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**TASER International, Inc. –  
Grappling with Growth**

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**INTRODUCTION – THE EXASPERATING ARTICLE**

Tom Smith, President of TASER International was driving to work in Scottsdale, Arizona on a sunny, mild morning in early May. He was happily reflecting on his successful trip to Europe where he presented his products to a national police force. The company had been making in-roads into the international market recently. The trip was a bright spot in spite of the dismal stock performance of the last couple of weeks. Up until recently, Tom had been pleased with the stock price that had been climbing for a year, prompting two stock splits. The ringing of his cell phone intruded on his reflections. On the phone was his brother and TASER International CEO, Rick.

Without a greeting, Tom's brother Rick edgily blurted, "They crucified us!"

"What?!"

"Another *Barron's* article! Where are you?"

"I'm heading into the office. What now?!"

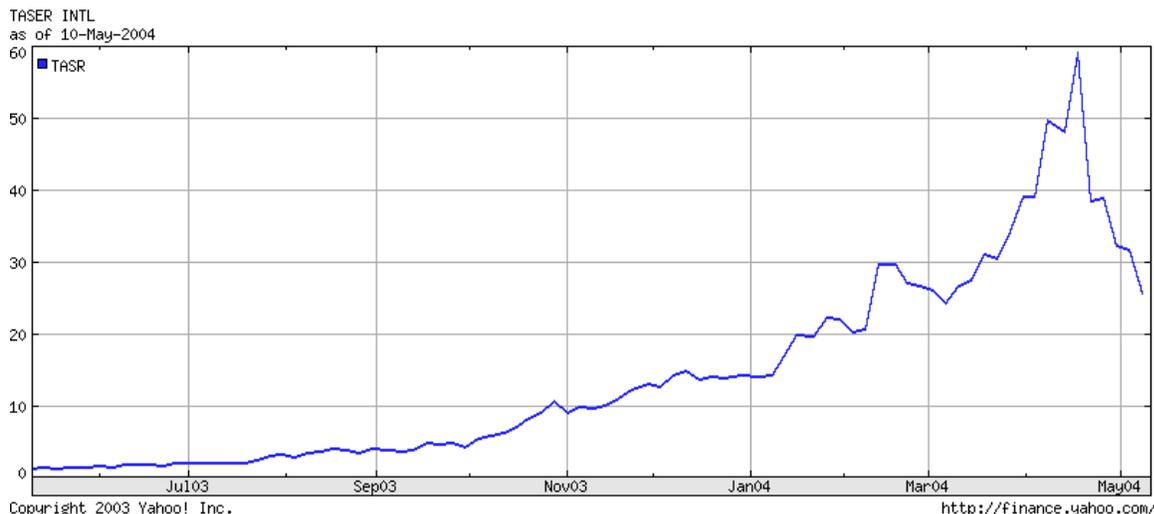
"You're not going to believe it. I'll fax it to you...call me after you see it."

The mood of the morning was ruined. Grumbling, Tom arrived at TASER headquarters, picked up the fax (See Exhibit 1), and closed his office door. He was on the phone to his brother again shortly, "You're right – I don't believe it. '...unmistakable signs that growth is slowing.' Don't they realize the size of the consumer market? I think it's time to make that decision and remove any ambiguity for our investors. We either have to reaffirm our commitment solely to police and military sales or aggressively commit to pursuing the consumer market in addition."

Tom glanced down at his notes. The following three areas characterized *Barron's* criticism:

1. The run-up and subsequent 45% decline in the stock price (See **Figure 1.**) suggested by overvalued stock, sell-off by the largest institutional investor and insider selling.

**Figure 1 TASER International stock price history**



2. Poor growth potential reflected by poor quarterly performance, a significant quarterly drop in international sales and police department orders, and limited future growth prospects.
3. Fatalities blamed on the product. - at least 40 deaths had been blamed on TASERs as reported by CBS evening news on April 5, 2004 titled "Stun Gun Fatalities Rise."

Within days, the Smith brothers had penned a lengthy and detailed response to *Barron's* attacks. A press release contained the full text of the article and it was published on the company's website. (See Exhibit 2)

## COMPANY HISTORY

Founded by Rick and Tom Smith, TASER International, Inc. developed the world's best-selling less-lethal weapon (See Exhibit 3 for a description of the TASER. See Exhibit 4 for a time line of important company milestones.) The Smiths' interest initially began out of concern for the safety of their mother:

The way my brother and I got into this actually started back in 1991, I believe. We had two friends get shot and killed in a drive-by shooting here in Scottsdale.

It was really sinking in that we had a huge problem here in our country – some of Rick's friends in Europe were even afraid to come to the U.S. for fear of gun violence.

