h) If at Lessee's request, Lessor agrees in its sole discretion to permit the early termination of any Lease, Lessee agrees to pay Lessor a fee to compensate Lessor for the privilege of doing so in an amount not greater than permitted by applicable law.

(i) ARTICLE 2A: THIS LEASE IS A "FINANCE" LEASE AS DEFINED IN ARTICLE 2A OF THE UNIFORM COMMERCIAL CODE. LESSEE AGREES THAT IT WILL KEEP THE EQUIPMENT FREE AND CLEAR FROM ALL CLAIMS, LIENS AND ENCUMBRANCES AND WILL NOT ASSIGN, SUBLET OR GRANT A SECURITY INTEREST IN THE EQUIPMENT OR IN ANY LEASE WITHOUT LESSOR'S PRIOR WRITTEN CONSENT. To the extent permitted by applicable law, Lessee hereby waives all rights and remedies conferred upon a Lessee by Article 2A (sections 506-522) of the Uniform Commercial Code, including but not limited to Lessee's rights to: (i) cancel or repudiate the Lease; (ii) reject, revoke acceptance or accept partial delivery of the Equipment or "cover"; (iii) recover damages from Lessor for any breach of warranty or for any other reason; and (iv) grant a security interest in any Equipment in Lessee's possession. To the extent permitted by applicable law, Lessee also hereby waives any rights now or hereafter conferred by statute or otherwise that may limit or modify any of Lessor's rights or remedies hereunder. Any action by Lessee against Lessor for any default under any Lease, including breach of warranty or indemnity, shall be commenced within one (1) year after any such cause of action accrues.

(j) THIS AGREEMENT SHALL BE BINDING AND EFFECTIVE WHEN ACCEPTED BY LESSOR AT ITS OFFICES IN CONNECTICUT. THIS AGREEMENT SHALL BE DEEMED TO BE MADE IN CONNECTICUT AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH CONNECTICUT LAW. LESSEE AGREES THAT ALL LEGAL ACTIONS IN CONNECTION WITH THIS AGREEMENT, AT LESSOR'S OPTION, TAKE PLACE IN CONNECTICUT.

THIS AGREEMENT AND ANY SCHEDULE AND ANNEXES THERETO CONSTITUTE THE ENTIRE AGREEMENT OF THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF. THIS AGREEMENT IS EFFECTIVE AS OF THE EFFECTIVE DATE UPON SIGNING BY BOTH LESSOR AND LESSEE. A LEASE MAY NOT BE CHANGED EXCEPT BY WRITTEN AGREEMENT SIGNED BY AN AUTHORIZED REPRESENTATIVE OF THE PARTY AGAINST WHOM IT IS TO BE ENFORCED. LESSEE IRREVOCABLY AUTHORIZES LESSOR TO PREPARE AND SIGN ON BEHALF OF LESSEE ANY INSTRUMENT NECESSARY OR EXPEDIENT FOR FILING, RECORDING OR PERFECTING THE INTEREST OF LESSOR IN EACH LEASE, THE RELATED EQUIPMENT AND THE PROCEEDS OF BOTH.

LESSOR: GENERAL ELECTRIC
CAPITAL CORPORATION

LESSEE: Taser International, Inc.

By: /s/ Eileen Jewell

By: X /s/ Thomas P. Smith

Eileen Jewell

X Thomas P. Smith

(Print or Type Name)

(Print or Type Name)

Operations Team Leader

X President

(Print or Type Title)

(Print or Type Title)

Date of Execution: 5/3/01

Date of Execution: X 4/17/01

Taser ID
Social Security #/
Taxpayer ID: X 860741227

[GE LOGO]

GE CAPITAL

Schedule No. 4070297 001

MASTER LEASE AGREEMENT EFFECTIVE DATE: 04/17/2001

THIS SCHEDULE ("Schedule") incorporates all of the terms of the above Master Lease Agreement ("Agreement"). This Schedule and the Agreement as it relates to this Schedule constitutes a lease ("Lease") for the equipment described below ("Equipment") General Electric Capital Corporation ("Lessor") and the Lessee indicated below. All terms used and not defined in this Schedule have the definitions stated in the Agreement.

