

# **\*\*EDITORS' ADVISORY\*\***

## **REFERENCING THE TASER<sup>®</sup> TRADEMARK**

### *Don't Confuse Generic Stun Guns with TASER<sup>®</sup> Brand Devices*

SCOTTSDALE, Ariz., November 3, 2005 -- TASER International, Inc. (Nasdaq: TASN), a market leader in advanced electronic control devices, provided the following guidance for those reporting incidents where a generic stun gun may have been used.

TASER<sup>®</sup> is a registered trademark of TASER International, Inc. and can only be used to identify TASER brand electronic control devices *exclusively* manufactured by TASER International, Inc. Some editors and copy writers incorrectly use the TASER trademark as a generic term to refer to any electronic control device or stun gun, regardless of its source or functions. **This use is improper and a violation of TASER International trademark rights.**

A trademark cannot be treated as an ordinary word or used as a noun. A trademark like the "TASER" mark is not the name of a product. It is a mark indicating the product's source and quality, and it is trusted by the public. TASER International has invested millions of dollars in enhancing and protecting the intellectual property rights to this trademark and this trust does not come cheap. A trademark's value is built through investment in product quality and advertising, but it can be irresponsibly reduced when the mark is not properly used as a trademark. We are legally obligated to vigorously pursue all improper and illegal uses of our trademarks to avoid the loss of our trademark rights.

TASER International, Inc. manufactures and sells advanced electronic control devices for use in the law enforcement, military, private security and personal defense markets. TASER devices use proprietary technology to safely incapacitate dangerous, combative or high-risk subjects who pose a risk to law enforcement officers, innocent citizens or themselves. A TASER device has the ability to operate in both a contact stun mode like generic stun guns when manually pressed against the attacker, or in a remote stun mode, firing wire-tethered darts toward an attacker. TASER devices are distinguished by utilizing patented state-of-the-art Electro-Muscular Disruption (EMD) technology that temporarily overrides the sensory and motor nervous system, interfering with muscular control. This EMD technology temporarily debilitates individuals with minimal risk of injury. Generally, the individual cannot continue voluntary movement until the TASER device is turned off. Over 80 medical and safety studies and reports have confirmed that the TASER device is among the safest and most effective tools available to law enforcement today.

TASER International has also built an unprecedented level of accountability into TASER devices. Each TASER device is equipped with an on-board computer that records the time and date every time the trigger is pulled. TASER cartridges are serialized and registered to the individual user through an Anti-Felon Identification (AFID) tracking program. AFIDs are tiny pieces of confetti encoded with the serial number of the TASER cartridge from which they are deployed. When the TASER device is used, 20-30 AFIDs are dispersed from the TASER cartridge, providing evidence to trace the TASER device use back to the registered owner. No other weapon in the world has this capability.

While the consumer market may be flooded with a wide variety of cheap, generic, electric stun or shock devices, these must not be referred to in a story as a “taser,” “TASER,” or “TASER weapon”. These products are not TASER devices marketed by TASER International, Inc. since TASER brand products are marked with the TASER trademark and have unique, high quality features absent from the ordinary stun gun. Referring to these products as a TASER device would be a violation of our trademark rights. Only refer to a TASER device when the details of the reporting include the unique characteristics of a TASER brand electronic control device. If the device does not have these characteristics or distinct markings, or if you are unsure, it is very likely not a TASER brand electronic control device so do not refer to it as a TASER device.

Only the AIR TASER 34000, TASER® X26, TASER® X26C, and the ADVANCED TASER® M26 and M18 series can be properly referred to as TASER electronic control devices. The trademarks and model numbers are in all capital block letters. (Note that TASER is an acronym for Thomas A. Swift’s Electric Rifle.)

“TASER®” and “ADVANCED TASER®” are registered trademarks of TASER International, Inc.

When referring to the company, TASER International, “TASER” is not being used as a trademark, so no ® is appropriate.

*\* U.S. Department of Defense policy defines non-lethal weapons as "weapon systems that are explicitly designed and primarily employed so as to incapacitate personnel or material, while minimizing fatalities, permanent injury to personnel, and undesired damage to property and the environment..."- Joint Concept for Non-lethal Weapons, United States Marine Corps*

If you have any questions regarding TASER electronic control devices or the proper the use of the trademark, please visit the Company’s website at [www.TASER.com/trademark](http://www.TASER.com/trademark) or contact Steve Tuttle, Vice President of Communications, TASER International, at [480-444-4000](tel:480-444-4000) or [steve@TASER.com](mailto:steve@TASER.com)

# # #



# TASER

PROTECT LIFE

17800 N. 85<sup>th</sup> St. • Scottsdale, Arizona 85255 - 9603 • [www.TASER.com](http://www.TASER.com)  
Phone: 480.905.2000 • 800.978.2737 • Fax: 480.991.0791

«date»

«name»

«company»

«address»

«CityStateZip»

Sent via Federal Express

Subject: TASER International Trademark “TASER”

Dear Sir/Madam:

It has come to our attention that your «companytype» may have improperly used the trademark “TASER” in a recent news story which ran on «article\_date» entitled «title».

“TASER” is a registered trademark with the United States Patent and Trademark Office and owned by TASER International, Inc. We are advising you of this fact to ensure that your use of our trademark is proper and in accordance with US trademark law. TASER International has invested millions of dollars to acquire and build the trademark “TASER” and we cannot allow any improper use to erode our trademark rights. The requirements for using the trademark “TASER” are as follows:

- The trademark “TASER” must only be used to describe a TASER brand electronic control device manufactured by TASER International. The primary function of a trademark is to tell the buyer the source of the product. The source of TASER products is TASER International.
- The trademark “TASER” must be spelled as an adjective followed by the word “brand”, a name of a product produced by TASER International, or a generic term. For example, the TASER X26, the ADVANCED TASER brand non-lethal weapon, the TASER cartridge.
- The first prominent use of our trademarks must be used with the registered trademark symbol after the mark (e.g. TASER®) as well as text or footnote suitably stating “Registered trademark of TASER International.”
- The trademark “TASER” must not be used as a noun, a possessive, a plural. For this reason, all of these are incorrect: “a police taser”, “the citizen taser”, “armed with tasers”, “the taser’s darts”.

«name»

«date»

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- The proper way to describe the effect on a person of a TASER device is to state one of the following: (a) “the person was incapacitated by a TASER® electronic control device” or (b) “the officer deployed a TASER® device.”
- It is incorrect to use the TASER trademark as a verb (e.g., tasered, tasing, tasing).
- The TASER trademark must not be hyphenated or used as a generic description or name. For this reason, all of these are incorrect: “taser-type device”, “taser-shocked”, and “water gun shaped like a taser”.

Any use of the trademark TASER in the future by you or your affiliates must comply with these use requirements. A more complete description of how to use the trademark “TASER” is available at [www.TASER.com](http://www.TASER.com). Thank you for your cooperation and consideration in this matter.

Very truly yours,

A handwritten signature in black ink, appearing to read "Douglas E. Klint". The signature is fluid and cursive, with the first name being the most prominent.

Douglas E. Klint  
Vice President and General Counsel

cc: «ccname»

P66327.SUB



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**SCHEDULE 14A  
(Rule 14A-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )**

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, for use of the  
Commission only (as permitted by  
Rule 14a-6(e)(2)).

Definitive proxy statement.

Definitive additional materials.

Soliciting material pursuant to Rule 14a-12.

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(Name of Registrant as Specified in Its Charter)

TASER INTERNATIONAL, INC.

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(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

Payment of filing fee (check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11  
(set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

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Fee paid previously with preliminary materials.

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the  
filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement  
number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**TASER INTERNATIONAL, INC.**

**7860 East McClain Drive, Suite 2  
Scottsdale, Arizona 85260**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**May 1, 2002**

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To Our Stockholders:

The Annual Meeting of Stockholders of the TASER International, Inc. (the "Company") will be held at 10:00 a.m. on Wednesday, May 1, 2002 at the principal executive offices of the Company, 7860 East McClain Drive, Suite 2, Scottsdale, Arizona for the following purposes:

1. Electing four directors of the Company;
2. Ratifying the appointment of Arthur Andersen LLP as the Company's independent auditors for 2002; and
3. Transacting such other business as may properly come before the meeting.

Only holders of the Company's Common Stock at the close of business on March 15, 2002 are entitled to notice of, and to vote at, the meeting and any adjournments or postponements thereof. Stockholders may vote in person or by proxy. A list of stockholders entitled to vote at the meeting will be available for examination by stockholders at the time and place of the meeting and during ordinary business hours, for a period of 10 days prior to the meeting, at the principal place of business of the Company, 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260.

By Order of the Board of Directors,

/s/ KATHLEEN C. HANRAHAN

Kathleen C. Hanrahan  
Secretary

Scottsdale, Arizona  
March 25, 2002

**YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING IN PERSON, PLEASE MARK, SIGN, DATE AND PROMPTLY RETURN YOUR PROXY IN THE ENCLOSED ENVELOPE.**

[B/E]

CRC: 41295

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**TASER INTERNATIONAL, INC.**  
**7860 East McClain Drive, Suite 2**  
**Scottsdale, Arizona 85260**

**PROXY STATEMENT**

**2002 Annual Meeting of Stockholders**

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This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of TASER International, Inc. (the "Company") of proxies to be voted at the 2002 Annual Meeting of Stockholders of the Company to be held at 10:00 a.m. on Wednesday, May 1, 2002 at the principal executive offices of the Company, 7860 East McClain Drive, Suite 2, Scottsdale, Arizona, and at any adjournments or postponements thereof. If proxies in the accompanying form are properly executed, dated and returned prior to the voting at the meeting, the shares of Common Stock represented thereby will be voted as instructed on the proxy. If no instructions are given on a properly executed and returned proxy, the shares of Common Stock represented thereby will be voted for election of the directors, for ratification of the appointment of the independent auditors and in support of the recommendations of management on such other business as may properly come before the meeting or any adjournments or postponements thereof.

Any proxy may be revoked by a stockholder prior to its exercise upon written notice to the Secretary of the Company, by delivering a duly executed proxy bearing a later date, or by the vote of a stockholder cast in person at the meeting. The cost of soliciting proxies will be borne by the Company. In addition to solicitation by mail, proxies may be solicited personally by the Company's officers and regular employees, or by telephone, facsimile or electronic transmission or express mail. The Company will reimburse brokerage houses, banks and other custodians, nominees and fiduciaries for their reasonable expenses incurred in forwarding proxies and proxy material to their principals. This proxy statement is first being mailed to stockholders on or about March 25, 2002.

**VOTING**

Holders of record of the Company's Common Stock on March 15, 2002 will be entitled to vote at the Annual Meeting or any adjournments or postponements thereof. As of that date, there were 2,821,378 shares of Common Stock outstanding and entitled to vote, and a majority, or 1,410,690 of these shares, will constitute a quorum for the transaction of business. Each share of Common Stock entitles the holder to one vote on each matter that may properly come before the meeting. Stockholders are not entitled to cumulative voting in the election of directors. Abstentions will be counted in determining whether a quorum is present for the meeting and will be counted as a vote against any proposal. Broker non-votes will also be counted in determining whether a quorum is present, but will not be counted either for or against the proposal at issue.

**ELECTION OF DIRECTORS**

The Board of Directors is comprised of six directors. The directors are divided into three classes comprised of two directors each. Generally, one class is elected each year for a three-year term. However, because the Company completed its initial public offering in May of 2001 and did not hold an Annual Meeting of Stockholders in 2001 at which it elected directors, current directors Phillips W. Smith and Bruce Culver are nominees for election as directors to serve until the Annual Meeting of Stockholders in 2004 (a two-year term), or until their respective successors are elected and qualified. In addition, the two nominees for election as directors to serve a regular three-year term until the Annual Meeting of Stockholders in 2005, or until their respective successors are elected and qualified, are Patrick W. Smith and Karl F. Walter. Directors are elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to

vote on the election of directors. The four nominees for director receiving the highest number of votes will be elected to the Board of Directors.

Unless marked otherwise, proxies received will be voted FOR the election of each of the nominees named below.

If any nominee is unable or unwilling to serve as a director at the date of the Annual Meeting or any postponement or adjournment thereof, the proxies may be voted for a substitute nominee, designated by the proxy holders or by the present Board of Directors to fill such vacancy, or for the other nominee named without nomination of a substitute, or the number of directors may be reduced accordingly. The Board of Directors has no reason to believe that any of the nominees will be unwilling or unable to serve if elected a director.

**The Board of Directors recommends a vote FOR the election of Phillips W. Smith, Bruce R. Culver, Patrick W. Smith and Karl F. Walter.**

The following table sets forth certain information about each nominee for election to the Board of Directors, each continuing director and an additional executive officer of the Company.

Name	Age	Positions	Director or Officer Since	Expiration of Current Term
<b>Nominees for Election</b>				
Class A (for two-year term)				
Phillips W. Smith <sup>(1)</sup>	64	Chairman of the Board of Directors	1993	2001
Bruce R. Culver <sup>(1)(2)(3)</sup>	56	Director	1994	2001
Class B (for three-year term)				
Patrick W. Smith <sup>(1)</sup>	31	Chief Executive Officer and Director	1993	2002
Karl F. Walter	55	Executive Vice President and Director	2000	2002
<b>Directors Continuing in Office</b>				
Class C				
Thomas P. Smith	34	President and Director	1993	2003
Matthew R. McBrady <sup>(2)(3)</sup>	31	Director	2000	2003
<b>Additional Executive Officer</b>				
Kathleen C. Hanrahan	38	Chief Financial Officer	2000	—

(1) Member of the Nominating Committee.

(2) Member of the Audit Committee.

(3) Member of the Compensation Committee.

**Directors and Executive Officers**

*Phillips W. Smith*, Chairman of the Board of Directors. Dr. Smith has served as a director since 1993. Since August 1997, Dr. Smith has served on the Board of Directors of Pentawave, Inc., a developer of cross-media publishing software. Dr. Smith was Chairman of the Board of Pentawave from January 1999 through October 2000 and its Chief Executive Officer from January through March 1999. From June 1990 to September 1997, Dr. Smith served as the President and Chief Executive Officer of Zycad Corporation, a developer of engineering and manufacturing applications software. Dr. Smith holds a B.S.E. degree from West Point, an M.B.A. degree from Michigan State University, and a Ph.D. in Business Administration from St. Louis University.

*Bruce R. Culver*, Director. Mr. Culver has served as a director of the Company since January 1994. Mr. Culver co-founded Professional Staff, P.L.C., a human resource management company, and has served on its Board of Directors since April 1990. In March 1993, Mr. Culver organized and has since remained the Chief Executive Officer of Culver Distributions, Inc., doing business as California Distribution Company,

providing warehouse and distribution services to internet companies. Since April 1997, Mr. Culver has served on the Board of Pentawave, Inc., becoming its Chairman in October 2000.

*Patrick W. Smith*, Chief Executive Officer and Director. Mr. Smith has served as Chief Executive Officer and as a director of TASER since 1993. He is a co-founder of the Company. Mr. Smith holds a B.S. degree in Biology and Neurobiology from Harvard University, an M.B.A. degree from the University of Chicago, and a Masters Degree in International Finance from the University of Leuven in Leuven, Belgium.

*Karl F. Walter*, Executive Vice President and Director. Mr. Walter has served as Executive Vice President of Sales and Marketing of TASER since June 2001 and as a director since January 2001. Mr. Walter was a co-founder of Glock, Inc., a subsidiary of GLOCK GmbH, an Austrian semi-automatic pistols manufacturer. From January 1994 through February 1997, Mr. Walter worked as a director of law enforcement sales for Sturm Ruger Co., a firearms manufacturer. Since March 1997, Mr. Walter has worked as the program manager for AV Technology International, LLC, a builder of armored vehicles.

*Thomas P. Smith*, President and Director. Mr. Smith has served as President of TASER since April 1994 and as a director since 1993. He is a co-founder of the Company. Mr. Smith holds a B.S. degree in Ecology and Evolutionary Biology from the University of Arizona and an M.B.A. degree from Northern Arizona University.