About that time ...my mom was home alone a lot of the time, so we bought her a Doberman pinscher. Then my brother spent his entire summer savings and bought her a Desert Eagle .44 magnum pistol with a built-in laser sight – about a \$3,500 gun, and we put her through firearm safety school. Well, she came back in (after the training)... and laid it on the table and just said, "I'm not going to use it. I am just not comfortable." Because, you know, in the training they are telling you that you have to empty the gun into the person... and she was like, "I'm not going to do it."

While writing a business plan for an MBA class at the University of Chicago, Rick read that a taser-type weapon had failed in the infamous Rodney King incident.<sup>1</sup> Rick's business plan was for marketing an improved taser-like invention for the average citizen (Riordan, 2003). In 1993, there were 34,000 firearm incidents in the U.S. Tom stated that of these, exactly 343 were self-defense. In addition, it was seven times more likely that a firearm would be used against the owner than that the owner would use it for self defense. At the time, though, the existing taser technology was reported to have as high as a 14% failure rate. Similarly, all "less-lethal" technologies suffered from a bad reputation.

As Tom explained:

Chemical sprays don't work all that great, you've all heard stories about that. Baton rounds, you're just trying to inflict pain. But everything out there, you know, bean-bag rounds, rubber bullets, all these things, are designed to inflict enough pain that you voluntarily make a decision to say, "I've had enough, I'm not going to fight any more."

The Smith brothers decided that what was needed was a reliable approach that would "lock up" the perpetrator and stop the person from being aggressive or combative. At that point the person could be taken into custody without a potentially dangerous interaction. In August 1993, as they considered and researched the alternative technologies, they met the 74-year old inventor of TASER<sup>2</sup>, Jack Cover, who lived in Tucson, Arizona. By September, 1993, the company was incorporated and Jack Cover was signed on until the following June, to share his experience and technological know-how with the fledgling company. Tom stayed in Scottsdale to begin business start-up. Rick spent 60 days in Tucson, "with Jack basically doing a brain dump of the knowledge he had gained over the past 30 years," according to Tom.

At the time, there was a major competitor for taser-type weapons. As Tom explained:

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<sup>1</sup> Los Angeles police officers were videotaped beating a traffic violator in a dramatic confrontation that became a "CNN moment" in 1991.

<sup>2</sup> **Thomas A. Swift Electric Rifle** – from the Tom Swift book of 1911 written by Victor Appleton.

Tasertron they were called, (the owner was) an attorney, he sees us coming out with a new and improved product, so what does he do? He sues us. Doesn't cost him anything, he knows we don't make any revenue, so now all of a sudden we had to go hire an attorney and try and defend ourselves, and we figured out how expensive that was. We went and settled with him. We said 'Ok, we'll stay out of law enforcement and the military until the patent for the circuitry expires in 1998.'

Thus, TASER was initially limited to the consumer market. With poor success in the consumer market, they became convinced that easier opportunity lay in marketing to police. Anticipating the patent expiration and the end of the non-compete agreement in 1998, research and development efforts were focused on the introduction of the ADVANCED TASER. The ADVANCED TASER was designed for use by police and a nationwide training campaign to introduce it to law enforcement agencies was developed. Tom described their marketing efforts to the law enforcement community as follows:

...for example, tomorrow night I'm going to Detroit. Detroit is a very interesting place because prior to December last year it was a felony for even a Detroit police officer to have this technology. Detroit is now under mandate from the Department of Justice to get into less-lethal weapons for 4000 cops. And it's down to two; it's down to me and a baton. So tomorrow night, I'm going up there, and I have a one hour presentation. Now I'm only going to speak for 20 minutes of that. I'm going to tell them about the technology.

The beginning of my speech starts out like this: "I'm here to tell you today, how this weapon works. I will tell you what it does to you biologically, I will tell you how it affects you, I will tell you how it works, but I am not going to tell you anything tactically. I am not a cop, I have never pointed a weapon at anybody, so I have Chief Kevin Robertson from Phoenix PD with me on my right, and I have Sgt Paul Hopkins from the Orange County Florida Sheriff's Department here on my left, so you're going to hear from me for 20 minutes, then you're going to hear from these two guys for an hour, so that they can tell you how it's affected their agencies. For Phoenix PD it's reduced suspects' injuries by 67%, it's reduced shootings by 50%. In Orange County it's reduced their officers' injuries by 88%, it's reduced their worker comp. claims by 153,000 dollars in a year, they've used it over 1000 times. Paul Hopkins has shot it personally 31 times in actual scenarios, so don't believe me, talk to the guys that are using it." And all I do is buy them airline tickets to go up there and they do it for me.