A. LESSEE: LEGAL NAME: Taser International, Inc.
 TRADE NAME (if any):
 ADDRESS: 7860 E McClain Dr Suite 2
 Scottsdale, Arizona 85260
 LEGAL ENTITY - Type: -----
 State of Organization:
 Date of Establishment:

B. SUPPLIER: PerkinElmer Instruments
 761 Main Ave.
 Norwalk, Connecticut 06859

C. EQUIPMENT LOCATION:
 Street Address: 7860 E McClain Dr Suite 2
 County: Maricopa
 City, State Zip: Scottsdale, Arizona 85260

D. DESCRIPTION OF EQUIPMENT:

EQUIPMENT TYPE/MODEL/SERIAL/ID NUMBERS	NUMBER OF UNITS
PX 2000M Extended	Part # PX2000M-Computer based X-Ray Warranty
	1 1

Equipment Price:	\$36,995.00
Sales Tax:	\$ 0.00
Freight:	\$450.00
Installation:	\$500.00
Total Price:	\$37,945.00

E. TRANSACTION TERMS:
 Lease Type (check one): A (Tax Lease, 0-year property; all Sections other than 14(b) and 15(a) apply).
 X B (Lease Purchase all Sections other than 4(b), 11(c) and 14(a) apply).
 Initial Term: 48 X Monthly Quarterly Annual Payments
 Rent: 48 at \$953.56
 Advance Rent: \$ 0.00 Casualty Value Percentage: 0
 Sales Tax: 0 \$1.00
 Option Price
 Total Advance Rent: 0 Lease Type B Option Price: \$1
 Last Funding Date: 7/16/2001

F. ADDITIONAL TERMS (if any):
 Lessee's periodic lease payments are calculated using a lease rate factor (the "Lease Rate Factor"). The Lease Rate Factor is calculated, in part, using an interest rate based on the interest rate for swaps (the "Swap Rate") that most closely approximates the initial term of the Lease as published in the

Scottsdale, Arizona 85260

B. SUPPLIER: NAME: PerkinElmer Instruments
STREET ADDRESS: 761 Main Ave.
CITY, STATE ZIP: Norwalk, Connecticut 06859

C. EQUIPMENT LOCATION:
STREET ADDRESS: 7860 E McClain Dr Suite 2
COUNTY: Maricopa
CITY, STATE ZIP: Scottsdale, Arizona 85260

D. DESCRIPTION OF EQUIPMENT:

EQUIPMENT TYPE/MODEL/SERIAL/ID NUMBERS	NUMBER OF UNITS
PX 2000M Part # PX2000M-Computer based X-Ray	1
Extended Warranty	1

LESSEE, THROUGH ITS AUTHORIZED REPRESENTATIVE, CERTIFIES TO LESSOR THAT:

- (a) All the Equipment has been delivered to and inspected by Lessee on the Lease Commencement Date specified below pursuant to the above Schedule and Master Lease Agreement as it relates to such Schedule (the "Lease");
- (b) Lessee irrevocably accepts the Equipment for lease under the Lease as of the Lease Commencement Date; and
- (c) No event which would allow the Lessor to declare a Default (Section 13 of the Master Lease Agreement) has occurred, and all of the representations and warranties made in the Lease are true as of the Lease Commencement Date.
- (d) LESSEE HEREBY EXPRESSLY AUTHORIZES GENERAL ELECTRIC CAPITAL CORPORATION TO INSERT THE DATE OF ACCEPTANCE/LEASE COMMENCEMENT DATE IN THE SPACE BELOW UPON THE VERBAL INSTRUCTION OF LESSEE.

LESSEE: Taser International, Inc.

By: /s/ Thomas P. Smith

 Thomas P. Smith

 (Print or Type Name)
 President

 (Print or Type Title)
 Date of Acceptance/
 Lease Commencement Date: 4/25/01

UPON EXECUTION, PLEASE MAIL TO:
 GENERAL ELECTRIC CAPITAL CORPORATION
 Danbury Operations Center
 ATTN: Marie Sefsik
 10 Riverview Drive
 Danbury, CT 06810

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
TASER International, Inc.:

We have audited the accompanying balance sheets of TASER INTERNATIONAL, INC. (a Delaware corporation) as of December 31, 2001 and 2000, and the related statements of operations, stockholders' equity (deficit) and cash flows for each of the two years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TASER International, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 6 to the financial statements, effective January 1, 2001, concurrent with its change in tax status from an S corporation to a C corporation, the Company changed its method of accounting for income taxes and adopted the provisions of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes.