*Matthew R. McBrady*, Director. Mr. McBrady has served as a director of TASER since January 2001. From August 1998 through July 1999, Mr. McBrady served as a member of the staff of President Clinton's Council of Economic Advisers. In December 1997, Mr. McBrady began working as a financial and analytical consultant for Avenue A, Inc., an internet marketing company, and served as its vice president of analytics from June 1999 through October 1999. Mr. McBrady taught corporate finance courses at the University of Southern California during the summer terms of 1997 and 1998, at Harvard University from September 1996 through May 1997, and at Harvard Business School during the spring term of 1998. Mr. McBrady holds a B.S. in Economics from Harvard University, an M.S. in International Economics from Oxford University, and expects to receive a Ph.D. in Corporate and International Finance from Harvard University in June 2002.

*Kathleen C. Hanrahan*, Chief Financial Officer. Ms. Hanrahan is the Company's chief financial officer, serving in that position since November 2000. Ms. Hanrahan first joined TASER in January 1996 as an internal controls consultant and became its controller in March 1996.

Each officer serves at the discretion of our Board of Directors. No officer is subject to an agreement that requires the officer to serve TASER for a specified number of years.

#### **Meetings of the Board of Directors; Board Committees**

During the year ended December 31, 2001, the Board of Directors held six regular meetings.

The Company maintains a standing Audit Committee, Compensation Committee and Nominating Committee. Messrs. Culver and McBrady are the members of the Audit and Compensation Committees.

The Audit Committee held seven meetings during the year ended December 31, 2001. Among other things, the function of the Audit Committee is to review and make recommendations to the Board of Directors with respect to the selection of the Company's independent auditors and the terms of their engagement; review the policies and procedures of the Company and management with respect to maintaining the Company's books and records; review with the independent auditors, upon the completion of their audit, the results of the auditing engagement and any other recommendations the auditors may have with respect to the Company's financial, accounting or auditing systems; and review with the independent auditors, upon the completion of their quarterly review of the Company's financial statements, the results of the quarterly review and any other recommendations the auditors may have in connection with their review. The Audit Committee operates under a written charter, a copy of which is attached to this Proxy Statement as Appendix A. The report of the Audit Committee for the year ended December 31, 2001 is included in this Proxy Statement.

The Compensation Committee held one meeting during the year ended December 31, 2001. Among other matters, the Compensation Committee determines salaries and bonuses and considers employment

agreements for elected officers of the Company, and prepares legally required reports on these matters; considers, reviews and grants awards under the Company's compensation plans and administers the plans; and considers matters of director compensation, benefits and other forms of remuneration.

The Nominating Committee held one meeting during the year ended December 31, 2001. Patrick W. Smith, Phillips W. Smith and Bruce R. Culver are its members. The Committee is charged with, among other matters, identifying qualified candidates for nomination for election to the Board of Directors, obtaining the consent of the candidates to the nomination, and nominating such consenting candidates for election; and reviewing and making recommendations to the Board of Directors concerning the composition and size of the Board and its committees. The Committee will consider qualified candidates for nomination recommended by the Company's stockholders, but has not established formal procedures with respect to the submission of such recommendations.

#### Family Relationships

Mr. Thomas P. Smith and Mr. Patrick W. Smith are Dr. Phillips W. Smith's sons. No other family relationships exist among the Company's directors and executive officers.

#### COMPENSATION OF DIRECTORS

Members of the Board of Directors who are officers of the Company are not separately compensated for serving on the Board of Directors. Directors who are not officers of the Company are paid \$1,250 per quarter. Directors are also reimbursed for expenses incurred in connection with attendance at meetings.

#### CERTAIN TRANSACTIONS

In 1998, Mr. Bruce R. Culver, a director of TASER, loaned the Company \$622,525. In March 1998, \$150,000 of such amount was converted into 20,833 shares of the Company's Common Stock at an estimated value of \$7.20 per share. In December 1998, the Company issued Mr. Culver a promissory note for \$472,525, the remaining amount due. The note carried interest at a rate of 10% per year and was to mature July 1, 2002.

In 1999, Mr. Culver loaned the Company \$1,500,000. In return, in April 1999, the Company issued him a promissory note for \$500,000 at an effective interest rate of 27.1% per year to mature October 31, 2000, and 1,666,667 shares of the Company's Common Stock at a price of \$0.60 per share. These shares were subject to a repurchase agreement between Mr. Culver and the Company that allowed the Company to repurchase the shares if it met certain operating performance criteria. The Company met the criteria and repurchased the shares from Mr. Culver in July 2000 in exchange for a promissory note in the amount of \$1,000,000. The Company consolidated this note and the April 1999 note into a new note for \$1,500,000 which carried interest at bank prime, which was 9.5% at December 31, 2000, plus 1%. The Company repaid the new note in full in April 2001 with the proceeds of a loan from a commercial bank.

In March 1999, Mr. Culver loaned the Company \$100,000, and in July 1999, Mr. Culver loaned the Company \$50,000. In May 2000, Mr. Culver loaned the Company an additional \$200,000 at an interest rate of 10%, due July 1, 2002.

The Company used all amounts loaned to it by Mr. Culver to fund its working capital needs. In July 2001, the Company used proceeds from a draw on an existing line of credit to prepay the total remaining amount due to Mr. Culver, \$822,528, under a promissory note carrying interest at a rate of 10%. The Company received a prepayment discount of 7.5%, or \$61,690, of the outstanding principal balance of the note at the time of the prepayment. It applied the discount to additional paid-in capital.

In July 2000, the Company issued Mr. Culver a warrant to purchase 22,727 shares of its Common Stock at a price of \$3.30 per share in connection with his provision of a \$1,500,000 loan to the Company in such month. These warrants expire July 31, 2005.

In 1998, Mr. Phillips W. Smith, the Company's chairman, loaned it \$725,691 to fund its working capital needs. 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 bears interest at a rate of 10% per year and matures July 1, 2002. Further, Mr. Smith has deferred expenses in the amount of \$99,794, which was formalized in a note bearing 10% interest, which matured December 31, 2000. Under certain circumstances, Mr. Smith agreed to extend the maturity of these notes. As of December 31, 2001, the aggregate principal amount due to Mr. Smith under these notes was \$455,691. The Company repaid Mr. Smith such amount in full in February 2002.

In April 2001, Mr. Culver established a non-revocable letter of credit in the amount of \$500,000 on the Company's behalf that it could use to fund any shortfalls in monthly working capital requirements until it could make other financing arrangements, and provided the Company a related letter of support. These documents expired on December 31, 2001.

In July 1999, Malcolm W. Sherman, a stockholder, loaned the Company \$75,000 to acquire production equipment. The related note carries interest at 9.18% and matures July 1, 2001. In May 2000, the Company issued Mr. Sherman an option to purchase 3,333 shares of its Common Stock at an exercise price of \$0.22 per share in connection with his continuing provision of services to the Company following his retirement as a full-time employee and in consideration of his provision of the loan.

The Company leases a six-seat aircraft from Thomas P. Smith, the Company's President and a director, under an Equipment Lease which expires in August 2013. The lease requires the Company to pay Mr. Smith rent of approximately \$1,556 per month (\$18,672 per year). In October 2001, the Company entered into an agreement with Mr. Smith to pay approximately \$29,000 to replace the aircraft's engine.

It is the Company's policy that all related party transactions will be reviewed by its Board of Directors. It is the policy of the Company's Board of Directors that all proposed transactions by the Company with its directors, officers, five-percent stockholders and their affiliates, including forgiveness of any loan from the Company to any such person, be entered into or approved only if such transactions are on terms no less favorable to the Company than it could obtain from unaffiliated parties, are reasonably expected to benefit the Company and are approved by a majority of the disinterested, independent members of the Company's Board of Directors. Such independent directors are authorized to consult with independent legal counsel at the Company's expense in determining whether to approve any such transaction.

## EXECUTIVE COMPENSATION

### Cash and Non-Cash Compensation Paid To Certain Executive Officers

The following table sets forth information regarding compensation awarded to, earned by, or paid to the Company's Chief Executive Officer for all services rendered to the Company during 2001, 2000 and 1999. None of the Company's other executive officers earned in excess of \$100,000 in salary and bonus in 2001.

Summary Compensation Table

Name and Principal Position	Annual Compensation			Long Term Compensation Securities Underlying Options(#)
	Year	Salary	Bonus	
Patrick W. Smith Chief Executive Officer	2001	\$96,252	—	60,000
	2000	\$65,208	\$2,500	—
	1999	\$49,161	—	10,000

**Option Grants in Last Fiscal Year**

The following table sets forth certain information regarding options granted in 2001 to the Company's Chief Executive Officer:

Name	Individual Grants			
	Number of Securities Underlying Options Granted <sup>(1)</sup>	% of Total Options Granted to Employees in 2001	Exercise or Base Price (\$/Sh)	Expiration Date
Patrick W. Smith	60,000	15.4%	\$7.21	12/31/05

(1) This option vests ratably at the end of each month for a 48-month period beginning January 1, 2001, subject to the executive's continuing performance of services for the Company.

**Fiscal Year End Option Values**

The following table sets forth information regarding the number and value of unexercised options held by the Company's Chief Executive Officer on December 31, 2001. He did not exercise any options to purchase common stock during 2001.

Name	Number of Securities Underlying Options at Fiscal Year End(#)		Value of Unexercised In-the-Money Options at Fiscal Year End(\$) <sup>(1)</sup>	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Patrick W. Smith	23,472	46,528	\$217,186	\$306,114

(1) Based on the closing price on The Nasdaq Stock Market of the Common Stock of the Company on December 31, 2001 of \$13.75.

**Employment Agreements and Other Arrangements**

In July 1998, the Company entered into an employment agreement with Patrick W. Smith pursuant to which he agreed to serve as its Chief Executive Officer. The agreement was for an initial three-year term ended June 30, 2001, and was automatically renewed for a two-year term on such date and will be every two years thereafter unless the Company gives Mr. Smith one-year prior notice of termination, if the termination is without cause. The agreement provided for annual base compensation in the amount of \$65,000, which amount may be increased based on performance. In October 2001, the Company increased Mr. Smith's annual base compensation to \$115,000. The Company may terminate this agreement with or without cause. Should it terminate the agreement without cause, upon a change of control or upon his death or disability, the Company's Chief Executive Officer is entitled to compensation equal to 12, 24 or 18 months of salary, respectively.

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## REPORT OF THE AUDIT COMMITTEE

Board of Directors  
TASER International, Inc.

The Audit Committee of the Board of Directors is established pursuant to the Company's Bylaws, as amended, and the Audit Committee Charter adopted by the Board of Directors on February 15, 2001. Management is responsible for the Company's internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The Audit Committee's responsibility is generally to monitor and oversee these processes, as described in the Audit Committee Charter.

The members of the Audit Committee are Messrs. Matthew R. McBrady (Chairman) and Bruce R. Culver. Each member of the Audit Committee is independent in the judgment of the Company's Board of Directors and as required by the listing standards of The Nasdaq Stock Market. Members of the Audit Committee will normally be appointed at the annual meeting of the Board of Directors in May of each year.

With respect to the year ended December 31, 2001, in addition to its other work, the Audit Committee:

- Reviewed and discussed with the Company's management and the independent auditors the audited financial statements of the Company as of December 31, 2001 and for the year then ended;
- Discussed with the independent auditors the matters required to be discussed by auditing standards generally accepted in the United States of America; and
- Received from the independent auditors written affirmation of their independence required by Independence Standards Board Standard No. 1 and discussed with the auditors the firm's independence.

Based upon the review and discussions summarized above, together with the Committee's other deliberations and Item 7 of Commission Form 10-KSB, the Committee recommended to the Board of Directors that the audited financial statements of the Company, as of December 31, 2001 and for the year then ended, be included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2001 for filing with the Commission. The Committee also recommended the reappointment, subject to stockholder approval, of the independent auditors.

March 14, 2002.

Matthew R. McBrady  
Bruce R. Culver

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information, as of March 15, 2002 with respect to beneficial ownership of the Company's Common Stock (the only class of shares of outstanding voting securities of the Company) by each director or nominee for director, by each Named Executive Officer, by all directors and officers as a group, and by each person who is known to the Company to be the beneficial owner of more than five percent of the Company's outstanding Common Stock.

As of such date, there were 2,821,378 shares of Common Stock outstanding. The Company believes that, except as otherwise described below, each named beneficial owner has sole voting and investment power with respect to the shares listed.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class <sup>(1)</sup>
Bruce R. Culver <sup>(2)</sup>	391,145	13.9%
Patrick W. Smith <sup>(2)(3)</sup>	360,334	12.8%
Phillips W. Smith <sup>(2)(3)</sup>	349,871	12.4%
Thomas P. Smith <sup>(2)(3)</sup>	231,424	8.2%
Karl F. Walter <sup>(2)</sup>	2,583	*
Matthew R. McBrady <sup>(2)</sup>	2,083	*
All directors and executive officers as a group (7 persons) <sup>(3)</sup>	1,365,940	48.3%
RAB Europe Fund Limited <sup>(4)</sup> PO Box 265 GT Walker House, Mary Street George Town, Grand Cayman	239,100	8.5%

\* less than 1%

- (1) Calculated based on number of outstanding shares as of March 15, 2002 which is 2,821,378 plus the total number of shares which the reporting person has the right to acquire beneficial ownership of within 60 days following March 15, 2002.
- (2) The address of such person is c/o 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260.
- (3) The shares shown as beneficially owned include 2,500 shares for Patrick W. Smith, 2,500 shares for Thomas P. Smith, and 6,354 shares for the group, which such persons and the group have the right to acquire by exercise of stock options or warrants within 60 days following March 15, 2002. The shares beneficially owned by Phillips W. Smith include 332,646 shares held of record by the Phillips W. Smith Family Trust.
- (4) This information is based upon Amendment No. 1 to Schedule 13G filed with the Securities and Exchange Commission by RAB Europe Fund Limited on February 14, 2002.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10 percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "Commission"). Officers, directors and greater than 10 percent beneficial owners are required by Commission regulations to furnish the Company with copies of all forms they file pursuant to Section 16(a). Based solely on review of the copies of such reports furnished to the Company and written representations from reporting persons that no other reports were required, to the Company's knowledge, such persons complied with all of the Section 16(a) filing requirements applicable to them with respect to 2001.

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## RATIFICATION OF APPOINTMENT OF AUDITORS

The Board of Directors has appointed Arthur Andersen LLP, independent public accountants, to audit the consolidated financial statements of the Company for the year ending December 31, 2002. Arthur Andersen LLP has acted as independent public accountants for the Company since 1996. A representative of Arthur Andersen LLP is expected to be present at the Annual Meeting, will have the opportunity to make a statement and will be available to respond to appropriate questions.

Unless marked to the contrary, proxies received will be voted FOR ratification of the appointment of Arthur Andersen LLP as the Company's independent auditors for the 2002 year.

**The Board of Directors recommends a vote FOR ratification of the appointment of Arthur Andersen LLP as the Company's independent auditors for the 2002 year.**

### Audit Fees

The aggregate fees billed by Arthur Andersen LLP for professional services rendered for the audit of the Company's annual financial statements for the fiscal year ended December 31, 2001 and for the review of the financial statements included in the Company's Quarterly Reports on Form 10-QSB for that fiscal year were \$76,200.

### All Other Fees

The aggregate fees billed by Arthur Andersen LLP for services rendered to the Company, other than the services described above under "Audit Fees" for the fiscal year ended December 31, 2001 were \$21,700. These services included assistance with preparation of the Company's 2001 income tax returns and consultation with regard to tax issues.

The Audit Committee has considered whether the provision by Arthur Andersen LLP of non-audit services is compatible with Andersen maintaining its independence.

[B/E]

CRC: 7725

EDGAR 2

JB: P66327

PN: 012.00.00.00

SN: 5

Ed#: 4



## OTHER BUSINESS

Management knows of no other matters that will be presented for action at the Annual Meeting. However, the enclosed proxy gives discretionary authority to the persons named in the proxy in the event that any other matters should be properly presented for action at the meeting.