By the end of 2003, 4,300 of 18,000 law enforcement agencies were testing or deploying TASERS. 506 agencies had purchased or were in the process of purchasing one unit for each officer. Among these were the city of Phoenix Police and Ohio State Troopers. (See Exhibit 5)

Following the tragedy of 9/11/01, airlines started approaching TASER about using the product in the cockpit. Although still not approved by FAA, both Mesa Airlines and United Airlines purchased TASERS.

The growth of international sales of TASER guns expanded rapidly after the introduction of the ADVANCED TASER in 1999. By 2001, 10% of TASER's sales revenue came from foreign sales. International sales remained at 10% of sales in 2002 but increased to 11.6% in 2003, about \$700,000 per quarter. Through its 30 foreign distributors worldwide, TASER targeted eleven countries for its sales. Included in this list were: Great Britain, Germany, Israel, Greece, Romania and the Netherlands. Countries that banned TASERS were: Japan, Sweden, Norway, Denmark, New Zealand, Belgium, Italy, and Hong Kong.

### **STUMBLING TOWARD THE CONSUMER MARKET**

"So we've taken several forays into the consumer market place and gotten our asses handed to us, quite frankly." -- Tom Smith

TASER International limited the focus for their first product, AIR TASER, to the consumer. They believed that consumers represented a huge potential market. The AIR TASER was distributed through The Sharper Image catalog. However, "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." (2002 Annual report, p. 2)

Again in 2002, the company attempted to reenter the consumer market with the introduction of the TASER M18 at the Consumer Electronics Show and with a test market in California. SG Distributor sold the product to Turner's

Outdoorsman hunting and fishing stores. However, management came to believe that the necessary financial and personnel resources to be successful in consumer distribution would “defocus the efforts of the sales team from its primary objective of further penetrating the U.S. law enforcement market.” (2002 Annual Report, p. 3)

From experience in the California test market, management also learned that a consumer version would require a cycle time longer 5 seconds (how long the jolt is applied to the target) and that it needed to be small enough to fit into a woman’s purse. In law enforcement situations, a user was likely to have assistance from other officers. However, a consumer was more likely to be alone with the assailant, requiring a longer cycle time (up to 30 seconds) to allow the consumer to escape safely. TASER even recommends that the consumer using the gun at home against an intruder should shoot the intruder, and then run leaving the TASER behind. The smaller size would increase the likelihood that the consumer keeps the TASER close.

With the development of a new pulse technology and longer cycle time applied to the new X26 and the consumer version X26<sup>C</sup>, TASER was again poised to enter the consumer market. Because of its less-lethal technology, consumers who were hesitant to own a gun were more likely to consider the TASER as a reasonable alternative for self-defense. “TASER sees the primary market as affluent males, many of the same customers who buy handguns. It will be pitched as a safer alternative to a handgun or as a supplement. ... ‘It’s a very robust, high end device, it’s not intended to be a mass-market, self-defense device,’ said Rick Smith.” (Gilbertson, 2004.) As announced for the 2004 Consumer Electronics Show in Las Vegas, the X26C had a \$999 retail price. For this price, the purchaser received the non-lethal weapon, a training session, an instructional DVD, four single use cartridges, and an easily concealable holster.

According to Tom, training was critical to getting the units purchased and used by the consumers. “Yeah, training, training, training...Here’s an interesting statistic. In our training, 99% of the people who go through the training buy. So if I can get you to a training class, you’re sold.”

Now that TASER International had products designed specifically for both police/military and for the individual consumer, the question became which market to pursue or whether to go for both at the same time. Further, their previous experience in the consumer market pointed out some problems of distribution that would have to be solved to reach this lucrative market. As Tom Smith expressed, “So where WOULD you (the consumer) go to buy a TASER?” His discussion reflected TASER’s experience wrestling with this issue over the past ten years:

**Gun stores:** We tried the guns. We said you know, if you’re going to go out there on self-defense, you’re going to go to the guns. But you know what, those guys are frickin zealots. They are there because they want to blow a hole in someone. So when we were in there, we ran advertising campaigns and all these things to get people to go into gun stores, and we had so many consumers calling us up saying, “I went in to buy your TASER, but when I got in there, they talked me into buying a gun.” So that didn’t work. Then we tried **sporting goods**. That didn’t work.

**Consumer electronics mega stores:** Then we tried...you know, Circuit City and Best Buy, they’re like, “uhhh, we sell warm fuzzy stuff, we sell stereos and car equipment and TVs and we’re fun things, we don’t want to sell a weapon.”