/s/ Arthur Andersen LLP

Phoenix, Arizona
February 4, 2002

EXHIBIT 99.1

CERTAIN FACTORS TO CONSIDER IN CONNECTION
WITH FORWARD-LOOKING STATEMENTS

WE ARE MATERIALLY DEPENDENT ON ACCEPTANCE OF OUR PRODUCTS BY THE LAW ENFORCEMENT AND CORRECTIONS MARKET, AND IF LAW ENFORCEMENT AND CORRECTIONS AGENCIES DO NOT PURCHASE OUR PRODUCTS, OUR REVENUES WILL BE ADVERSELY AFFECTED AND WE MAY NOT BE ABLE TO EXPAND INTO OTHER MARKETS.

A substantial number of law enforcement and corrections agencies may not purchase our conducted energy, less-lethal weapons. In addition, if our products are not widely accepted by the law enforcement and corrections market, we may not be able to expand sales of our products into other markets. Law enforcement and corrections agencies may be influenced by claims or perceptions that conducted energy weapons are unsafe or may be used in an abusive manner. In addition, earlier generation conducted energy weapons may have been perceived as ineffective. Sales of our products to these agencies may also be delayed or limited by these claims or perceptions.

WE SUBSTANTIALLY DEPEND ON SALES OF THE ADVANCED TASER, AND IF THIS PRODUCT IS NOT WIDELY ACCEPTED, OUR GROWTH PROSPECTS WILL BE DIMINISHED.

In 2001 and 2000, we derived the majority of our revenues from sales of the ADVANCED TASERS and related cartridges, and expect to depend on sales on this product for the foreseeable future. A decrease in the prices of or demand for this product line, or its failure to achieve broad market acceptance, would significantly harm our growth prospects, operating results and financial condition.

OUR BUSINESS IS DIFFICULT TO EVALUATE BECAUSE WE HAVE A LIMITED OPERATING HISTORY IN THE LAW ENFORCEMENT AND CORRECTIONS MARKET AND HAVE BEEN FOCUSED ON OUR CURRENT BUSINESS STRATEGY FOR ONLY TWO YEARS.

We revised our business strategy in late 1999 to concentrate on the law enforcement and corrections market. Accordingly, we have a limited operating history based on which you can evaluate our present business and future prospects. We face risks and uncertainties relating to our ability to implement our business plan successfully. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by newly-public companies that have recently changed their business strategies. If we are unsuccessful in addressing these risks and uncertainties, our business, results of operations, financial condition and prospects will be materially harmed.

IF WE ARE UNABLE TO MANAGE OUR PROJECTED GROWTH, OUR GROWTH PROSPECTS MAY BE LIMITED AND OUR FUTURE PROFITABILITY MAY BE ADVERSELY AFFECTED.

We intend to expand our sales and marketing programs and our manufacturing capability. Rapid expansion may strain our managerial, financial and other resources. If we are unable to manage our growth, our business, our operating results and financial condition could be adversely affected. Our systems, procedures, controls and management resources also may not be adequate to support our future operations. We will need to continually improve our operations, financial and other internal systems to manage our growth effectively, and any failure to do so may lead to inefficiencies and redundancies, and result in reduced growth prospects and profitability.

WE MAY FACE PERSONAL INJURY AND OTHER LIABILITY CLAIMS THAT HARM OUR REPUTATION AND ADVERSELY AFFECT OUR SALES AND FINANCIAL CONDITION.

Our products are often used in aggressive confrontations that may result in serious, permanent bodily injury to those involved. Our products may cause or be associated with these injuries. A person injured in a confrontation or otherwise in connection with the use of our products may bring legal action against us to recover damages on the basis of theories including personal injury, wrongful death, negligent design, dangerous product or inadequate warning. We may also be subject to lawsuits involving allegations of misuse of our products.

If successful, personal injury, misuse and other claims could have a material adverse effect on our operating results and financial condition. Although we carry product liability insurance, significant litigation could also result in a diversion of management's attention and resources, negative publicity and an award of monetary damages in excess of our insurance coverage.

OUR FUTURE SUCCESS IS DEPENDENT ON OUR ABILITY TO EXPAND SALES THROUGH DISTRIBUTORS AND OUR INABILITY TO RECRUIT NEW DISTRIBUTORS WOULD NEGATIVELY AFFECT OUR SALES.

Our distribution strategy is to pursue sales through multiple channels with an emphasis on independent distributors. Our inability to recruit and retain police equipment distributors who can successfully sell our products would adversely affect our sales. In addition, our arrangements with our distributors are generally short-term. If we do not competitively price our products, meet the requirements of our distributors or end-users, provide adequate marketing support, or comply with the terms of our distribution arrangements, our distributors may fail to aggressively market our products or may terminate their relationships with us. These developments would likely have a material adverse effect on our sales. Our reliance on the sales of our products by others also makes it more difficult to predict our revenues, cash flow and operating results.