## STOCKHOLDER PROPOSALS

To be eligible for inclusion in the Company's proxy materials for the 2003 Annual Meeting of stockholders, a proposal intended to be presented by a stockholder for action at that meeting must, in addition to complying with the stockholder eligibility and other requirements of the Commission's rules governing such proposals, be received not later than November 25, 2002 by the Secretary of the Company at the Company's principal executive offices, 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260.

Stockholders may bring business before an annual meeting only if the stockholder proceeds in compliance with the Company's Bylaws, as amended. For business to be properly brought before the 2002 Annual Meeting by a stockholder, notice of the proposed business must be given to the Secretary of the Company in writing on or before the close of business on April 4, 2002.

The notice to the Company's Secretary must set forth as to each matter that the stockholder proposes to bring before the meeting: (a) the nature of the proposed business with reasonable particularity, including the exact text of any proposal to be presented for action, and the reasons for conducting such business at the annual meeting; (b) the stockholder's name and address as they appear on the Company's books, business address and telephone number, residence address and telephone number, and the class and number of shares of the Company's stock beneficially owned by the stockholder; (c) any interest of the stockholder in such business; (d) the name or names of each person nominated by the stockholder to be elected or re-elected as a director, if any; and (e) with respect to any such nominee, the nominee's name, business address and telephone number, residence address and telephone number, the class and number of shares of the Company's stock, if any, beneficially owned by the nominee, all information relating to the nominee that is required to be disclosed in solicitations of proxies for elections of directors, or is otherwise required, under Regulation 14A of the Securities Exchange Act of 1934, as amended, or successor regulation, and a letter signed by the nominee stating the nominee's acceptance of the nomination, the nominee's intention to serve as a director if elected and consenting to being named as a nominee for director in any proxy statement relating to such election.

The presiding officer at any annual meeting shall determine whether any matter was properly brought before the meeting in accordance with the above provisions. If the presiding officer should determine that any matter has not been properly brought before the meeting, he or she will so declare at the meeting and any such matter will not be considered or acted upon.

**A copy of the Company's 2001 Annual Report on Form 10-KSB will be available to stockholders without charge upon request to: Investor Relations, TASER International, Inc., 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260.**

By Order of the Board of Directors,

/s/ KATHLEEN C. HANRAHAN

Kathleen C. Hanrahan  
Secretary  
March 25, 2002

Appendix A

**TASER INTERNATIONAL, INC.**

**AUDIT COMMITTEE CHARTER**  
(Effective February 15, 2001)

The Board of Directors of TASER International, Inc. (the "Company") shall annually appoint from its members an Audit Committee. This Charter of the Audit Committee supplements the provisions of Section 3.06 of the Company's Bylaws and further defines the role, authority and responsibility of the Audit Committee.

**Number of Members and Appointment**

The Audit Committee shall be composed of at least two members of the Board of Directors. Members of the Committee shall be appointed annually by the Board of Directors. Vacancies shall be filled by the Board of Directors.

**Qualifications of Members**

Each member of the Audit Committee shall be a Director who, in the judgment of the Board of Directors, is financially literate and possesses the ability to read and understand the fundamental financial statements of the Company and its subsidiaries, including balance sheets, income statements and cash flow statements. At least one member of the Audit Committee shall, in the judgment of the Board of Directors, have accounting or related financial management expertise, which may include employment experience in finance or accounting, certification in accounting or any other comparable experience, including being, or having been, a chief executive officer or other senior officer of a company with financial oversight responsibilities.

**Independence of Members**

Members of the Audit Committee shall be free from any relationship to the Company or its subsidiaries that, in the judgment of the Board of Directors, may interfere with the exercise of their independence from management of the Company. No member of the Audit Committee shall be an affiliate of the Company or an officer or employee of the Company or any of its subsidiaries. Appointments to the Audit Committee shall be consistent with standards for determining independence promulgated by the Securities and Exchange Commission and the Nasdaq Stock Market, or such other national securities market as shall be the principal market for trading of the Company's securities.

**Meetings, Quorum, Informal Actions, Minutes**

The Audit Committee shall meet on a regular basis. Special meetings may be called by the Chairman of the Audit Committee. A majority of the members of the Audit Committee shall constitute a quorum. Concurrence of a majority of the quorum (or, in case a quorum at the time consists of two members of the Committee, both members present) shall be required to take formal action of the Audit Committee. Written minutes shall be kept for all formal meetings of the Committee.

As permitted by section 141 of the Delaware General Corporation Law, the Audit Committee may act by unanimous written consent, and may conduct meetings via conference telephone or similar communication equipment.

Members of the Audit Committee may meet informally with officers or employees of the Company and its subsidiaries and with the Company's independent auditors, and may conduct informal inquiries and studies without the necessity of holding a formal meeting. The Audit Committee may delegate to its Chairman or to one or more of its members the responsibility for performing routine functions as, for example, review of press releases announcing results of Company operations.

### **Responsibilities**

The Company's independent auditors are ultimately accountable to the Board of Directors and the Audit Committee. The Audit Committee and the Board of Directors have the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the Company's independent auditors. The Audit Committee shall, from time to time, review and make recommendations to the Board of Directors with respect to the engagement or discharge of the independent auditors and the terms of their engagement. The Board of Directors may, in its discretion, determine to submit to stockholders for approval or ratification the appointment of the Company's independent auditors.

The Audit Committee shall oversee the independence and performance of the Company's independent auditors. The Committee shall ensure that the independent auditors periodically submit to the Audit Committee a formal written statement delineating all relationships between the auditors and the Company and shall engage in an active dialogue with the auditors with respect to any disclosed relationships or services that may impact the auditor's independence or objectivity. The Audit Committee shall make recommendations to the Board of Directors for appropriate action in response to the auditors' report to satisfy itself of the auditors' independence.

The Audit Committee shall annually prepare and submit, for inclusion in management's proxy statement to stockholders in connection with the Company's annual meeting of stockholders, a report in conformity with Item 306 of Securities and Exchange Commission Regulation S-B.

Without limiting the generality of the foregoing, the Audit Committee shall:

- Review the scope of proposed audits to be performed with respect to the Company's financial statements in the context of the Company's particular characteristics and requirements.
- Review with the independent auditors the results of the auditing engagement and any recommendations the auditors may have with respect to the Company's financial, accounting or auditing systems.
- Require a letter from the independent auditors concerning significant weaknesses or breaches of internal controls encountered during the course of the audit.
- Inquire of management and the independent auditors whether any significant financial reporting issues were discussed during the course of the audit and, if so, how they were resolved.
- Review with management and the independent auditors changes in accounting standards or rules proposed by Financial Accounting Standards Board or the Securities and Exchange Commission that may effect the Company's financial statements.
- Request an explanation from management and the independent auditors concerning the effects of significant changes in accounting practices or policies.
- Inquire about significant contingencies or estimates that may affect the Company's financial statements and the basis for the Company's presentation of such matters.
- Review the adequacy of the internal financial and operational controls of the Company with staff performing internal auditing functions and with the independent auditors.

- At least annually, meet privately with the independent auditors in executive session to, among other matters, help evaluate the Company's internal financial accounting and reporting staff and procedures.
- Receive and review a draft of the financial section of the Company's annual report to stockholders, with accompanying notes, and Management's Discussion and Analysis.
- Report the Committee's activities to the full Board of Directors on a regular basis.
- Review and assess the adequacy of this Charter on an annual basis.

**Committee Resources**

The Audit Committee is authorized to employ the services of such counsel, consultants, experts and personnel, including persons already employed or engaged by the Company, as the Committee may deem reasonably necessary to enable it to fully perform its duties and fulfill its responsibilities.



**PROXY**

**TASER International, Inc.**

**PROXY FOR ANNUAL MEETING OF STOCKHOLDERS MAY 1, 2002**

**Solicited on Behalf of the Board of Directors of the Company**

The undersigned hereby appoints Phillips W. Smith, Patrick W. Smith and Thomas P. Smith as proxies, each with full power of substitution, to vote all of the Common Stock that the undersigned is entitled to vote at the Annual Meeting of Stockholders of TASER International, Inc. to be held on Wednesday, May 1, 2002 beginning at 10:00 A.M. Scottsdale time and at any adjournments or postponements thereof:

**1. ELECT FOUR DIRECTORS:**

**VOTE FOR** all nominees listed (except as marked to the contrary below).

**Instruction: To withhold authority to vote for an individual nominee, strike a line through the nominee's name below.**

Class A (two-year term)	Class B (three-year term)
<b>Phillips W. Smith</b>	<b>Patrick W. Smith</b>
<b>Bruce R. Culver</b>	<b>Karl F. Walter</b>

**WITHHOLD AUTHORITY** to vote for all nominees listed.

**2. RATIFY APPOINTMENT OF ARTHUR ANDERSEN LLP** as the Company's independent auditors for 2002.

**FOR**                       **AGAINST**                       **ABSTAIN**

**(please sign on reverse side)**

**• PLEASE VOTE, SIGN, AND RETURN THE ABOVE PROXY •**

You are cordially invited to attend the 2002 Annual Meeting of Stockholders of TASER International, Inc., which will be held at 7860 East McClain Drive, Suite 2, Scottsdale, Arizona beginning at 10:00 A.M. on Wednesday, May 1, 2002.

Whether or not you plan to attend this meeting, please sign, date, and return your proxy form above as soon as possible so that your shares can be voted at the meeting in accordance with your instructions. If you attend the meeting, you may revoke your proxy, if you wish, and vote personally. It is important that your stock be represented.

Kathleen C. Hanrahan, *Secretary*

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**THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED AS DIRECTED, BUT IF NO SPECIFICATION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF EACH OF THE NOMINEES FOR DIRECTOR, FOR APPROVAL OF ARTHUR ANDERSEN LLP AS THE INDEPENDENT PUBLIC ACCOUNTANTS OF THE COMPANY, AND FOR THE APPLICABLE PROXIES VOTING IN THEIR DISCRETION UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING.**

Please date and sign exactly as your name or names appear below. If more than one name appears, all should sign. Persons signing as attorney, executor, administrator, trustee, guardian, corporate officer or in any other official or representative capacity, should also provide full title. If a partnership, please sign in full partnership name by authorized person.

Dated: \_\_\_\_\_, \_\_\_\_

Signature or Signatures

**PLEASE SIGN, DATE AND RETURN THE PROXY PROMPTLY USING THE ENCLOSED ENVELOPE**



<PAGE> 1

February 15, 2001

Securities and Exchange Commission  
Judiciary Plaza  
450 Fifth Street, N.W.  
Washington, D.C. 20549

TASER International, Inc.: Registration Statement on Form SB-2

On behalf of TASER International, Inc., a Delaware corporation (the "Company"), transmitted through the EDGAR system for filing pursuant to the Securities Act of 1933, as amended, is the Company's Registration Statement on Form SB-2, including all exhibits thereto, prepared in connection with the underwritten offering of up to 1,150,000 units of the Company (including 150,000 units to cover overallotments, if any), each unit consisting of one share of Company common stock and one redeemable public warrant to buy one share of Company common stock.

The filing fee in the amount of \$8,649 submitted by the Company to Mellon Bank by wire transfer has been calculated on the basis of 1,150,000 units at a maximum offering price of \$11.00 per unit, 100,000 units issuable upon exercise of representative's warrants at a maximum offering price of \$13.20 per unit, and 1,250,000 shares of Company common stock issuable upon exercise of warrants (including warrants underlying the representative's warrants) at a maximum offering price of price of \$16.50 per share.

Please telephone me at the above number if you have questions or comments.

Very truly yours,

/s/ Tom P. Palmer

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Thomas P. Palmer

[B/E]

CRC: 13905  
EDGAR 2

JB: P64567

PN: 001.00.00.00

SN: 7

Ed#: 3



As filed with the Securities and Exchange Commission on February 14, 2001

Registration No. 333-

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

**FORM SB-2**

**REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**TASER INTERNATIONAL, INC.**

(Name of small business issuer in its charter)

**Delaware**  
(State or other Jurisdiction of  
Incorporation or Organization)

**3699**  
(Primary Standard Industrial  
Classification Code Number)

**86-0741227**  
(I.R.S. Employer  
Identification Number)

**7860 E. McClain Drive, Suite 2  
Scottsdale, Arizona 85260  
(480) 991-0797**  
(Address and telephone number of  
principal executive offices and  
principal place of business)

**Patrick W. Smith,  
Chief Executive Officer  
TASER International, Inc.  
7860 E. McClain Drive, Suite 2  
Scottsdale, Arizona 85260  
(480) 991-0797**  
(Name, address and telephone  
number of agent for service)

*Copies to:*

**Thomas P. Palmer, Esq  
Jeffrey S. Cronn, Esq  
Tonkon Torp LLP  
888 S.W. Fifth Avenue, Suite 1600  
Portland, Oregon 97204  
(503) 802-2018**

**Mark von Bergen, Esq.  
Joshua E. Husbands, Esq.  
Weiss Jensen Ellis & Howard  
2300 U.S. Bancorp Tower  
111 S.W. Fifth Avenue  
Portland, Oregon 97204  
(503) 243-2300**

**Approximate date of proposed sale to the public:  
As soon as practicable after the effective date of this registration statement.**

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective

[B/E]

CRC: 13905

EDGAR 2

JB: P64567

PN: 001.00.00.00-1

SN: 7

Ed#: 3



**registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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[B/E]

CRC: 46426  
**EDGAR 2**

**JB: P64567**

**PN: 002.00.00.00**

**SN: 11**

**Ed#: 2**



**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered</b>	<b>Proposed Maximum Offering Price Per Security(1)</b>	<b>Proposed Maximum Aggregate Offering Price</b>	<b>Amount to be Registered</b>
Units, each consisting of(2)	1,150,000	\$11.00	\$12,650,000	\$3,16
(i) one share of common stock, and	1,150,000	—	—	-
(ii) one warrant to purchase one share of common stock	1,150,000	—	—	-
Representative's warrants(3)	100,000			
Units issuable upon exercise of representative's warrants, each consisting of	100,000	\$13.20	\$ 1,320,000	\$ 33
(i) one share of common stock, and	100,000	—	—	-
(ii) one warrant to purchase one share of common stock	100,000	—	—	-
Common stock issuable upon exercise of warrants, including warrants underlying representative's warrants(4)	1,250,000	\$16.50	\$20,625,000	\$5,15
<b>Total</b>			<b>\$34,595,000</b>	<b>\$8,64</b>

- (1) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(g) under the Securities Act of 1933.
- (2) Includes 150,000 units which Paulson Investment Company, Inc., the representative of the underwriters, has the option to purchase to cover over-allotments, if any.
- (3) In connection with the sale of the units, TASER International, Inc. will issue to the representative warrants to purchase, in the aggregate, up to 100,000 units.
- (4) Pursuant to Rule 416 under the Securities Act of 1933, there are also being registered such additional shares and warrants as may be issuable pursuant to the anti-dilution provisions of the public warrants and the representative's warrants.

[B/E]

CRC: 7884  
EDGAR 2

JB: P64567

PN: 003.00.00.00

SN: 12

Ed#: 4



**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED FEBRUARY 14, 2001**

**PRELIMINARY PROSPECTUS**

**1,000,000 Units**



<R>

This is an initial public offering of units by TASER International, Inc. Each unit consists of one share of common stock and one redeemable public warrant to purchase one share of common stock. We expect that the initial public offering price will be between \$9 and \$11 per unit. Prior to this offering, there has been no public market for our securities. We have filed an application to list the units, the common stock and the public warrants on the Nasdaq SmallCap Market under the symbols "TASRU," "TASR" and "TASRW," respectively.

</R>

The common stock and warrants will trade only as a unit for at least 30 days following this offering. The representative of the underwriters will then determine when the units separate, after which the common stock and the public warrants will trade separately.

**Investing in these units involves significant risks. See "Risk Factors" beginning on page 4.**

	<u>Per Unit</u>	<u>Total</u>
Initial public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to TASER International, Inc.	\$	\$

**The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

Paulson Investment Company, Inc. is the representative of the underwriters. We have granted the representative the option for a period of 45 days to purchase up to an additional 150,000 units to cover over-allotments.