**Spy stores:** It’s all protection. You can go to the spy store with the little mini cameras and the pen lights, and self protection. We’ve been in the spy...we’re in the Spy Headquarters over here, we’ve been in their store for seven, eight years. They just don’t do the volumes. Couple, six a year, or something like that.

**Wal-Mart:** We know we could get a nice big first order from them, 20,000 units, they’ve already told us. We don’t want to go to Wal-Mart. Because once you go to Wal-Mart, nobody else will touch us. We will eventually, but what we’ve already decided when we go to Wal-Mart, it will be a product made specifically for them that nobody else will have. This product is not something that I can hand you and you know what it does. You fire darts, you’ve got wire, and you’ve got electricity, immobilization. Wal-Mart is, you go in, you look at it on the shelf, and you buy it. The guy that is 16 years old there with acne is not going to be able to explain how the product works to a mom of two kids who is trying to buy this for self-protection. This is a missionary sell, and I know this because I’ve had to do the same thing with law enforcement, and these guys are experts. They know weapons; they know how these things work. And we still have to spend enormous amounts of time educating them on how this thing works.

## **TASER'S DILEMMA**

Should Taser International market only to police/military markets? Should they attempt to re-enter the consumer market? Should they pursue both markets at the same time? If they decide to pursue the consumer market, how will they solve their perceived distribution problems?

How am I going to get to that consumer market? I don't know.

I know how I can get to law enforcement today. I have an idea of how I can get to private security, but I can't get to my biggest market, potentially. And I don't know how I'm going to do that. We've tried, and we've failed. We've failed numerous times.

You know, where would you go to buy this? If I said you wanted this, where would you go to get it? And there's not an easy answer. We're not a sweater, we're not a stereo, we're not a gun... -- Tom Smith.

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## Exhibit 1 Barron's Article

*Barron's*, May 3, 2004

### **Sure As Shooting?**

*By Rhonda Brammer*

When it comes to wild and crazy moves, stomach-churning gyrations, breathtaking leaps upward and dizzying descents, the recent action in **Taser International** is in a class by itself. In less than a year, the shares, adjusted for stock splits, rocketed from \$1 to over \$59. Two weeks ago, at its peak on April 19, this small Arizona maker of stun guns sported a stock-market value of \$1.9 billion. A mind-boggling valuation for an enterprise that in the past 12 months rang up sales of \$34 million.

One day later, on April 20, Taser announced first-quarter earnings and its largest stockholder blew out the last of its 10.8% stake. The stock plunges almost 30%, to 42 and change.

Not that first-quarter earnings were bad; they beat estimates by a penny. Specifically, on sales of \$13.1 million, Taser netted \$3.6 million, or 12 cents a share, up from one cent in the year-ago span. Management, moreover, repeated its forecast that revenues for all of 2004 would double. As for earnings, around 50 cents a share seems in store this year, versus 19 cents in '03.

But several things have begun to weigh on the stock, including the departure of that institutional holder, Toronto-based Sprout Asset Management, and a sudden vulnerability to the law of gravity, which never fails to give the momentum crowd the willies. More important, perhaps, are unmistakable signs that growth is slowing.

By contrast, back in February when we penned a cautionary note on Taser, there wasn't a cloud on the corporate horizon. As we duly noted, the company was expected to report a sensational fourth quarter, which it did. What made us uneasy then was Taser's valuation, which, thanks in large part to a short squeeze, was rapidly going from the ridiculous to the absurd.

The stock at the time, adjusted for subsequent splits, was trading at just over \$22. In the two months or so after our piece, it shot up almost 170%.

While dutifully awed by the stock's levitative powers, we still don't think it's worth \$22, let alone \$32 a share.

No question, Taser has a real product. Its stun guns, sold mostly to law enforcement types, shoot 50,000 volts of electricity, instead of bullets. Stun guns can reduce injuries for both cops and criminals, in the process offering a neat shield against the huge legal liabilities incurred in wrongful death suits.

But, as we say, to our skeptical eye, at \$32 the stock is anything but cheap. Judge for yourself: It fetches 30 times sales, 26 times book, 100-plus times trailing earnings and 65 times this year's estimate.

One problem with such sky-high valuations is that Taser's bread-and-butter U.S. market just isn't that humongous. The company pegs that market at 1.1 million cops and correction officers. If each and every one of them bought a brand new state-of-the-art Taser, sales would amount to \$800-plus million. Which is a good cut below the \$1 billion value investors are already placing on the stock.

We did a similar calculation in our last piece back in February, prompting the company to complain that we neglected its foreign potential. "We're in a position for explosive growth in Europe this year," Taser's chief exec, Rick Smith, told CNBC/Dow Jones the day after our story.