WE EXPEND SIGNIFICANT RESOURCES IN ANTICIPATION OF A SALE DUE TO OUR LENGTHY SALES CYCLE AND MAY RECEIVE NO REVENUE IN RETURN.

Generally, law enforcement and corrections agencies consider a wide range of issues before committing to purchase our products, including product benefits, training costs, the cost to use our products in addition to or in place of other less-lethal products, product reliability and budget constraints. The length of our sales cycle may range from 60 days to a year or more. We may incur substantial selling costs and expend significant effort in connection with the evaluation of our products by potential customers before they place an order. If these potential customers do not purchase our products, we will have expended significant resources and received no revenue in return.

MOST OF OUR END-USERS ARE SUBJECT TO BUDGETARY AND POLITICAL CONSTRAINTS THAT MAY DELAY OR PREVENT SALES.

Most of our end-user customers are government agencies. These agencies often do not set their own budgets and therefore have little control over the amount of money they can spend. In addition, these agencies experience political pressure that may dictate the manner in which they spend money. As a result, even if an agency wants to acquire our products, it may be unable to purchase them due to budgetary or political constraints. Some government agency orders may also be canceled or substantially delayed due to budgetary, political or other scheduling delays which frequently occur in connection the acquisition of products by such agencies.

GOVERNMENT REGULATION OF OUR PRODUCTS MAY ADVERSELY AFFECT SALES.

Federal regulation of sales in the United States. Our weapons are not firearms regulated by the Bureau of Alcohol, Tobacco and Firearms, but are consumer products regulated by the United States Consumer Product Safety Commission. Although there are currently no federal laws restricting sales of our weapons in the United States, future federal regulation could adversely affect sales of our products.

Federal regulation of international sales. Our weapons are controlled as a "crime control" product by the United States Department of Commerce, or DOC, for export directly from the United States. Consequently, we must obtain an export license from the DOC for the export of our weapons from the United States other than to Canada. Our inability to obtain DOC export licenses in a timely basis for sales of our weapons to the majority of our international customers could significantly and adversely affect our international sales.

State and local regulation. Our weapons are controlled, restricted or their use prohibited by several state and local governments. Our weapons are banned from consumer sale or use in seven states: New York, New Jersey, Rhode Island, Michigan, Wisconsin, Massachusetts and Hawaii. Law enforcement use of our

products is also restricted in Michigan, New Jersey, and Rhode Island. Some municipalities, including Omaha, Nebraska and Washington, D.C. also prohibit consumer use of our products. Other jurisdictions may ban or restrict the sale of our products and our product sales may be significantly affected by additional state, county and city governmental regulation.

Foreign regulation. Certain foreign jurisdictions, including Japan, the United Kingdom, Australia, Italy and Hong Kong, prohibit the sale of conducted energy weapons, limiting our international sales opportunities.

IF WE ARE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY, WE MAY LOSE A COMPETITIVE ADVANTAGE OR INCUR SUBSTANTIAL LITIGATION COSTS TO PROTECT OUR RIGHTS.

Our future success depends in part upon our proprietary technology. Our protective measures, including a patent, trademarks and trade secret laws, may prove inadequate to protect our proprietary rights. Our United States patent on the construction of the gas cylinder used to store the compressed nitrogen in our cartridges expires in 2015. The holder of the patent on the process by which compressed gases launch the probes in our cartridges has licensed the technology covered by the patent for use in electronic weapons only to us and to two other companies. This patent expires in 2009. The scope of any patent to which we have or may obtain rights may not prevent others from developing and selling competing products. The validity and breadth of claims covered in technology patents involve complex legal and factual questions, and the resolution of such claims may be highly uncertain, lengthy and expensive. In addition, our patents may be held invalid upon challenge, others may claim rights in or ownership of our patents.

WE ARE SUBJECT TO INTELLECTUAL PROPERTY INFRINGEMENT CLAIMS, WHICH WILL CAUSE US TO INCUR LITIGATION COSTS AND DIVERT MANAGEMENT ATTENTION FROM OUR BUSINESS.

Any intellectual property infringement claims against us, with or without merit, could be costly and time-consuming to defend and divert our management's attention from our business. If our products were found to infringe a third party's proprietary rights, we could be required to enter into royalty or licensing agreements in order to be able to sell our products. Royalty and licensing agreements, if required, may not be available on terms acceptable to us or at all.