**PAULSON INVESTMENT COMPANY, INC.**

The date of this prospectus is \_\_\_\_\_, 2001.

[B/E]

CRC: 54856

EDGAR 2

JB: P64567

PN: 004.00.00.00

SN: 18

Ed#: 4



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[gatefold cover]

Page 1 of the gatefold: The artwork depicts below the company logo a side view of the ADVANCED TASER M26 with certain parts labeled and a top view of the AIR TASER 34000.

Pages 2 and 3 of the gatefold: The artwork depicts a pictorial diagram illustrating the effective range of the ADVANCED TASER M26 compared to batons and chemical sprays over distances of between zero and twenty feet.

Below the pictorial diagram are smaller photographs of the air cartridges (ammunition), the probes, the dataport on the ADVANCED TASER M26 and the AFID tags.

Below the smaller pictures the following captions appear:

“The ADVANCED TASER M26 fires two small metal probes with fine wires attached. When the probes make contact, small barbs adhere to the target. Electrical signals are transmitted through the wires into the body of the subject, impairing his ability to control his body or perform coordinated action.”

“The ADVANCED TASER M26 records the time and date of every firing. This data can be downloaded to a computer and used to investigate potential misuse of the weapon.”

“The ADVANCED TASER M26 disperses 20-50 serial numbered identification tags upon firing. These tags can be used to trace the registered owner of the air cartridge used.”

*We have rights to 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 prospectus belongs to its respective holder.*

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## PROSPECTUS SUMMARY

*The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the units. Before making an investment decision, you should read the entire prospectus carefully, including the "Risk Factors" section, the financial statements and the notes to the financial statements.*

### Our Company

TASER International, Inc. develops, assembles and markets less-lethal, conducted energy weapons primarily for use in the law enforcement market. Our ADVANCED TASER weapon offers improved performance over other less-lethal force options used by law enforcement agencies. It can temporarily incapacitate virtually any individual regardless of pain tolerance, drug use, or body size — factors that cause other less-lethal options to have decreased effectiveness — yet has a comparable or lower injury rate and has had no reported long-term, adverse after-effects.

The ADVANCED TASER uses compressed nitrogen to shoot two small probes up to 21 feet. These barbed probes are connected to the weapon by high-voltage insulated wires. When the probes make contact with the target, the ADVANCED TASER transmits powerful electrical pulses along the wires and into the body of the target through up to two inches of clothing. These electrical pulses impair voluntary muscle control so that the subject cannot perform coordinated action.

Law enforcement agencies are increasingly adopting less-lethal weapons, including pepper sprays, rubber bullets, and conducted energy weapons such as TASERs. Effective less-lethal weapons may increase the safety of law enforcement officers, decrease suspect injuries, improve community relations, reduce litigation and police department medical and liability insurance costs, and potentially save lives.

Since its introduction in December 1999, over 350 police departments in the United States have made initial purchases of our products and 15 police departments, including San Diego, Sacramento and Albuquerque, have purchased our products for every patrol officer. In addition, at February 1, 2001, more than 200 other police departments were evaluating the use of the ADVANCED TASER.

The key elements of our growth strategy are:

- To expand sales in the law enforcement and corrections market, which we believe to be the opinion leader for all other markets for less-lethal weapons;
- To expand into the related private security and military markets;
- To expand into the consumer market;
- To develop enhanced less-lethal weapons and technologies, such as longer-range TASERs and TASERs with multiple shot capabilities; and
- To acquire related businesses that enhance our strategic position.

Our corporate headquarters is located at 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260 and our telephone number is (480) 991-0797. Our website address is [www.eTASER.com](http://www.eTASER.com). Information contained on our website or any other website does not constitute a part of this prospectus.

### This Offering

Securities offered 1,000,000 units. Each unit consists of one share of common stock and one public warrant to purchase an additional share of common stock.

The common stock and public warrants will trade only as a unit for at least 30 days following this offering. The representative of the underwriters will then determine when the units separate, after which the common stock and the public warrants will trade separately.

Public warrants The public warrants included in the units will be exercisable commencing 30 days after this offering. The exercise price of a public warrant is 150% of the initial public offering price of the units. The public warrants expire on the fifth anniversary of the closing of the offering.

We have the right, commencing three months after the closing of this offering, to redeem the public warrants issued in this offering at a redemption price of \$0.25 per public warrant, after providing 30 days prior written notice to the public warrant holders, if the average closing bid price of the common stock equals or exceeds 200% of the initial public offering price of the units for ten consecutive trading days ending prior to the date of the notice of redemption.

Common stock outstanding after this offering 2,510,754 shares

Use of proceeds Repayment of debt, sales and marketing, research and development, production tooling and working capital.

Proposed Nasdaq SmallCap

Market symbols

Common stock	TASR
Units offered in this offering	TASRU
Public warrants included in the units	TASRW

The number of shares of common stock outstanding after this offering is based on 1,510,754 shares outstanding as of February 12, 2001. The number of shares of common stock outstanding after this offering assumes no exercise of the representative's over-allotment option and does not include an aggregate of 1,687,049 shares of common stock that may become outstanding as follows:

- 434,322 shares of common stock issuable upon exercise of stock options outstanding as of February 12, 2001, with a weighted average exercise price of \$5.96;
- 52,727 shares of common stock issuable upon exercise of warrants outstanding as of February 12, 2001, with a weighted average exercise price of \$4.71;
- 1,000,000 shares of common stock issuable upon exercise of the public warrants; and
- 100,000 shares of common stock issuable upon exercise of the representative's warrants and 100,000 shares of common stock issuable upon exercise of the public warrants underlying the representative's warrants.

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**SUMMARY FINANCIAL INFORMATION**

	<b>Years ended December 31,</b>	
	<b>1999</b>	<b>2000</b>
<b>Statements of Operations Data:</b>		
Net sales	\$ 2,366,440	\$3,499,758
Gross profit	873,855	2,062,445
Loss from operations	(1,329,478)	(46,885)
Basic and diluted net loss	(1,610,299)	(415,629)
	<hr/>	<hr/>
Basic and diluted net loss per share of common stock	\$ (0.52)	\$ (0.17)
	<hr/>	<hr/>
Basic and diluted shares of common stock	3,076,410	2,482,976
	<hr/>	<hr/>
	<b>December 31,</b>	<b>December 31,</b>
	<b>1999</b>	<b>2000</b>
<b>Balance Sheet Data:</b>		
Working capital (deficiency)	\$(2,355,782)	\$(1,011,984)
Property and equipment, net	256,110	274,273
Total assets	605,146	1,039,066
Total long-term debt	94,760	2,822,144
	<hr/>	<hr/>
Stockholders' deficit	\$(2,194,432)	\$(3,559,855)
	<hr/>	<hr/>



## RISK FACTORS

*This offering involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this prospectus before purchasing any units. Any of the following risks could materially harm our business, operating results and financial condition, and could result in a decrease in the trading price of our units, common stock or public warrants, or in a complete loss of your investment.*

### **Risks Related to Our Business**

*We have no history of profitable operations and may incur future losses.*

Since our inception in 1993, we have incurred significant losses. Our net losses for the years ended December 31, 1999 and 2000 were \$1.6 million and \$416,000, respectively. At December 31, 2000, we had an accumulated deficit of approximately \$6.7 million. In addition, we expect our operating expenses to increase significantly as we expand our sales and marketing efforts and otherwise support our expected growth. Given these planned expenditures, we may incur additional losses in the near future. We may never achieve or sustain profitability.

*We are materially dependent on acceptance of our products by the law enforcement and corrections market.*

We have recently devoted significant resources to sales opportunities in the law enforcement and corrections market. A substantial number of law enforcement and corrections agencies may not purchase our conducted energy, less-lethal weapons. Despite the absence of reported long-term, adverse after-effects from the use of our products, these 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 be delayed or limited by these claims or perceptions. 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 in additional markets.

*We have a limited operating history in the law enforcement and corrections market.*

Under an agreement with another company, we were prevented from selling our products in the law enforcement and corrections market until February 1998. We shifted our corporate focus to this market only in late 1999. Due to our limited operating history, we may not be able to attain significant sales in this market.

*We substantially depend on sales of a single product line.*

We derived the majority of our revenues from sales of ADVANCED TASERS and related cartridges in 2000. A decrease in the prices of or demand for this product line, or its failure to achieve broad market acceptance, would significantly harm our business, financial condition and operating results.

*We may not be able to manage our projected growth.*

We may experience growth that strains our managerial, financial and other resources. Our systems, procedures, controls and management resources may not be adequate to support our future operations. We will need to continually improve our operational, financial and other internal systems to manage our growth effectively. If we are unable to manage our growth, our business, operating results and financial condition could be adversely affected.



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.

***We plan to relocate our product assembly operations from Mexico to the United States by the end of the second quarter of 2001, which may adversely affect product availability and cost.***

We plan to terminate assembly operations with our turnkey supplier in Guaymas, Mexico and relocate some production equipment from Mexico to the United States. In anticipation of moving our product assembly operations from Mexico, we have initiated a parallel production capability in our new facility in Scottsdale, Arizona. If we encounter delays or unforeseen problems in this move, it may significantly adversely affect our ability to produce and ship product and generate short-term sales and cash flow. Also, assembly of our products in the United States may result in an increase in our cost of products sold.

***We are materially dependent on independent distributors for the sale of our products.***

We sell our products primarily through a network of independent distributors. Our arrangements with these 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.

***We expend significant resources in anticipation of a sale due to our lengthy sales cycle.***

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.***

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 with the acquisition of products by government 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. Additionally, our products are subject to various regulations of the Federal Bureau of Investigation, United States



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. While we have a history of timely obtaining DOC export licenses for sales of our weapons to the majority of our international customers, unforeseen changes in U.S. export regulations could significantly and adversely affect our international sales.

*State and local regulation.* Our weapons are currently 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, Rhode Island, Massachusetts and Hawaii. 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 our products.

***We are dependent on key personnel.***

Our success depends to a significant extent upon the continued services of our executive officers and other key management, sales and technical personnel. In particular, we rely upon Mr. Patrick W. Smith, our chief executive officer, and Mr. Thomas P. Smith, our president. The loss of the services of any of our executive officers or other key management, sales or technical personnel could adversely affect us. We intend to purchase key-person insurance on the lives of Thomas and Patrick Smith following this offering.

***We may not be able to adequately protect or enforce our intellectual property rights.***

We have licensed or patented certain aspects of the technology incorporated in our 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. The scope of any patent to which we have or may obtain rights may not prevent others from developing and selling competing products. In addition, our patents may be held invalid upon challenge, others may claim rights in or ownership of our patents, and our products may infringe, or be alleged to infringe, upon the intellectual property rights of others.

***We may face competition from larger, more established companies.***

The law enforcement and corrections market and other markets we plan to enter are highly competitive. We face competition from numerous larger, better capitalized and more widely known companies that make other less-lethal weapons and products. Increased competition may result in greater pricing pressure, which could adversely affect our gross margins.

***We may incur significant warranty costs if our products have manufacturing defects.***

We offer a lifetime warranty on our AIR TASER and ADVANCED TASER weapons under which we will replace any weapon that fails to operate properly for a \$25 fee. We may incur significant warranty costs if our products are defective in hardware or workmanship and fail to operate properly for these or any other reasons. In 2000, we recalled and replaced a series of ADVANCED TASERs due to a defective component.

***Our revenues and operating results may fluctuate unexpectedly from quarter to quarter, which may cause our stock price to decline.***

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state, and federal law enforcement agencies. As a result of these and other factors, we believe that period-to-period comparisons of our operating results may not be meaningful in the near term and that you should not rely upon our performance in a particular period as indicative of our performance in any future period.

***We depend on third-party suppliers for key components of our weapons.***

We depend on certain domestic and foreign suppliers for the delivery of raw materials used in the production of our products. Specifically, we depend on suppliers of sub-assemblies, machined parts, injection molded parts, steel castings, custom wire fabrications, and other miscellaneous custom parts for our products. We do not have long-term supply agreements with any of these suppliers. Although we believe that alternative supplies for these materials and components are available, 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 business, financial condition and operating results.

***Foreign currency fluctuations may reduce our competitiveness in foreign markets.***

Although our policy of exclusively entering into dollar-denominated contracts eliminates our risk of foreign exchange losses, the relative change in currency values creates fluctuations in product pricing for potential international customers. These changes in end-user foreign prices 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.

***We are parties to a lawsuit involving the rights of a former distributor of our products.***

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. We believe the claims are without merit.

**Risks Related to This Offering**

***We may use the proceeds of this offering in ways that do not improve our operating results or the market value of our common stock.***

We intend to use the net proceeds from this offering for repayment of stockholder and other debt, increased marketing efforts, research and development and general corporate purposes. Repayment of our debt will not directly improve our operating results. Our management will retain broad discretion and significant flexibility in applying the net proceeds from this offering. If our management does not apply the proceeds effectively, our business will be harmed.

***You will suffer immediate dilution of your investment and may experience further dilution in the future.***

We anticipate that the initial public offering price of the units will be substantially higher than the net tangible book value per share of our common stock after this offering. As a result, you will incur immediate dilution of approximately \$8.15 in net tangible book value for each share of our common stock included in the units you purchase. If any currently outstanding options or warrants to purchase our common stock are exercised, your investment will be further diluted.

***There has been no prior market for our securities and a public market for our securities may not develop or be***



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***The initial public offering price of our units may not accurately reflect their future market performance.***

The initial public offering price of the units has been determined based on negotiations between the underwriters' representative and us. The initial public offering price may not be indicative of future market performance and may bear no relationship to the price at which our units, common stock or public warrants will trade.

***The price of our securities may be volatile.***

The stock market has recently experienced significant price and volume fluctuations. The price of our securities may fluctuate significantly in response to a number of factors, including:

- Our quarterly operating results;
- Changes in earnings estimates by analysts and whether our earnings meet or exceed such estimates;
- Announcements of technological innovations by us or our competitors;
- Additions or departures of key personnel; and
- Other events or factors that may be beyond our control.

Volatility in the market price of our securities could lead to claims against us. Defending these claims could result in significant costs and a diversion of our management's attention and resources.

***Future sales of our common stock by our existing stockholders could decrease the trading price of our common stock.***

Sales of a large number of shares of our common stock in the public markets after this offering, or the potential for such sales, could decrease the trading price of our common stock and could impair our ability to raise capital through future sales of our common stock. Upon completion of this offering, there will be 2,510,754 shares of our common stock outstanding. The 1,000,000 shares of common stock sold in this offering and the 1,000,000 shares of common stock reserved for issuance upon exercise of the public warrants sold in this offering will be freely tradeable without restrictions or further registration under the Securities Act of 1933, unless such shares are purchased by our "affiliates," as that term is defined in the Securities Act of 1933. An additional 1,687,049 shares of common stock, including shares issuable upon exercise of the representative's warrants, may become outstanding upon exercise or conversion of options or warrants currently outstanding or sold in this offering, subject to various lock-up agreements prohibiting the sale of such shares for one year following completion of this offering.

***The exercise of previously issued options and warrants may dilute your investment in our shares and impair our ability to obtain financing.***

In addition to the 1,510,754 shares outstanding as of February 12, 2001, there are currently outstanding options to purchase 434,322 shares of our common stock, 119,055 of which are currently exercisable. We have reserved an additional 259,000 shares of our common stock for issuance pursuant to options that may be granted in the future to key employees, and others, under our 2001 Stock Option Plan. In addition, we have issued warrants to acquire up to 52,727 shares of our common stock. During the terms of such options and warrants, the holders of such securities have the opportunity to profit from a rise in the value or market price of our common stock, and the exercise of these options and warrants could dilute the then book value per share of our common stock. The existence of these options and warrants could adversely affect the terms at which we could obtain additional equity financing.



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***We will need to comply with federal and state securities laws to maintain the tradeability of our securities.***

We must maintain in effect the registration statement filed with the Securities and Exchange Commission with respect to the units and must also comply with the securities laws of a state for the units, common stock and public warrants to be tradeable in that state. If we do not comply with federal or state securities laws, your ability to sell the securities offered by this prospectus may be significantly reduced.