But so far, overseas sales have been modest and growth somewhat less than explosive. Many countries – among them Japan, Hong Kong, Italy, Belgium, Norway, Sweden, Denmark and New Zealand – prohibit the sale of Taser-like guns, even to cops.

Last year Taser's international sales amounted to \$2.8 million, or 11.6% of sales. That's an average of \$700,000 a quarter. By way of comparison, in the first three months of this year, foreign revenues dropped to 3.2% of sales, a quarterly average of \$419,000.

"We did not see any significant upside from international orders," Smith conceded in the first-quarter conference call, adding that "we may or may not see those this year. We prefer to

think of them as a windfall and that's how investors should look at them."

Indeed, the powerful engine of Taser's growth had clearly been on these shores. In the first quarter of last year, Taser added 340 new departments; in the second, 411; in the third, 754, and in the fourth, 800.

But that string was rudely snapped in the first quarter of this year when Taser gained only 92 new departments.

Bulls on the company argue that Taser has sold stun guns to only 4,392 U.S. law-enforcement agencies out of some 18,000, so it has a great shot at expanding the roster in the months ahead.

No way. For one thing, some big departments that don't use Tasers, like Boston and large cities in New Jersey, can't. Massachusetts and New Jersey ban stun guns, even for police. The other 75% of police outfits that don't have Tasers include many itty-bitty departments – one, two, five guys – pretty small potatoes for Taser to pursue.

Listen to what CEO Smith says about the 25% "penetration of agencies" in the recent conference call: "I would just caution, I'm not sure how much higher that's really going to climb, because we are getting into the majority of the agencies that are big enough to be on our corporate radar screen."

### *Goodbye to Growth*

In short, Taser no longer has the stripes of a growth company. New orders in the first quarter of '04 totaled \$13.1 million, exactly matching sales. As a melancholy result, backlog of \$2.5 million remained perfectly flat.

Of the last quarter's \$13.1 million of new orders, \$4.9 million were booked in January. So the balance for February and March - \$8.2 million – tailed off to an average of \$4.1 million. Indeed, if management's forecast of 100% revenue growth this year proves on the mark, it implies no sequential quarterly gains over the rest of the year.

Looming, too, are questions on the safety of Tasers. In the past three years, 45 people have died after being stunned, nine of them in the past four months.

The guns appear safe when used on healthy individuals. The 50,000 volt blast knocks its target to the ground, but after five seconds its effects disappear. But are such

shocks harmless to agitated mental patients, people with severe heart disease and overdosing drug addicts in the throes of a medical emergency?

The company's position is categorically, yes.

But after sifting through dozens of newspaper accounts of such deaths, we're not entirely persuaded.

In October 2003, to illustrate, Oklahoma City cops found 31-year-old Dennis Hammond sitting on a brick mailbox, bleeding from his calves and feet, screaming at the sky. He was shot three times with a beanbag shotgun, zapped five times with Tasers and, as paramedics bandaged his wounds, he turned blue and stopped breathing. The autopsy report noted "injuries from the beanbag shots and Taser are significant," but ruled the cause of death "acute methamphetamine intoxication."

In November 2003, 47-year-old James Borden, handcuffed behind his back, his shorts around his ankles, was stunned three times by police as he was being jailed. The coroner ruled the cause of death a heart attack, resulting from a pre-existing heart condition, pharmaceutical drugs and electric shock.

In September 2003, Denver police found cocaine-user Glenn Leyba on the floor, screaming, with seizure-like symptoms. They fired at him three times with Tasers and shortly afterward he died. An autopsy listed the cause of death as a heart attack, but the incident spurred the American Civil Liberties Union to ask Denver police to curb Taser use, arguing that Leyba posed no risks to cops and that Tasers may be dangerous, or even lethal, to overdosing drug users or people with heart disease.

Have studies shown that a 50,000 volt shock to people with heart disease is harmless?

It was one of the questions we wanted to pose to management, but our calls were not returned. The 10-K says only: "We expect to see an increased number of complaints filed against the company alleging injuries resulting from the use of a Taser."

Last but not least, insiders have been aggressive sellers of the shares, unloading in the past nine months alone stock worth an astonishing \$59 million. That's well over twice the company's entire sales last year and far more than all of its assets.

## **Exhibit 2 TASER International, Inc. Responds to Barron's Magazine Article**

SCOTTSDALE, Ariz., May 3 /PRNewswire-FirstCall/ -- TASER International, Inc. (Nasdaq: TASR), a market leader in advanced non-lethal weapons today sent an open letter to Barron's Magazine writer Rhonda Brammer in response to her story titled, "Sure as Shooting" published on May 1. The text of the letter is below:

Dear Ms. Brammer,

We are writing to respond to your recent article on TASER International, Inc. and to express our continued disappointment at your biased approach.