In early April 2001, a patent licensee sued us in the United District Court, Central District of California. The lawsuit alleges that certain technology used in the firing mechanism for our weapons infringes upon a patent for which the licensee holds a license, and seeks injunctive relief and unspecified monetary damages. An outcome that is adverse to us, costs associated with defending the lawsuit, and the diversion of management's time and resources as a result of the claim could harm our business and our financial condition.

COMPETITION IN THE LAW ENFORCEMENT AND CORRECTIONS MARKET COULD REDUCE OUR SALES AND PREVENT US FROM ACHIEVING PROFITABILITY.

The law enforcement and corrections market is highly competitive. We face competition from numerous larger, better capitalized and more widely known companies that make other less-lethal weapons and products, as well as from a small company that also sells conducted energy less-lethal weapons. Increased competition may result in greater pricing pressure, lower gross margins and reduced sales, and prevent us from achieving profitability.

DEFECTS IN OUR PRODUCTS COULD REDUCE DEMAND FOR OUR PRODUCTS AND RESULT IN A LOSS OF SALES, DELAY IN MARKET ACCEPTANCE AND INJURY TO OUR REPUTATION.

Complex components and assemblies used in our products may contain undetected defects that are subsequently discovered at any point in the life of the product. In 2000, we recalled a series of ADVANCED TASERs due to a defective component. In connection with the recall, we incurred expenses of approximately \$50,000. Defects in our products may result in a loss of sales, delay in market acceptance, injury to our reputation and increased warranty costs.

OUR REVENUES AND OPERATING RESULTS MAY FLUCTUATE UNEXPECTEDLY FROM QUARTER TO QUARTER, WHICH MAY CAUSE OUR STOCK PRICE TO DECLINE.

Our revenues and operating results have varied significantly in the past and may vary significantly in the future due to various factors, including, but not limited to: increased raw material expenses, changes in our operating expenses, market acceptance of our products and services, regulatory changes that may affect the marketability of our products, and budgetary cycles of municipal, state and federal law enforcement and corrections agencies. As a result of these other factors, we believe that period-to-period comparisons of our operating results may not be meaningful in the new term and that you should not rely upon our performance in a particular period as indicating of our performance in any future period.

OUR DEPENDENCE ON THIRD PARTY SUPPLIERS FOR KEY COMPONENTS OF OUR WEAPONS COULD DELAY SHIPMENT OF OUR PRODUCTS AND REDUCE OUR SALES.

We depend on certain domestic and foreign suppliers for the delivery of components used in the assembly of our products. Our reliance on third-party suppliers creates risks related to our potential inability to obtain an adequate supply of components or subassemblies and reduced control over pricing and timing of delivery of components and sub-assemblies. Specifically, we depend on suppliers of sub-assemblies, machined parts, injection molded plastic parts, printed circuit boards, customer wire fabrications and other miscellaneous customer parts of our products. The final assembly of the cartridges used in the firing of our weapons was prevented for four weeks beginning in November 2000 by a supplier's receipt of defective wire used as a component in the cartridges. We also do not have long-term agreements with any of our suppliers. Any interruption of supply for any material components of our products could significantly delay the shipment of our products and have a material adverse effect on our revenues, profitability and financial condition.

FOREIGN CURRENCY FLUCTUATIONS MAY REDUCE OUR COMPETITIVENESS AND SALES IN FOREIGN MARKETS.

The relative change in currency values creates fluctuations in product pricing for potential international customers. These changes in foreign end-user costs may result in lost orders and reduce the competitiveness of our products in certain foreign markets. These changes may also negatively affect the financial condition of some foreign customers and reduce or eliminate their future orders of our products.

PENDING LITIGATION MAY SUBJECT US TO SIGNIFICANT LITIGATION COSTS AND DIVERT MANAGEMENT ATTENTION FROM OUR BUSINESS.

A former distributor of our products has filed a lawsuit in the state of New York asserting certain rights of exclusive sales representation with respect to our products. The former distributor claims that he has the exclusive right to market and sell our products to an extensive list of our current and potential customers throughout the United States. The suit was dismissed in February 2001 for lack of personal jurisdiction of the New York court. This case is now pending in the State of Arizona. In addition, in early April 2001, a patent licensee sued us in the United States District Court, Central District of California. The suit alleges that certain technology used in the firing mechanism for our weapons infringes upon a patent for which the licensee hold a license, and seeks injunctive relief and unspecified monetary damages. An outcome that is adverse to us, costs associated with defending these lawsuits and the diversion of our management's time and our resources as a result of these claims could harm our business or financial condition.

USE OF ESTIMATES MAY DIFFER FROM ACTUAL FINANCIAL RESULTS.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.