***Certain of our directors or investors will personally benefit from the use of the proceeds of this offering.***

We will use the proceeds from this offering to repay a \$1.5 million loan from a director who is also a stockholder and to retire the interest accrued through March 1, 2001, on our outstanding stockholder notes. In addition, if the over-allotment option granted to the representative of the underwriters is exercised in full, approximately \$1.3 million in stockholder notes, including a note issued to our chairman, will be retired. This debt matures July 1, 2002.

***We may need additional financing.***

If revenues are less than expected, or if expenses exceed our expectations, we may be required to find additional sources of financing to continue or expand our operations. We could seek additional financing from a number of sources, including, but not limited to, possible further sales of equity or debt securities and loans from banks, affiliates of the company, or other financial institutions. We may not be able to sell any such securities, or obtain such additional financing, on terms and conditions acceptable or favorable to the company, or at all, if and when needed by the company.

***Our existing stockholders will continue to control us.***

Upon completion of this offering, existing stockholders will own approximately 60% of our outstanding common stock. These stockholders will continue to control most matters requiring approval by our stockholders, including the election of our directors.

***We do not intend to pay cash dividends.***

Any investors who have or anticipate any need for immediate income from their investment should not purchase any of the units offered hereby.

***Provisions of our charter documents and Delaware law may have anti-takeover effects that could hinder a change in our corporate control.***

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable. These provisions include:

- authorizing our board of directors to issue preferred stock without stockholder approval;
- providing for a classified board of directors with staggered, three-year terms; and
- allowing written stockholder actions only by unanimous consent.

Provisions of Delaware law, including provisions that prohibit business combinations with entities holding greater than a threshold amount of voting stock, also may discourage, delay or prevent someone from acquiring or

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“plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue,” “our future success depends,” “seek to continue,” or the negative of these words or phrases, or comparable words or phrases. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various facts, including the risks outlined under “Risk Factors.” These factors may cause our actual results to differ materially from any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these statements. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results.

### USE OF PROCEEDS

We estimate that the net proceeds from the sale of the 1,000,000 units that we are selling in this offering will be approximately \$8,200,000, or \$9,527,500 if the representative exercises its over-allotment option in full, based on an assumed public offering price of \$10.00 per unit, and after deducting the underwriting discount, expense allowance, and estimated offering expenses of \$650,000 payable by us.

We expect to allocate the net proceeds of this offering as follows:

	<b>Approximate Amount</b>	<b>Approximate Percentage</b>
Payment of stockholder note	\$1,500,000	18%
Other debt repayment	1,180,000	14%
Accrued expenses and payables	300,000	4%
Accounts receivable and inventory	1,000,000	12%
Sales and marketing programs	1,500,000	18%
Research and development	500,000	6%
Tooling and equipment	250,000	3%
Other working capital/ general corporate purposes	1,970,000	25%
<b>Total</b>	<b>\$8,200,000</b>	<b>100%</b>

The debt we intend to repay includes:

- a \$1,500,000 note at an interest rate of bank prime (9.5% at December 31, 2000) plus 1% payable to a stockholder;
- a \$500,000 note at an interest rate of 18% payable to a private investor;
- a \$189,980 note at an interest rate of 10% payable to a third party vendor;
- a \$99,974 note at an interest rate of 10% payable to our chairman;
- a remaining balance of \$94,000 on a note at an interest rate of 11% payable to a private investor; and
- approximately \$300,000 of accrued but unpaid interest on notes to our stockholders, including our chairman and a director.

Further, if the representative exercises its over-allotment option in full, we will repay the principal on other outstanding stockholder notes of approximately \$1.3 million. Payment of accrued expenses and payables includes

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The foregoing discussion is merely an estimate based on our current business plan. Our actual expenditures may vary depending upon circumstances not yet known, such as the time actually required to reach a positive cash flow or to successfully expand the market for our products.

### **DIVIDEND POLICY**

We have never declared or paid any cash dividends on our shares of common stock and do not anticipate paying any cash dividends in the foreseeable future. Currently, we intend to retain any future earnings for use in the operation and expansion of our business. Any future decision to pay cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, capital requirements and other factors our board of directors may deem relevant.



## CAPITALIZATION

The following table sets forth our capitalization at December 31, 2000 on an actual basis and on a pro forma basis, after giving effect to our reincorporation in Delaware, our related 1-for-6 reverse stock split, and the sale of 1,000,000 units offered hereby at an estimated price of \$10.00 per unit and the initial application of the estimated net proceeds therefrom. This table should be read in conjunction with, and is qualified by, the financial statements and notes thereto included elsewhere in this prospectus.

	December 31, 2000	
	Actual	Pro Forma
	(dollars in thousands)	
Current portion of note payable(1)	\$ 100	\$ —
Current portion of notes payable to related parties	125	—
Accounts payable and accrued liabilities	300	—
Inventory financing payable	190	—
Accrued interest	268	—
	\$ 983	\$ —
Long-term notes payable to stockholders and others, and capital lease obligations, excluding current portion	\$ 2,822	\$1,325
Stockholders' equity (deficit)		
Preferred stock \$0.00001 par value, 25,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock \$0.00001 par value, 50,000,000 shares authorized; 1,510,754 shares issued and outstanding actual, 2,510,754 shares issued and outstanding pro forma(2)	1,890	—
Additional paid-in capital	1,310	4,720
Deferred compensation	(80)	(80)
Retained earnings (deficit)(3)	(6,680)	—
Total stockholders' equity (deficit)	(3,560)	4,640
Total capitalization (deficiency)	\$ (738)	\$5,965

- (1) Subsequent to December 31, 2000, an investor advanced us \$500,000, which is due to be repaid with the proceeds from this offering upon its closing or by July 1, 2002, whichever is earlier.
- (2) Does not include (i) 434,322 shares of common stock issuable upon exercise of stock options issued pursuant to our stock option plans, which have a weighted average exercise price of \$5.96 per share, (ii) an additional 52,727 shares of common stock issuable upon exercise of warrants outstanding, which have a weighted average exercise price of \$4.71, and (iii) the shares of common stock underlying the units issuable upon exercise of the representative's over-allotment option.
- (3) Our accumulated deficit, which was \$6.7 million at December 31, 2000, was reclassified into additional paid-in capital upon the termination of our S corporation tax status in the first quarter of 2001.

## DILUTION

If you invest in our units, your interest will be diluted to the extent of the difference between the public offering price per share of our common stock and the as adjusted net tangible book value per share of our common stock after this offering. For purposes of the dilution computation and the following tables, we have allocated the full purchase price of a unit to the share of common stock included in the unit and nothing to the warrant included in the unit. As of December 31, 2000, our net tangible book value was a negative \$3,559,855, or a deficiency of \$2.36 per share of common stock. Net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities, divided by the total number of shares of common stock outstanding. Dilution in net tangible book value per share represents the difference between the amount per share paid by the purchasers of our units in this offering and the net tangible book value per share of our common stock immediately afterwards. Without taking into effect any changes in the net tangible book value after December 31, 2000, other than to give effect to the sale of 1,000,000 units in this offering at the assumed initial public offering price of \$10.00 per unit and the application of the net proceeds of this offering, the net tangible book value of TASER as of December 31, 2000 would have been \$4,640,145, or \$1.85 per share. This represents an immediate increase of \$4.20 per share of common stock to existing stockholders and an immediate dilution of \$8.15 per share of common stock to the new investors who purchase units in this offering. The following table illustrates this per share dilution:

Assumed initial public offering price		\$10.00
Net tangible book value (deficiency) per share before this offering	\$(2.36)	
Increase in net tangible book value per share attributable to new investors	\$ 4.21	
As adjusted net tangible book value per share after this offering		\$ 1.85
Dilution in net tangible book value per share to new investors		\$ 8.15

If the representative's over-allotment option is exercised in full, dilution per share to new investors would be \$7.76 per share of common stock.

The following table summarizes as of December 31, 2000 the differences between the existing stockholders and the new investors with respect to the number of shares of common stock purchased, the total consideration paid, and the average price per share paid:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	1,510,754	60%	\$ 3,199,898	24%	\$ 2.12
New investors	1,000,000	40%	10,000,000	76%	\$10.00
Total	2,510,754	100%	\$13,199,898	100%	

The above computations assume no exercise of outstanding options or warrants to purchase common stock, the representative's over-allotment option, the public warrants included in units sold in this offering or the representative's warrants. To the extent that these options and warrants are exercised, there will be further dilution to new investors.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and related notes to the financial statements included elsewhere in this prospectus. This discussion contains forward-looking statements that relate to future events or our future financial performance. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include, among others, those listed under "Risk Factors" and those included elsewhere in this prospectus.*

### Overview

We began operations in Arizona in 1993 for the purpose of developing and manufacturing less-lethal self-defense devices. From inception until the introduction of our first product, the AIR TASER, in 1994, we were in the development 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 focused our efforts on promoting retail sales and establishing marketing channels for the AIR TASER product line. However, our marketing efforts were limited by a non-compete agreement prohibiting the company from marketing or selling 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.

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. 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.

The non-compete agreement that had precluded sales to the law enforcement and military markets expired in 1998. During this year, we focused our development efforts on the ADVANCED TASER product line, a redesigned and enhanced version of the AIR TASER, targeted primarily to the U.S. law enforcement and corrections market. During 1998, in addition to \$66,000 paid to outside research and development consultants, we also incurred substantial internal unallocated expenses associated with the development of the ADVANCED TASER. Further, end-user sales of the AUTO TASER continued to decline, and product returns remained higher than expectations.

In August 1999, the AUTO TASER product line was formally discontinued and we closed our production facilities in Mexico. We outsourced the production of our remaining finished goods and non-proprietary components to a third-party assembler. We shifted our focus to completion of the ADVANCED TASER development project and introduced the first ADVANCED TASER units for sale to law enforcement customers in December 1999. As a result of these activities and product development expenses, we had accumulated a deficit of \$6.3 million by December 31, 1999.

The first full year of the ADVANCED TASER product line sales was 2000. We spent the year focusing on building the distribution channel for marketing the product line and developing a nationwide training campaign to

## Results of Operations

For the years ended December 31, 1999 and 2000, sales by product were as follows:

Product	December 31		December 31	
	1999	%	2000	%
ADVANCED TASER	\$ 80,000	3%	\$2,152,000	62%
AIR TASER	1,327,000	56%	1,240,000	35%
AUTO TASER	608,000	26%	24,000	1%
Miscellaneous sales	351,000	15%	83,000	2%
Total sales	<u>\$2,366,000</u>	<u>100%</u>	<u>\$3,500,000</u>	<u>100%</u>

*Net sales.* Net sales increased \$1.1 million, or 48%, from \$2.4 million for the year ended December 31, 1999 to \$3.5 million for the year ended December 31, 2000. The increase was due almost entirely to the first full year of sales of the ADVANCED TASER, primarily to law enforcement agencies. The increase in sales was partially offset by the decline in AUTO TASER sales due to the discontinuation of this product line and somewhat lower sales of the AIR TASER to consumers.

*Cost of products sold.* Cost of products sold decreased from \$1.5 million in 1999, or 63% of net sales, to \$1.4 million in 2000, or 41% of net sales. The decrease in cost of products sold as a percentage of net sales was due primarily to the lower direct production costs associated with the AIR and ADVANCED TASERS, which averaged 33% of gross sales as compared to 55% of gross sales for the AUTO TASER, and a one-time charge related to the phase-out of the AUTO TASER product line of approximately \$355,000 in 1999.

At December 31, 2000, our principal product costs included the following:

- **Direct materials:** Direct materials include raw materials and sub-assemblies sold to our contract manufacturer for insertion into the final production assemblies as well as supplies used in production. Direct materials represent the majority of our cost of products.
- **Direct labor:** Direct labor represents the expenses incurred in our Scottsdale, Arizona facility for the assembly and packaging of sub-assemblies. Once finished, these sub-assemblies are sold to our contract manufacturer for insertion in finished product. Prior to 2000, direct labor included wages paid to employees in our Mexico production facility.
- **Shipping expense:** Shipping expense includes those costs associated with shipping finished products to our customers. This includes freight paid to ship orders, special handling charges and related transaction fees.

In 2001, we anticipate that direct labor will represent a larger portion of cost of products sold as we move final assembly to our facility in Scottsdale.

*Gross profit.* Gross profit increased \$1.2 million, or 136%, from \$874,000 in 1999 to \$2.1 million in 2000. Our gross profit margin was 37% of net sales in 1999 compared to 59% in 2000 due to increased sales of higher margin ADVANCED TASER products and the write offs taken in 1999 as a result of the phase out of the AUTO TASER.

*Operating expenses.* Operating expenses decreased \$203,000, or 32%, from \$634,000 in 1999 to \$431,000 in 2000. Operating expenses were 27% of net sales in 1999 compared to 12% of net sales in 2000. This reduction in operating expenses is due largely to the closure of our manufacturing facility in Mexico in August 1999, and the



expenses were 58% of net sales in 1999 compared to 44% of net sales in 2000. These costs increased to support the sales of the ADVANCED TASER and included sales commissions and product demonstration costs. However, sales, general and administrative expenses declined as a percentage of sales in 2000 due to the fixed nature of certain of these costs and higher per unit sales prices attributable to the ADVANCED TASER product line.

*Interest expense.* Interest expense increased by \$88,000, or 31%, from \$281,000 in 1999 to \$369,000 in 2000. The increase reflects the cost of the higher level of related party debt in 2000 over 1999, primarily used to fund working capital. In addition, we issued warrants and options in 2000 valued at \$26,000 to certain stockholders for loan guarantees.

*Corporate tax status.* Prior to our re-incorporation in Delaware in February 2001, we were an S-corporation, which allowed all the tax attributes to flow through to the stockholders. In February 2001, we changed our tax reporting status to that of a C-corporation. When we re-incorporated, all accumulated shareholder deficit was converted to additional paid-in capital. As a result there are no net operating loss carry forwards available to us.

*Net loss.* The net loss decreased \$1.2 million, or 74%, from \$1.6 million in 1999 to \$416,000 in 2000. Basic and diluted net loss per common share was \$0.52 in 1999 compared to \$0.17 in 2000. The reduced net loss in 2000 resulted primarily from increased sales volume and increased gross margins attributable to sales of the ADVANCED TASER line.

## Liquidity and Capital Resources

*Liquidity.* We had a working capital deficiency of \$2.4 million at December 31, 1999 and \$1.0 million at December 31, 2000. The improvement in working capital from 1999 to 2000 was largely due to the extension of short-term related party debt to long-term debt. In both 1999 and 2000, cash was used primarily to fund operating losses and for investment in property and equipment. We have historically addressed our working capital shortfalls through capital investment and debt financing from related parties.

In 2000 we generated cash from operations of \$66,000, primarily as a result of a significant customer deposit of \$440,000 received in December 2000. In 1999, operations consumed \$705,000 in cash. Although we anticipate that our cash flow from operations will be at least break-even in 2001, we have not historically generated sufficient cash from operations to fund future growth or to repay our long-term debt that principally comes due July 1, 2002.

We anticipate that, after the completion of this offering, our cash resources will be adequate to meet our liquidity needs for at least the next two years. There can also be no assurances that our working capital objectives will be reached in the near future, if ever. If additional capital is required, it may not be available on favorable terms or at all.

*Capital resources.* In the past, we have funded our operating deficits primarily through indebtedness to related parties. Our indebtedness to stockholders and related parties totaled \$2.9 million at December 31, 2000. The majority of this indebtedness matures at the earlier of the completion of this offering or July 2002. The indebtedness bears interest ranging from 9% to 27%. A significant portion of this indebtedness will be repaid from the proceeds of this offering, including the representative's over-allotment option, if exercised.

*Capital commitments.* At December 31, 2000, we had no material commitments for capital expenditures. Other commitments include rental payments under operating leases for office space and equipment, and commitments under employment contracts with our chief executive officer, president, and chief financial officer.



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## BUSINESS

### Company overview

We develop, assemble and market less-lethal, conducted energy weapons primarily for use in the law enforcement and corrections market. Over 350 police departments in the United States have made initial purchases of our products and 15 police departments, including San Diego, Sacramento, and Albuquerque, have purchased our products for every patrol officer. As of February 1, 2001, more than 200 additional police departments were evaluating our newest product, the ADVANCED TASER.