In your articles, you assault TASER's market valuation arguing that TASER's forward P/E of 65 (based on analysts' estimates for 2004) is "absurd." Yet, "Barron's Guide to Making Investment Decisions," teaches the following on page 116,

"Since you are buying future earnings when you buy a stock, you can expect a company that produces 40% gains in annual earnings to carry a higher price tag than one that produces 10% gains ... It isn't unusual to see these stocks carrying P-E's of 50 or higher."

If Barron's defines a P/E of over 50 as normal for companies with 40% growth in earnings, is a P/E of 65 really "absurd" for a company that grew earnings by over 1,400% in its last quarter?

The real issue comes down to TASER's future growth. In your article, you write, "TASER no longer has the stripes of a growth company." Our forward looking growth prospects greatly benefit from the fact that almost 25% of agencies have initiated a TASER program, yet only 6.2% of individual police and corrections officers have a TASER conducted energy weapon today. Further, our market penetration with the new TASER X26 is at less than 2% of the individual officer market in the United States. Since many of our customers using the older M26 are purchasing the X26 to upgrade their systems, we have yet to tap 98% of the domestic police and corrections market with our X26 technology. I think most people would agree this leaves us significant room to grow.

While U.S. law enforcement and corrections are our primary market today, we see great opportunities in the other markets as well. International police markets represent an opportunity ten-fold greater than the U.S. alone. As explained in our conference call, international orders take significantly longer to mature than orders from the smaller agencies here in a more fragmented U.S. market. Therefore, we achieved the record financial results in the first quarter without significant export sales. We do expect that export sales will increase later in the year after the United Kingdom and France complete their field tests.

Worldwide military markets offer a second market that is comparable in scope to law enforcement, and the U.S. Department of Defense is leading the way with over 400 TASER conducted energy weapons being field tested in Iraq and Afghanistan. Most military institutions will be involved in policing and peace-keeping operations in the future -- and our TASER conducted energy weapons offer a powerful capability in this new role. While we have yet to scratch the surface of the military markets, the largest single order in our company's history was for 3,500 ADVANCED TASER M26s last year for deployment by a foreign military. We believe there are similar opportunities for large orders in the future, although these larger orders are more difficult to predict and do not lend themselves to meaningful quarter-to-quarter comparisons.

We believe the private security market potentially will follow the lead of police in deploying TASER devices in the future, another virtually untapped market. There are several private security forces including a major security force with over 1,000 ADVANCED TASER M26s in the Middle East and a major U.S. defense contractor that is deploying TASER conducted energy weapons for its private security personnel. Private security companies employ roughly 2.8 million persons in the U.S., a market over twice the size of law enforcement and corrections. Similarly, there is a global market of roughly ten to twenty times this magnitude.

Then there's the gargantuan market for private citizen's self-defense systems, including roughly 35 million gun-owning households in the U.S., and another roughly 82 million that do not own firearms. We believe non-lethal weapons such as TASER can appeal to both market segments for home protection. Over the last 10 years, we have sold over 100,000 TASER conducted energy weapons to private citizens' for self-defense, with the majority of these systems sold before we shifted our focus to law enforcement in 2000. With the introduction of the X26C Citizen's Defense System later this year, we look forward to rejuvenated growth in the private citizen market.

With less than 2% market penetration of our primary market with our latest technology, and several follow-on markets that are much greater in scope, it's hard for me to envision why you concluded, "Goodbye to Growth."

Looking at our most recent financial data, the dollar volume of new orders grew 13% from \$11.6 million to \$13.1 million and our revenues grew by 22% from our previous record achieved in the fourth quarter of 2003 to the first quarter of 2004. In fact, operating income in the first quarter of 2004 is at an annualized pace to achieve \$23 million by year end -- almost equivalent to our total revenue in 2003. This past week we announced that April was the best month in terms of new orders in the company's history.

By no means has growth said goodbye to TASER!

Even Manuel Asensio, one of the world's best-known short sellers, was perplexed why the Wall Street Journal (and presumably Barron's) targeted TASER, writing,

"There are hundreds of very questionable companies with undeserved market capitalizations based wholly on bold-faced lies. And then there are other pricey stocks that are not innovators and leaders in their field, with very limited competition and selling a high margin proprietary product that uses a high margin proprietary disposable. Yet the Journal chose TASER, which has all these nice things.