We sell two principal products. We introduced the AIR TASER in 1994 and targeted it primarily at the consumer market. We designed the AIR TASER to look like a cellular telephone or other consumer electronic item, rather than a weapon. The terms of an agreement we signed with Electronic Medical Laboratories, Inc., doing business as Tasertron and the original licensee of a patent on certain technology used in our weapons, precluded us from selling our products to United States law enforcement, corrections and military agencies until February 1998. After expiration of this agreement, we introduced the ADVANCED TASER, an upgraded and redesigned version of the AIR TASER, to appeal to the law enforcement and corrections market. It uses the same basic operating principle as the AIR TASER but produces four times the AIR TASER's power output. It is also pistol-shaped to make it easier for police officers to use. The ADVANCED TASER can be sold with an integrated laser sight and a built-in memory option to record the time and date of up to 500 firings. We believe the ADVANCED TASER will also appeal to the security, military and consumer markets, and intend to pursue sales in these markets after further penetrating the law enforcement and corrections market.

### Industry background

The market for less-lethal weapons includes law enforcement agencies, correctional facilities, military agencies, private security guard companies and retail consumers. We believe law enforcement officials are the opinion leaders regarding market acceptance of new security products. In recent years, successful new security products — such as the GLOCK handgun and the Mag-Lite flashlight — were first marketed to and accepted by police departments. We therefore focus on the law enforcement agency segment of the market for less-lethal weapons.

Generally, each police force has a use-of-force policy that dictates the level of force its officers can use to respond to various situations. A police officer is trained to use only the minimum force necessary to overcome the threat of injury or violence posed by a suspect. For example, under most policies, an officer may not use lethal force unless a subject poses a threat of significant bodily injury or fatality to the officer or other persons.

In fact, most police officers never deploy lethal force in the course of their careers. While the vast majority of law enforcement officers around the world are armed with firearms, only a small percentage will actually ever use them. Many police officers, however, must use less-lethal force on a regular basis. Less-lethal force can range from a control hold to the use of a baton, chemical spray, or other means to control a subject that is actively resisting the officer.

Police officers are often injured while trying to subdue a suspect with less-lethal force. Traditional tactics such as using a baton or fist to control a suspect result not only in a significant risk of injury to the suspect, but also a significant risk that the officer will be injured. If an officer can subdue a suspect from a safe distance using effective less-lethal weapons, he greatly reduces the probability that he or the suspect, as well as bystanders, will be injured during a confrontation.

A variety of new less-lethal weapons have been developed to address the need to temporarily incapacitate an

require different tools for different situations. We believe that the following characteristics of less-lethal weapons are the most important to law enforcement agencies:

- *Effectiveness: temporary incapacitation of aggressive suspects*
- *Range: variable distance over which the weapon is effective*
- *Safety: low risk of injury or death*
- *Ease of use: simple operation, low maintenance and no contamination*
- *Dependability: reliability in many environments, product durability*
- *Accountability: tracking to reduce misuse of the weapon*
- *Cost: low cost per use and possible reduction of litigation expense*

### **The ADVANCED TASER solution**

All our products are designed to perform well in terms of the above characteristics. We believe the ADVANCED TASER, however, offers the best combination of these characteristics currently available in a less-lethal weapon. This superior performance could make the ADVANCED TASER the less-lethal weapon of choice in many situations for law enforcement agencies and other security services.

- *Effectiveness*

Most less-lethal weapons rely upon a pain response to be effective. A less-lethal weapon that inflicts only pain may not stop the most dangerous and aggressive suspects. The ADVANCED TASER is designed to cause complete yet temporary physical incapacitation, not just discomfort or distraction. In police testing and field use, the ADVANCED TASER has incapacitated even highly focused individuals who have demonstrated the ability to fight through other less-lethal weapons that rely only on pain.

- *Range*

Batons and chemical sprays can only be used from close distances, usually less than five feet. Rubber bullets, beanbag rounds, and similar less-lethal impact weapons must be used at distances greater than 30 feet to minimize suspects' injuries. Therefore, we believe that other less-lethal weapons as a group are generally ineffective between five and thirty feet. The ADVANCED TASER is designed to operate within this range. Since it is equally effective at very close range, we believe the ADVANCED TASER represents a more versatile less-lethal weapon for encounters taking place within 21 feet.

- *Safety*

In tests involving over 1,000 human volunteers and in hundreds of field applications, the ADVANCED TASER has had no reported long-term, adverse after-effects. In field uses, our technology has been found to have a comparable or lower risk of injury to officers and suspects than other less-lethal technologies. Further, the recovery time from an application of the ADVANCED TASER is generally less than one minute. In contrast, recovery time from the application of chemical sprays can range from ten minutes to one hour. Recovery time from the effect of impact rounds can vary from hours to weeks, depending on bruising and bone breakage.



- *Dependability*

The ADVANCED TASER operates effectively under a variety of unfavorable conditions, such as wind and rain, that render chemical sprays less effective. The ADVANCED TASER housing is constructed of high tensile-strength polycarbonate to withstand the rigors of typical police use.

- *Accountability*

The ADVANCED TASER incorporates features designed to reduce inappropriate use. Our cartridges contain numerous confetti-like Anti-Felon Identification tags, or AFIDs, which are scattered when the unit is fired. AFID tags recovered from usage sites can thus help identify the owner of the cartridge used. The ADVANCED TASER we market to law enforcement and corrections agencies also comes with a data port that records the exact time, date and duration of up to 500 firings.

- *Cost*

The ADVANCED TASER is sold to law enforcement agencies for approximately \$400 per unit. The air cartridge ammunition is priced under \$18 per shot. These prices are competitive with impact munitions and most other specialized less-lethal weapons, with the exception of the least expensive chemical sprays. However, the indirect costs of decontaminating buildings, vehicles, and uniforms resulting from the use of chemical sprays can place the ADVANCED TASER at an overall cost advantage per use.

In addition, litigation costs for law enforcement agencies can be significant. Reducing the number of injuries and fatalities caused by law enforcement officers may reduce the number of suits filed against agencies for excessive use of force, wrongful death and injury. Further, reducing officer injuries minimizes medical claims and lost time for work-related injuries.

As with other less-lethal weapons, these characteristics, particularly safety, may also have the benefit of increasing goodwill between law enforcement agencies and their communities. Community relations considerations can be particularly important at a time when almost any interaction with police can be videotaped and scrutinized by the media and the public.

## **Our strategy**

Key elements of our strategy for growth include the following:

- *Fully exploit the expanding law enforcement and corrections market.*

Our goal is to make the ADVANCED TASER the dominant less-lethal weapon for use by law enforcement and corrections agencies. Law enforcement officials are often viewed as experts with regard to weapons and other security products. As a result, we believe that widespread acceptance of the ADVANCED TASER in this market will enhance its credibility and represents a necessary first step toward expanding sales of our products in additional markets.

- *Expand into private security, military, and consumer markets.*

After increasing our presence in the law enforcement and corrections market, we intend to expand our penetration in the private security, military and consumer self-defense markets. We believe the same performance characteristics that will enable our products to succeed in the law enforcement and corrections market will also

- *Acquire businesses that enhance our strategic position.*

We may acquire businesses that will complement our growth strategy and enhance our competitive position in our markets. However, we have no current plans for such acquisitions.

## 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. According to United States Bureau of Justice statistics, there were nearly 19,000 of these agencies in the United States in 1996 that employed about 740,000 full-time, sworn law enforcement officers. In 1995, the most recent year for which statistics are available, industry analysts estimated that the total number of non-administrative correctional officers in the United States was approximately 450,000.

Acceptance of the ADVANCED TASER by United States police departments has been fairly rapid since its introduction in December 1999. We believe it could prove equally suitable for use in correctional facilities. The ADVANCED TASER is particularly useful in these confined and crowded settings since it provides a means of bringing virtually any individual under control without requiring the use of lethal force. We anticipate that some of these officers will be armed with ADVANCED TASERs, particularly as its performance attributes become more familiar to the wider law enforcement community.

In the law enforcement market, over 350 police departments have made initial purchases of the ADVANCED TASER for testing or deployment. In addition, 15 police departments, including San Diego, Sacramento, and Albuquerque, purchased enough of our weapons to issue one to each of their patrol officers.

### *Private security firms and guard services*

In 1999, it was 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. We believe that security personnel armed with ADVANCED TASERs could be as effective in many circumstances as those armed with conventional firearms. At the same time, arming guards with ADVANCED TASERs may reduce the potential liability of private security companies and personnel.

A number of environments can prove problematic for the use of conventional firearms. The use of conventional firearms in airplanes, for example, poses a significant threat to the integrity of the aircraft and the safety of the passengers. Conventional firearms may also be inappropriate in subways, buses, transit systems, banks and casinos. In many of these crowded environments, the contamination associated with the use of chemical sprays could also pose significant problems.

One large private security force overseas has ordered over 1,000 ADVANCED TASERs for delivery in Spring 2001. We are 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.

### *Consumer/personal protection*

In the late 1990s, industry sources estimated that 35 million Americans owned handguns. We believe these handgun owners represent one segment of a potentially large consumer market for our products.



## *Military*

Military police forces may use the ADVANCED TASER for purposes similar to those of civilian police units. Military peace-keeping forces also perform policing functions, and the ADVANCED TASER may prove an effective tool for these operations. The ADVANCED TASER may also be used by armed forces to reduce the possibility of civilian casualties resulting from combat operations on battlefields consisting of both civilians and combatants. We have yet to pursue sales opportunities in the military market.

## **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. 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.

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 M-26 is our primary product in this market and is sold exclusively to law enforcement and corrections agencies. The ADVANCED TASER M-26 offers the following improvements over the AIR TASER:

- Increased effectiveness: the ADVANCED TASER has four times the power of the AIR TASER and has proven effective in incapacitating over 99% of volunteers tested.
- Better accountability: the ADVANCED TASER's memory system records the time, date, and duration of up to 500 firings. By downloading this information periodically, law enforcement and corrections agencies can track every use of the ADVANCED TASER. These agencies can use this data to investigate potential misuse.
- Ease of use: the ADVANCED TASER's familiar pistol shape and integrated laser sight minimize the training required for law enforcement and corrections officers and make it easier to use.



In addition to weapons and cartridges, we sell holsters, attachments, cases and other accessories that complement our core products. Although to date these accessories have generated limited sales, they offer additional revenue opportunities and attractive margins.

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 users 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.

We offer a no-questions-asked lifetime replacement policy on the ADVANCED TASER. If the weapon fails to operate properly for any reason, we will replace it for a fee of \$25. The 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. Warranty costs under both the AIR TASER and the ADVANCED TASER replacement policies have been minimal to date.

## 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 independent regional police equipment distributors. To service these distributors and assist us in expanding sales to new ones, we retain two manufacturer's representatives that call on potential distributors. We compensate our manufacturer's representatives solely on a commission basis, calculated as a percentage of the sales they complete. Sales in the consumer market are made through different independent distributors, dealers, and retailers. We provide our distributors with performance-based incentive programs.

*International distribution.* As a result of our shift in focus to the United States law enforcement and corrections market, our international sales efforts are currently limited to presentations and training seminars conducted by TASER personnel. We recently began introducing the ADVANCED TASER in Europe and parts of the Middle East, South America and Asia, but have yet to devote significant resources to these markets. Sales outside the United States and Canada accounted for 48% and 18% of total revenues in 1999 and 2000, respectively. In 2001, we expect international sales to account for approximately 10% of our total sales.

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 over 2,500 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.

not just end users within these organizations. Twenty-five 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 area TASER experts, and assist our distributors in conducting TASER demonstrations at other police departments within their regions. Through the end of 2000, we did not charge for attendance at these classes but now charge \$195 per attendee. We pay master instructors a per-session training fee and a share of the attendance fees collected at each session that they conduct. These training sessions have led directly to the sale of ADVANCED TASERs to a number of police departments.

*Communications.* In addition to our training programs, we regularly participate in a variety of trade shows and conferences. Our marketing efforts also benefit from significant free news coverage. Other marketing communications include video e-mails, press releases, and conventional print advertising in law enforcement trade publications. Our website also contains similar marketing information.

## **Manufacturing**

After a review of our operating costs and changes in regulations pertaining to the export of the technology used to produce our weapons, we elected to move our final assembly operations from our subcontractor in Guaymas, Mexico to our new facility in Scottsdale, Arizona. We own all of the production equipment used for the final assembly of our products in the Guaymas facility, and expect to reinstall it in Scottsdale no later than April 2001. We currently assemble the compressed nitrogen containers used inside our air cartridges in our Scottsdale facility.

Our Scottsdale facility has approximately 6,000 square feet of assembly and warehouse space. We plan to employ between 15 and 25 assembly personnel by the end of 2001. After the move, our production capabilities will support the assembly of 2,000 ADVANCED TASERs, 1,000 AIR TASERs, and 24,000 cartridges per month on a single shift. We can expand our production capabilities by adding additional personnel and a second shift with negligible new investment in tooling and equipment. We expect our Scottsdale facility and tooling to be sufficient to support our current growth projections at least through 2003.

We currently purchase finished circuit boards and injection-molded plastic components from third-party suppliers in Phoenix. 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 acquire most of our components on a purchase order basis and do not have long-term contracts with suppliers.

## **Competition**

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 1970s. 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.

*Law enforcement and corrections market.* Tasertron had an exclusive license to sell TASER products in the North American law enforcement and corrections market until February 1998. Compared to the Tasertron unit, our ADVANCED TASER offers reduced size, additional power, and a more convenient pistol-shaped design. We believe agencies choosing to employ a conducted energy weapon will prefer to adopt a single weapon system. Since its introduction, the ADVANCED TASER has competed successfully against the Tasertron unit, even in agencies

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lethal weapons to be distinct tools, each best-suited to a particular set of circumstances. Consistent with this tool kit approach, purchasing any given tool does not preclude the purchase of one or several more. In other cases, budgetary considerations and limited space on officers' belts dictate that only a limited number of less-lethal weapons will be purchased and carried. 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, its effectiveness, and its ease of use. The widespread adoption of the ADVANCED TASER by 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 are subject to the same regulations. Neither weapon is considered a "firearm" by the Bureau of Alcohol, Tobacco, and Firearms. There are, therefore, no firearms-related regulations regarding 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 market. 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	Prohibited	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

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The following cities and counties also regulate our weapon systems:

City	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 the 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. In addition, export regulations prohibit the further shipment of our products from foreign markets in which we hold an export license for the products to foreign markets in which we do not hold an export license for the products.

In addition, in the fall of 2000, the Department of Commerce introduced new regulations restricting the export of the 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. After moving our final assembly to our Scottsdale facility, these technology export regulations will no longer apply to us but will still apply to certain of our suppliers located outside of the United States.

*Foreign regulation.* Foreign regulations are numerous and often unclear. We prefer to work with an exclusive distributor who is familiar with applicable 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. In Australia, Canada, and India we are also aware that sales of our products are permitted to law enforcement and corrections agencies but prohibited to consumers.

### Intellectual property

We protect our intellectual property with a variety of patents and trademarks. In addition, we use confidentiality agreements with employees and some suppliers to ensure the safety 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 are the licensee of a United States patent on the process by which compressed gases launch the probes in our cartridges. This patent 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 covering the wave form of the energy we developed for the ADVANCED TASER.

We have several unregistered and federally registered trademarks. We own the AIR TASER and TASER registered trademarks.

### Research and development

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and mechanical engineering design. Future development projects will focus on reducing the size, extending the range, and improving the functionality of our weapons. Total research and development expenditures were \$6,900 in 1999 and \$7,100 in 2000.

## Employees

As of December 31, 2000, we had 16 full-time employees. Six employees were involved in sales, marketing and training. Two were employed in research, development and engineering. We also employed four administrative personnel and four in production support. 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.

## Facilities

We conduct our operations from a modern 11,800-square-foot facility located in Scottsdale, Arizona. The monthly rent for this facility is approximately \$11,000. Our lease expires on January 1, 2006. 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 require additional space.

## Legal proceedings

We are a defendant in a lawsuit filed in February 2000 by a former distributor of our products in the Supreme Court of the State of New York for the County of New York. This former distributor claims the exclusive right to sell our products to many of the largest law enforcement, corrections, and military agencies in the United States and seeks monetary damages. We signed no contracts with this former distributor. 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 affect on our business, operating results or financial condition.

## 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.

## MANAGEMENT

### Directors and executive officers

Our directors and executive officers are as follows:

Name	Age	Position
Phillips W. Smith	63	Chairman
Patrick W. Smith	30	Chief Executive Officer and Director
Thomas P. Smith	33	President and Director
Bruce R. Culver	55	Director
Matthew R. McBrady	30	Director
Karl F. Walter	54	Director
Kathleen C. Hanrahan	37	Chief Financial Officer

**Phillips W. Smith** is the chairman of our board of directors. Dr. Smith has served as a director since 1993. Since January 1999, Dr. Smith has served on the board of directors of Pentawave, Inc., a developer of cross-media publishing software. From June 1991 to September 1997, Dr. Smith served as the president and chief executive officer of Zycad Corporation, a developer of engineering and manufacturing applications software. Dr. Smith holds a B.S.E. degree from West Point, an M.B.A. degree from Michigan State University, and a Ph.D. in Business Administration from St. Louis University.

**Patrick W. Smith** is the chief executive officer and a co-founder of TASER. Mr. Smith has served as our chief executive officer and as a director since 1993. Mr. Smith holds a B.S. degree in Biology and Neurobiology from Harvard University, an M.B.A. degree from the University of Chicago, and a Masters Degree in International Finance from the University of Leuven in Leuven, Belgium.

**Thomas P. Smith** is the president and a co-founder of TASER. Mr. Smith has served as our president since April 1994 and as a director since 1993. Mr. Smith holds a B.S. degree in Ecology and Evolutionary Biology from the University of Arizona and an M.B.A. degree from Northern Arizona University.

**Bruce R. Culver** has served as a director of TASER since January 1994. Mr. Culver co-founded Professional Staff, P.L.C., a human resource management company, and has served on its board of directors since April 1990. In March 1993, Mr. Culver organized and has since remained the chief executive officer of Culver Distributions, Inc., doing business as California Distribution Company, providing warehouse and distribution services to internet companies. Since April 1997, Mr. Culver has served on the board of Pentawave, Inc., becoming its chairman in October 2000.

**Matthew R. McBrady** has served as a director of TASER since January 2001. From August 1998 through July 1999, Mr. McBrady served as a member of the staff of President Clinton's Council of Economic Advisers. In December 1997, Mr. McBrady began working as a financial and analytical consultant for Avenue A, Inc, an internet marketing company, and served as its vice president of analytics from June 1999 through October 1999. Mr. McBrady taught corporate finance courses at the University of Southern California during the summer terms of 1997 and 1998, at Harvard College from September 1996 through May 1997, and at Harvard Business School during the spring term of 1998. Mr. McBrady holds a B.S. in Economics from Harvard University, an M.S. in International Economics from Oxford University, and expects to receive a Ph.D. in Corporate and International Finance from Harvard University in June 2001.

**Karl F. Walter** has served as a director of TASER since January 2001. Mr. Walter was a co-founder of Glock, Inc., a subsidiary of GLOCK GmbH, an Austrian semi-automatic pistols manufacturer. From January 1994 through



**Kathleen C. Hanrahan** is our chief financial officer, serving in that position since November 2000. Ms. Hanrahan first joined TASER in January 1996 as an internal controls consultant and became our controller in March 1996.

Our certificate of incorporation provides that we have no less than three and no more than nine directors divided into three classes (Class 1, Class 2, and Class 3), with members of each class serving for staggered three-year terms. As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms. Messrs. Phillips Smith and Bruce Culver have been designated as Class 1 directors, whose term expires at the 2001 annual meeting; Messrs. Patrick Smith and Karl Walter have been designated as Class 2 directors, whose term expires at the 2002 annual meeting; and Messrs. Thomas Smith and Matthew McBrady have been designated as Class 3 directors, whose term expires at the 2003 annual meeting.

Each officer serves at the discretion of our board of directors. No officer is subject to an agreement that requires the officer to serve TASER for a specified number of years. Mr. Thomas Smith and Mr. Patrick Smith are Dr. Phillips Smith's sons. No other family relationships exist among our directors and executive officers.

### Director compensation

Prior to 2001, directors were not compensated for their service on the board. Beginning in 2001, independent directors will receive \$1,250 per quarter. In addition, in December 2000, Messrs. McBrady and Walter each received options to purchase 6,667 shares vesting ratably over four years at an exercise price of \$3.30 per share. Directors are also reimbursed for expenses incurred in connection with attendance at meetings.

### Committees of the board of directors

Our board of directors has a Audit Committee consisting of Mr. McBrady and Mr. Walter, and a Compensation Committee consisting of Mr. Culver and Mr. Walter. The Audit Committee meets with management and our independent public accountants to determine the adequacy of our internal controls and other financial reporting matters. The Compensation Committee reviews and recommends to the board of directors the compensation and benefits of our officers, reviews general policy matters relating to compensation and benefits of our employees and administers the issuance of stock options and discretionary cash bonuses to our officers, employees, directors and consultants. We intend to appoint only independent directors to the Audit and Compensation Committees.

### Executive compensation

The following table sets forth information regarding compensation awarded to, earned by or paid to our chief executive officer for all services rendered to us during 1998, 1999 and 2000. None of our other executive officers earned in excess of \$100,000 in 2000.

### Summary Compensation Table

Name and Principal Position	Annual Compensation			Long Term Compensation Securities Underlying Options (#)
	Year	Salary	Bonus	
Patrick W. Smith Chief Executive Officer	2000	\$65,208	\$2,500	—
	1999	\$49,161	—	10,000
	1998	\$43,205	—	—

### Option grants in last fiscal year

## Fiscal year end option values

The following table sets forth information regarding the number and value of unexercised options held by our chief executive officer on December 31, 2000. He did not exercise options to purchase common stock during 2000.

Name	Number of Securities Underlying Options at Fiscal Year End 2000(#)		Value of Unexercised In-the-Money Options at Fiscal Year End\$(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Patrick W. Smith	6,389	3,611	\$46,895	\$26,505

(1) Based on the estimated fair value of our common stock as of December 31, 2000, determined by our board of directors to be \$8.00 per share.

## Stock option plans

We have two stock option plans: the 1999 stock option plan and the 2001 stock option plan.

The 1999 stock option plan is an incentive and stock option plan which authorizes us to issue options to purchase up to 833,333 shares of our common stock. Under this plan, we have issued options to purchase 143,322 shares at \$0.24 to \$7.20 per share, including 10,000 options to Patrick W. Smith. We will issue no further options under the plan. The plan is administered by our board of directors. Subject to the provisions of this plan, the board determines who will receive options, the number of options granted, the manner of exercise and the exercise price of the options. The term of incentive stock options granted under the plan may not exceed ten years, or five years for options granted to an optionee owning more than 10% of our voting stock. The exercise price of an incentive stock option granted under this plan must be equal to or greater than the fair market value of the shares of our common stock on the date the option is granted. The exercise price of a non-qualified option granted under this plan must be equal to or greater than 85% of the fair market value of the shares of our common stock on the date the option is granted. An incentive stock option granted to an optionee owning more than 10% of our voting stock must have an exercise price equal to or greater than 110% of the fair market value of our common stock on the date the option is granted.

The 2001 stock option plan is an incentive and stock option plan which authorizes us to issue options to purchase up to 550,000 shares of our common stock. Under this plan, we have issued options to purchase 291,000 shares at an average price of \$8.33 per share, including 60,000 options to Patrick W. Smith. The plan is administered by our board of directors. Subject to the provisions of this plan, the board determines who will receive options, the number of options granted, the manner of exercise and the exercise price of the options. The term of incentive stock options granted under the plan may not exceed ten years, or five years for incentive stock options granted to an optionee owning more than 10% of our voting stock. The exercise price of an incentive stock option granted under this plan must be equal to or greater than the fair market value of the shares of our common stock on the date the option is granted. The exercise price of a non-qualified option granted under this plan must be equal to or greater than 85% of the fair market value of the shares of our common stock on the date the option is granted. An incentive Stock option granted to an optionee owning more than 10% of our voting stock must have an exercise price equal to or greater than 110% of the fair market value of our common stock on the date the option is granted.

## Employment agreements

In July 1998, we entered into an employment agreement with Patrick W. Smith pursuant to which he agreed to serve as our chief executive officer. The agreement is for an initial three-year term ending June 30, 2001, and is automatically renewed for a two-year term unless we give Mr. Smith one-year prior notice of termination, if the

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## CERTAIN TRANSACTIONS

In 1998, Mr. Bruce R. Culver, a director of TASER, loaned us \$622,525. In March 1998, \$150,000 of such amount was converted into 20,833 shares of our common stock at an estimated value of \$7.20 per share. In December 1998, we issued Mr. Culver a promissory note for \$472,525, the remaining amount due. The note bears interest at a rate of 10% per year and matures July 1, 2002. In 1999, Mr. Culver loaned an additional \$150,000 to us at an interest rate of 10%, due July 1, 2002. In 2000, Mr. Culver loaned an additional \$200,000 to us at an interest rate of 10%, due July 1, 2002. In total, outstanding notes due to Mr. Culver are \$822,525 in principal plus accrued interest of \$140,794 as of December 31, 2000, due July 1, 2002.

In January 1999, Mr. Culver loaned us \$1,500,000. In return, we issued him a promissory note for \$500,000 at an effective interest rate of 27.1% per year, and 1,666,667 shares of our common stock at a price of \$.60 per share. These shares were subject to a repurchase agreement between Mr. Culver and us that allowed us to repurchase the shares if we met certain operating performance criteria. We met the criteria and repurchased the shares from Mr. Culver in July 2000 in exchange for a promissory note in the amount of \$1,000,000. We consolidated this note and the January 1999 note for \$500,000 into a new note for \$1,500,000 which carries interest at bank prime (9.5% at December 31, 2000) plus 1% and matures July 1, 2002.

In 1999, Mr. Phillips W. Smith, our chairman, worked as a full time advisor to us and was compensated solely by an option on 16,667 shares of our common stock at a price of \$0.66 per share.

In 1998, Mr. Phillips W. Smith loaned us \$455,691 in the form of a stockholder note at an interest rate of 9%. This note is currently outstanding, and the maturity has been extended to July 1, 2002 at an interest rate of 10%. Further, Mr. Smith has deferred expenses in the amount of \$99,794, which has been formalized in a note bearing 10% interest, which matures July 1, 2002. The accrued interest due Mr. Smith for these notes was \$119,045 as of December 31, 2000.

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### PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of our common stock as of December 31, 2000, and as adjusted to reflect the sale of 1,000,000 units in this offering, by:

- each person or group of affiliated persons known to be the beneficial owner of more than 5% of our outstanding common stock;
- each of our directors;
- our chief executive officer; and
- all of our directors and executive officers as a group.

As of such date, there were 1,510,754 shares of common stock outstanding before giving effect to the sale of units in this offering. We believe that, except as otherwise listed below, each named beneficial owner has sole voting and investment power with respect to the shares listed.

#### Shares Beneficially Owned

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage Beneficially Owned Before This Offering	Percentage Beneficially Owned After This Offering
Phillips W. Smith(1)	388,479	23.1%	14.5%
Patrick W. Smith(2)	361,584	21.5%	13.5%
Bruce R. Culver(3)	491,146	29.2%	18.3%
Thomas P. Smith(4)	217,674	12.9%	8.1%
Malcolm W. Sherman(5)	123,796	7.4%	4.6%
Karl F. Walter(6)	1,111	*	*
Matthew R. McBrady(7)	1,111	*	*
All directors and executive officers as a group (7 persons)(8)	1,599,433	95.1%	59.6%

The address of each person in this table is c/o 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260, (480) 991-0797.

As of December 31, 2000, we had nine stockholders.

\* less than 1%

- (1) Includes 20,833 shares subject to options or warrants that are exercisable within 60 days.
- (2) Includes 11,250 shares subject to options that are exercisable within 60 days.
- (3) Includes 31,061 shares subject to warrants that are exercisable within 60 days.
- (4) Includes 11,250 shares subject to options that are exercisable within 60 days.
- (5) Includes 3,333 shares subject to options that are exercisable within 60 days.

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## DESCRIPTION OF SECURITIES

Upon completion of the offering, our authorized capital stock will consist of (1) 50,000,000 shares of common stock, \$0.00001 par value, and (2) 25,000,000 shares of preferred stock, \$0.00001 par value, of which there will be 2,510,754 shares of common stock and no shares of preferred stock outstanding. The following description of our capital stock is a summary and is qualified in its entirety by the provisions of our certificate of incorporation and our bylaws, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part.

### Units

Each unit consists of one share of common stock and one public warrant to purchase an additional share of common stock. The common stock and warrants will trade only as a unit for at least 30 days following this offering. The representative of the underwriters will then determine when the units separate, after which the common stock and the public warrants will trade separately.

### Common stock

Holders of our common stock are entitled to one vote for each share on all matters submitted to a stockholder vote and may not cumulate their votes. Holders of common stock are entitled to share in all dividends that the board of directors, in its discretion, declares from legally available funds. In the event of our liquidation, dissolution or winding up, each outstanding share entitles its holder to participate pro rata in all assets that remain after payment of liabilities and after providing for each class of stock, if any, having preference over the common stock.

Holders of our common stock have no conversion, preemptive or other subscription rights, and there are no redemption provisions applicable to our common stock. The rights of the holders of common stock are subject to any rights that may be fixed for holders of preferred stock. All outstanding shares of common stock are, and the shares underlying all options and public warrants will be, duly authorized, validly issued, fully paid and non-assessable upon our issuance of these shares.

### Preferred stock

Our certificate of incorporation provides for the issuance of up to 25,000,000 shares of preferred stock. As of the date of this prospectus, there are no outstanding shares of preferred stock. Subject to certain limitations prescribed by law and the rights and preferences of the preferred stock, our board of directors is authorized, without further stockholder approval, from time to time to issue up to an aggregate of 25,000,000 shares of our preferred stock, in one or more additional series. Each new series of preferred stock may have different rights and preferences that may be established by our board of directors.

The rights and preferences of future series of preferred stock may include:

- number of shares to be issued;
- dividend rights and dividend rates;
- right to convert the preferred stock into a different type of security;
- voting rights attributable to the preferred stock;

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summarized below. Our public warrants may be exercised at any time during the period commencing 30 days after this offering and ending on the fifth anniversary date of the closing of this offering, which is the expiration date. Those of our public warrants which have not previously been exercised will expire on the expiration date. A public warrant holder will not be deemed to be a holder of the underlying common stock for any purpose until the public warrant has been properly exercised.

#### *Separate transferability*

Our public warrants will trade only as a unit for a period of at least 30 days following this offering. The representative of the underwriters will then determine when the units separate, after which the common stock and the public warrants will trade separately.

#### *Redemption*

We have the right, commencing three months after the closing of this offering, to redeem the public warrants issued in the offering at a redemption price of \$0.25 per public warrant after providing 30 days prior written notice to the public warrant holders, if the average closing bid price of the common stock equals or exceeds 200% of the initial public offering price of the units for ten consecutive trading days ending prior to the date of the notice of redemption. We will send the written notice of redemption by first class mail to public warrant holders at their last known addresses appearing on the registration records maintained by the transfer agent for our public warrants. No other form of notice or publication or otherwise will be required. If we call the public warrants for redemption, they will be exercisable until the close of business on the business day next preceding the specified redemption date.

#### *Exercise*

A public warrant holder may exercise our public warrants only if an appropriate registration statement is then in effect with the Securities and Exchange Commission and if the shares of common stock underlying our public warrants are qualified for sale under the securities laws of the state in which the holder resides.