To us what is striking about TASER is not investors' interest but Wall Street's blindness. Can anyone point to another company that has ever surprised Wall Street so completely? In the quarter ended June 30, 2003 TASER had net sales of \$4.2 million, \$347,059 in net income and a \$37 million market value. This valuation turned out to be a mere 2.6 times TASER's most recent annualized quarterly net income.

In the next three quarters TASER grew its quarterly net sales 314% and net income 1,023%. TASER's most recent pretax earnings of \$5.8 million are greater than its net sales were before Wall Street got a clue. And as product sales rise so will sales of its high margin disposable."

(Mr. Asensio's article is available at [www.asensio.com](http://www.asensio.com))

You claim in your article that our future growth will be hampered because Japan, Hong Kong, Norway, Sweden, New Zealand, and other countries prohibit the sales of TASER devices along with the states of New Jersey and Massachusetts. But you fail to note that just two years ago, there were four states where TASERs were not legal. Now, both Michigan and Hawaii successfully changed the laws to allow their police to use TASERs. Two down, two to go. In Michigan the state insurance agency has offered to pay for up to 50% of the cost for TASERs purchased by law enforcement agencies because of the reduced legal liability and workmen's compensation claims when the TASERs are deployed. Just a few years ago, TASERs were illegal in the United Kingdom, Canada, Switzerland, and Australia. All of these countries now have TASERs in the field. While legal hurdles certainly exist in certain markets, the trend is in our favor today as many countries have already changed the laws to allow our technology.

Then, you regurgitate the "questions of safety" regarding the TASER. You question, "Have studies shown that a 50,000 volt shock to people with heart disease is harmless?" You will realize how silly this question is when you understand that a static shock from a doorknob can reach in excess of 35,000 volts. It's not the voltage that determines the medical safety of an electric shock, it's the amperage. The output of the TASER X26 is 0.003 amperes -- doesn't sound as dangerous now, does it? And yes, medical experts have performed tests on animals directing the

current from the TASER directly across the heart in the presence of various drugs and have not seen adverse or dangerous arrhythmias result.

Each year approximately 19,000 people die as a result of drug overdoses in the U.S. And an estimated 5,000 or more people die in police custody each year (based on proportionate calculation from California state data). And yes, approximately 45 people have died in custody after being first subdued with a TASER. But each and every case has been caused by readily understood causes of death -- not the TASER. More importantly, your article misses the point that the TASER has saved over 4,000 lives based on actual police reports.

In the cases from your article: one death was a methamphetamine overdose, one was a cocaine overdose, and one individual had taken 20 times the maximum dose of Ephedra -- the diet supplement that has been blamed for the deaths of many people, including several professional athletes.

To place the TASER safety in context, each year there are approximately 50,000 deaths in vehicle accidents; 35,000 deaths from firearm related injuries; over 700 deaths from falling out of beds and chairs; over 300 deaths from drowning in bathtubs; and over 40 deaths from reactions to bee, wasp, and hornet stings. And in over 30 years since the first TASER was introduced, there have been exactly zero deaths clearly caused by the TASER (as opined by independent medical examiners). That's why it's so important to look into the actual cause of death, and not engage in the "guilt by association" approach promoted in your article.

Over 70,000 volunteers have been hit with the TASER. In fact, 12 of our shareholders volunteered for the TASER at our shareholder meeting last Thursday. Over 30,000 actual suspects have been hit with the TASER in the field.

Finally, you point to share sales by insiders and institutions as reason for panic. Sprott Asset management did, indeed, recently sell their 10.8% stake in TASER. They did so after achieving an almost 10x return on their investment in less than a year. Incidentally, a new institution, Citadel, purchased a 7% stake in TASER since Sprott's departure.

Further, you point to insiders "unloading" in the past nine months. Our response is straight-forward on this issue. We have invested our efforts and our own personal money in this company over the past decade. We were not financed by any outside source during the first 7 years when all the high-risk capital was provided by the Smith family and Bruce Culver (a director). Insiders have made and held these investments over the past 11 years and we have been selling incrementally since the company went public. Even now, the majority of insiders hold the significant majority of their personal portfolios in TASER. How many investments have you held for 11 years Ms. Bremmer? Does any one stock make up over 50% of your portfolio? As a "financial analyst" would you recommend that people like my 66 year-old father continue to hold a largely single position portfolio? (Hint: check out the advice of Barron's Guide to Making Investment Decisions before you answer) Is it possible that insiders at TASER are following a reasonable investment strategy by diversifying their portfolio rather than the doomsday scenario you paint?

In conclusion, we apologize if we have offended you. But you continue to assault the well-intentioned work of ourselves, our dedicated coworkers, our supportive shareholders, and the growing number of law enforcement officers that depend on our equipment every day. And your behavior leads us to believe it is intentional, that you are not interested in learning the balance of facts about TASER, but that you are bent on portraying a highly biased, negative, destructive point of view for some personal motivation we can not understand.

After your first article a few months ago, we responded with surprise that you would undertake such extensive research without so much as a phone call to the company for meaningful information. In your article of May 1, you self-righteously claim your calls to the company were not returned. Yet, you waited until the last day before your article went to press, called our office late in the afternoon on the day management was occupied with our quarterly board meeting, our annual shareholder meeting, and groundbreaking ceremonies for our new building. Then, you left a single voicemail in Phil Smith's mailbox without evening hitting "0" for the receptionist. Sounds more like

positioning for your story than a legitimate attempt to contact us.

In the future, we have set up a special media hotline for you at 480-444-4000. And please call us well before the night your story goes to press. In fact, we would be happy to buy you a plane ticket to Phoenix so you can come and see the company for yourself and meet the people whose intentions you question. If you come to learn the other side of this story, we will look forward with great interest to your next article on TASER.

Thank you,

Rick Smith  
CEO  
TASER International  
Tom Smith  
President  
TASER International  
About TASER International, Inc.

For further information contact Steve Tuttle, Director of Communications, at [Steve@TASER.com](mailto:Steve@TASER.com) or call 480-444-4000. Visit the company's web-site at [www.TASER.com](http://www.TASER.com) for facts and video.

SOURCE TASER International, Inc.

CONTACT: Steve Tuttle, Director of Communications of TASER International, Inc., +1-480-444-4000

### **Exhibit 3 What is a TASER?**

The TASER fires two probes from a replaceable cartridge up to a distance 21 feet. The probes are connected to the weapon by high-voltage insulated wire.

When the probes make contact with the target, the TASER transmits 50,000 volts of electrical pulses along the wires and into the body of the target through up to two inches of clothing.



These electrical signals completely override the central nervous system and directly control the skeletal muscles, causing an uncontrollable contraction of the muscle tissue. This “lock up” effect physically debilitates a target assailant, regardless of pain tolerance or mental focus.

Rather than simply interfering with communication between the brain and muscles, the TASER systems directly tell the muscles what to do: contract until even the most elite, aggressive, focused combatants are helpless on the ground. In this way, TASER “provides for maximum safety for both the officer and the subject by bringing dangerous situations quickly under control before force escalates to lethal levels.”

#### Exhibit 4 Taser International Timeline

1974		Jack Cover introduced the first TASER
1982		Barry Resnick purchased TASER from Jack Cover
1991		Two friends of the Smiths' brothers killed in a shooting
1993	Sep	AIR TASER incorporated
1993	Nov	Prototypes of AIR TASER sent to Bureau of Alcohol, Tobacco, & Firearms; ruled not a firearm
1994	Dec	AIR TASER sold through Sharper Image Christmas catalog (for approximately 18 months)
1998	Feb	Patent for circuitry expired; allowed TASER to enter law enforcement and military market
1998	May	Name changed to TASER International, Inc.
1999	Dec	Introduction of the ADVANCED TASER (1 <sup>st</sup> model designed specifically for law enforcement)
2001	May	IPO – TASER went public
2001	Oct	Mesa Airlines announced intention to purchase ADVANCED TASER for cockpit security
2001	Nov	United Airlines purchased 1300 ADVANCED TASER weapons for cockpit security
2003	May	Introduced TASER X26 with Shaped PulseT Technology
2003	Jun	Assets of competitor Tasertron purchased for \$1 million
2003	Oct	Patent on ADVANCED TASER wave form granted
2004	Apr	Stock price declined after climbing for nearly a year
2004	May	<i>Barron's</i> article and response

#### Exhibit 5 Product Line Sales 2001-2003

	(in thousands) 2003	%	2002	%	2001	%
<b>ADVANCED TASER</b> (including cartridges & accessories)	\$15,412	63.0	\$8,494	86.3	\$5,460	79.7
<b>TASER X26</b> (no cartridges included)	8,066	33.0	0	0	0	0
<b>AIR TASER</b>	411	1.7	966	9.8	1,304	19.0

#### Exhibit 6 Employees

As of December 31, 2003, the company had 130 full-time and 21 temporary manufacturing employees. Of these, 112 were in direct manufacturing, 39 in administrative support. Of the 39 administrative employees, 15 were in sales, marketing, communication and training; 6 in research and development; 2 in information technology; 9 in manufacturing support; and 7 in executive, accounting, legal and investor relations. None of the employees are unionized and the company has never experienced a work stoppage.