Our public warrants may be exercised by delivering to our transfer agent the applicable public warrant certificate on or prior to the expiration date or the redemption date, as applicable, with the form on the reverse side of the certificate executed as indicated, accompanied by payment of the full exercise price for the number of public warrants being exercised. Fractional shares will not be issued upon exercise of our public warrants.

#### *Adjustments of exercise price*

The exercise price is subject to adjustment if we declare any stock dividend to stockholders or effect any split or share combination with respect to our common stock. Therefore, if we effect any stock split or stock combination with respect to our common stock, the exercise price in effect immediately prior to such stock split or combination will be proportionately reduced or increased, as the case may be. Any adjustment of the exercise price will also result in an adjustment of the number of shares purchasable upon exercise of a public warrant or, if we elect, an adjustment of the number of public warrants outstanding.

#### **Prior warrants**

As of the date of this prospectus, we had issued and outstanding warrants to purchase 52,727 shares of our common stock at a weighted average exercise price of \$4.71, the forms of which have been filed as exhibits to the registration statement of which this prospectus is a part.

## Registration rights

All holders of registration rights contained in agreements with us have waived such rights in connection with this offering. In connection with this offering, we have granted Paulson Investment Company, Inc., representative of the underwriters of this offering, warrants to purchase shares of our common stock. These representative's warrants, as well as the shares of common stock and warrants included in the units issuable upon exercise of the representative's warrants, are being registered on the registration statement of which this prospectus is a part. We will cause the registration statement to remain effective until the earlier of the time that all of the representative's warrants have been exercised and the date which is five years after the effective date of this offering. The common stock and warrants issued to the representative upon exercise of these warrants will be freely tradeable. We will bear all expenses incurred in connection with the registration of the shares of common stock and warrants included in the units issuable upon the exercise of the representative's warrants.

## Anti-takeover provisions of our charter documents

Our certificate of incorporation and bylaws include a number of provisions that may have the effect of delaying or preventing a change of control of TASER:

- Our board is divided into three classes, with each class serving a three-year staggered term, so that one-third of the board is elected each year;
- The authorized number of our directors can be changed only by resolution of the board of directors;
- We can issue preferred stock without any vote or further action by stockholders;
- Any action required or permitted to be taken by our stockholders at an annual or a special meeting is valid only if it is properly brought before the meeting, and written stockholder action is valid only if unanimous; and
- Our bylaws limit persons who may call a special meeting of our stockholders.

These provisions may deter hostile takeovers or delay changes in control of our management, which could depress the market price of our securities.

## Transfer agent and public warrant agent

The transfer agent for our common stock and public warrants is US Stock Transfer Corporation, Glendale, California.

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## SHARES ELIGIBLE FOR FUTURE SALE

### This offering

Upon completion of the offering, we expect to have 2,510,754 shares of common stock outstanding, assuming no exercise of outstanding options or warrants, or 2,660,754 shares if the representative's over-allotment is exercised in full. Of these shares, the 1,000,000 shares of common stock issued as part of the units sold in this offering will be freely tradeable without restrictions or further registration under the Securities Act of 1933, except that any shares purchased by our "affiliates," as that term is defined under the Securities Act, may generally only be sold in compliance with the limitations of Rule 144 under the Securities Act. The 1,000,000 shares of common stock underlying the public warrants issued as part of the units sold in this offering will also be freely tradeable after exercise of the warrants, except for shares held by our affiliates.

### Outstanding restricted stock

The remaining 1,510,754 outstanding shares of common stock are restricted securities within the meaning of Rule 144 and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including the exemption from registration offered by Rule 144. Holders of all of our outstanding restricted shares of common stock have agreed not to sell or otherwise dispose of any of their shares of common stock for a period of one year after completion of this offering, without the prior written consent of Paulson Investment Company, Inc., subject to certain limited exceptions. Prior to the expiration of this lock-up period, no shares of our outstanding restricted common stock may be sold in the public market pursuant to Rule 144. After the expiration of this lock-up period, or earlier with the prior written consent of Paulson Investment Company, Inc., all 1,510,754 of these outstanding restricted shares may be sold in the public market pursuant to Rule 144.

In general, under Rule 144, as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned restricted shares for at least one year, including a person who may be deemed to be our affiliate, may sell within any three-month period a number of shares of common stock that does not exceed a specified maximum number of shares. This maximum is equal to the greater of 1% of the then outstanding shares of our common stock or the average weekly trading volume in the common stock during the four calendar weeks immediately preceding the sale. Sales under Rule 144 are also subject to restrictions relating to manner of sale, notice and availability of current public information about us. In addition, under Rule 144(k) of the Securities Act, a person who is not our affiliate, has not been an affiliate of ours within three months prior to the sale and has beneficially owned shares for at least two years would be entitled to sell such shares immediately without regard to volume limitations, manner of sale provisions, notice or other requirements of Rule 144.

### Preferred stock

As of December 31, 2000, we had no shares of preferred stock outstanding.

### Options

Beginning 90 days after the date of this prospectus, certain shares issued or issuable upon the exercise of options granted by us prior to the date of this prospectus will also be eligible for sale in the public market pursuant to Rule 701 under the Securities Act of 1933, except that of these shares are subject to the lock-up agreements discussed above. Pursuant to Rule 701, persons who purchase shares upon exercise of options granted under a written compensatory plan or contract may sell such shares in reliance on Rule 144 without having to comply with the holding period requirements of Rule 144, and in the case of non-affiliates, without having to comply with the

the future. Any shares issued upon the exercise of these options will be eligible for sale pursuant to Rule 701.

We intend to file registration statements on Form S-8 under the Securities Act to register approximately 434,322 shares of our common stock issuable under our stock option plans. These registration statements are expected to be filed within three to six months after the completion of this offering. Shares of our common stock issued upon the exercise of stock options after the effective date of the Form S-8 registration statements will be eligible for resale in the public market without restriction, subject to Rule 144 limitations and the lock-up agreements discussed above.

### **Warrants**

As of February 12, 2001, we had warrants outstanding to purchase 52,727 shares of common stock which have not been exercised and which are currently exercisable. Any shares issued upon the exercise of these warrants will be eligible for sale pursuant to Rule 144, except that these shares are also subject to the lock-up agreements discussed above.

### **Representative's warrants**

In connection with this offering, we have agreed to issue to the representative of the underwriters warrants to purchase 100,000 units. The representative's warrants will be exercisable into units at any time during the four-year period commencing one year after the effective date of this offering. We will cause the registration statement to remain effective until the earlier of the time that all of the representative's warrants have been exercised and the date which is five years after the effective date of the offering. The common stock and warrants issued to the representative upon exercise of these warrants will be freely tradeable.

**UNDERWRITING**

Paulson Investment Company, Inc. is acting as the representative of the underwriters. We and the underwriters named below have entered into an underwriting agreement with respect to the units being offered. In connection with this offering and subject to certain conditions, each of the underwriters named below has severally agreed to purchase, and we have agreed to sell, the number of units set forth opposite the name of each underwriter.

<u>Underwriters</u>	<u>Number of Units</u>
Paulson Investment Company, Inc.	
Total	

The underwriting agreement provides that the underwriters are obligated to purchase all of the units offered by this prospectus, other than those covered by the over-allotment option, if any units are purchased. The underwriting agreement also provides that the obligations of the several underwriters to pay for and accept delivery of the units are subject to the approval of certain legal matters by counsel and certain other conditions. These conditions include the requirements that no stop order suspending the effectiveness of the registration statement be in effect and that no proceedings for such purpose have been instituted or threatened by the Securities and Exchange Commission.

The representative has advised us that the underwriters propose to offer our units to the public initially at the offering price set forth on the cover page of this prospectus and to selected dealers at such price less a concession of not more than \$ per unit. The underwriters and selected dealers may reallocate a concession to other dealers, including the underwriters, of not more than \$ per unit. After completion of the initial public offering of the units, the offering price, the concessions to selected dealers and the reallocation to their dealers may be changed by the underwriters.

The underwriters have informed us that they do not expect to confirm sales of our units offered by this prospectus to any accounts over which they exercise discretionary authority.

**Over-allotment option**

Pursuant to the underwriting agreement, we have granted Paulson Investment Company, Inc. an option, exercisable for 45 days from the date of this prospectus, to purchase up to an additional units on the same terms as the units being purchased by the underwriters from us. Paulson Investment Company, Inc. may exercise the option solely to cover over-allotments, if any, in the sale of the units that the underwriters have agreed to purchase. If the over-allotment option is exercised in full, the total public offering price, underwriting discounts and commissions, and proceeds to us before offering expenses will be \$ , \$ and \$ , respectively.

**Stabilization**

Until the distribution of the units offered by this prospectus is completed, rules of the Securities and Exchange Commission may limit the ability of the underwriters to bid for and to purchase units. As an exception to these rules, the underwriters may engage in transactions that stabilize the price of the units. Paulson Investment Company, Inc., on behalf of the underwriters, may engage in over-allotment sales, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934.

- Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

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- Syndicate covering transactions involve purchases of the common stock and public warrants in the open market after the distribution has been completed in order to cover syndicate short positions. The underwriters may also elect to reduce any short position by exercising all or part of the over-allotment option to purchase additional units as described above.
- Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the units originally sold by the syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions.

In general, the purchase of a security to stabilize or to reduce a short position could cause the price of the security to be higher than it might be otherwise. These transactions may be effected on the Nasdaq SmallCap Market or otherwise. Neither we nor the underwriters can predict the direction or magnitude of any effect that the transactions described above may have on the price of the units. In addition, neither we nor the underwriters can represent that the underwriters will engage in these types of transactions or that these types of transactions, once commenced, will not be discontinued without notice.

### **Indemnification**

The underwriting agreement provides for indemnification between us and the underwriters against specified liabilities, including liabilities under the Securities Act, and for contribution by us and the underwriters to payments that may be required to be made with respect to those liabilities. We have been advised that, in the opinion of the Securities and Exchange Commission, indemnification for liabilities under the Securities Act of 1933 is against public policy as expressed in the Securities Act and is therefore unenforceable.

### **Underwriters' compensation**

We have agreed to sell the units to the underwriters at the initial offering price of \$ \_\_\_\_\_, less the \_\_\_\_\_% underwriting discount. The underwriting agreement also provides that upon the closing of the sale of the units offered, Paulson Investment Company, Inc. will be paid a nonaccountable expense allowance equal to 2.5 percent of the gross proceeds from the sale of the units offered by this prospectus, including the over-allotment option.

We have also agreed to issue warrants to the representative to purchase from us up to \_\_\_\_\_ units at an exercise price per unit equal to 120% of the offering price per unit. These warrants are exercisable during the four-year period beginning one year from the date of effectiveness of the registration statement. These warrants, and the securities underlying the warrants, are not transferable for one year following the effective date of the registration, except to an individual who is an officer or partner of an underwriter, by will or by the laws of descent and distribution, and are not redeemable. These warrants will have registration rights. We will cause the registration statement to remain effective until the earlier of the time that all of the representative's warrants have been exercised and the date which is five years after the effective date of this offering. The common stock and warrants issued to the representative upon exercise of these warrants will be freely tradeable.

The holders of the representative's warrants will have, in that capacity, no voting, dividend or other stockholder rights. Any profit realized by the representative on the sale of the securities issuable upon exercise of the representative's warrants may be deemed to be additional underwriting compensation. The securities underlying the representative's warrants are being registered on the registration statement. During the term of the representative's warrants, the holders thereof are given the opportunity to profit from a rise in the market price of our common stock. We may find it more difficult to raise additional equity capital while the representative's warrants are outstanding. At any time at which the representative's warrants are likely to be exercised, we may be able to obtain additional equity capital on more favorable terms.

## Lock-up agreements

Our officers, directors and other stockholders have agreed that for a period of one year from the date this registration statement becomes effective that they will not sell, contract to sell, grant any option for the sale or otherwise dispose of any of our equity securities, or any securities convertible into or exercisable or exchangeable for our equity securities, other than through intra-family transfers or transfers to trusts for estate planning purposes, without the consent of Paulson Investment Company, Inc., as the representative of the underwriters, which consent will not be unreasonably withheld.

## Determination of offering price

Before this offering, there has been no public market for the units and the common stock and public warrants contained in the units. Accordingly, the initial public offering price of the units offered by this prospectus and the exercise price of the public warrants were determined by negotiation between us and the underwriters. Among the factors considered in determining the initial public offering price of the units and the exercise price of the public warrants were:

- our history and our prospects;
- the industry in which we operate;
- the status and development prospects for our proposed products and services;
- our past and present operating results;
- the previous experience of our executive officers; and
- the general condition of the securities markets at the time of this offering.

The offering price stated on the cover page of this prospectus should not be considered an indication of the actual value of the units. That price is subject to change as a result of market conditions and other factors, and we cannot assure you that the units, or the common stock and public warrants contained in the units, can be resold at or above the initial public offering price.

## LEGAL MATTERS

The validity of the securities being offered hereby will be passed upon on our behalf by Tonkon Torp LLP, Portland, Oregon. Certain legal matters will be passed upon for the underwriters by Weiss Jensen Ellis & Howard, P.C., Portland, Oregon.

## EXPERTS

The financial statements as of and for the years ended December 31, 1999 and 2000 included in this prospectus have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in auditing and accounting in giving said reports.

[B/E]

CRC: 22833

**JB: P64567**  
**EDGAR 2**

**PN: 044.00.00.00**  


**SN: 8**

**Ed#: 4**

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## WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form SB-2 under the Securities Act with the Securities and Exchange Commission with respect to the units offered hereby. This prospectus filed as part of the registration statement does not contain all of the information contained in the registration statement and exhibits thereto and reference is hereby made to such omitted information. Statements made in this registration statement are summaries of the terms of such referenced contracts, agreements or documents and are not necessarily complete. Reference is made to each such exhibit for a more complete description of the matters involved and such statements shall be deemed qualified in their entirety by such reference. The registration statement and the exhibits and schedules thereto filed with the Securities and Exchange Commission may be inspected by you at the Securities and Exchange Commission's principal office in Washington, D.C. Copies of all or any part of the registration statement may be obtained from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the commissions' regional offices located at Seven World Trade Center, 13th Floor, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 11400, Chicago, Illinois 60661. The commission also maintains a website at <http://www.sec.gov> that contains reports, proxy statements and information statements and other information regarding registrants that file electronically with the Commission. For further information pertaining to us and the units offered by this prospectus, reference is made to the registration statement.

We intend to furnish our stockholders with annual reports containing financial statements audited by our independent accountants.

[B/E]

CRC: 18287

EDGAR 2

JB: P64567

PN: 045.00.00.00

SN: 7

Ed#: 3



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**TASER INTERNATIONAL, INC.**

**INDEX TO FINANCIAL STATEMENTS**

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[B/E]

CRC: 27071  
EDGAR 2

JB: P64567

PN: 046.00.00.00

SN: 7

Ed#: 3



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## 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. (an Arizona corporation) as of December 31, 1999 and 2000, and the related statements of operations, stockholders' deficit and cash flows for the years then ended. 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, 1999 and 2000, and the results of its operations and its cash flows for each of the years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Phoenix, Arizona  
February 12, 2001

**TASER INTERNATIONAL, INC.**

**BALANCE SHEETS  
 December 31, 1999 and 2000**

	<b>1999</b>	<b>2000</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 54,905	\$ 206,408
Accounts receivable, net of allowance of \$48,000 in 1999 and \$55,000 in 2000	121,921	312,681
Inventory	158,167	221,169
Prepays and other	14,043	24,535
	349,036	764,793
Total current assets		
Property and Equipment, net	256,110	274,273
	\$ 605,146	\$ 1,039,066
<b>Liabilities and Stockholders' Deficit</b>		
Current Liabilities:		
Current portion of note payable	\$ 112,000	\$ 100,000
Current portion of notes payable to related parties	1,664,774	124,574
Current portion of capital lease obligations	19,176	22,171
Accounts payable and accrued liabilities	517,629	532,589
Customer deposits	62,317	539,329
Inventory financing payable	189,980	189,980
Accrued interest	138,942	268,134
	2,704,818	1,776,777
Total current liabilities		
Notes Payable to Related Parties, net of current portion	74,781	2,778,219
Capital Lease Obligations, net of current portion	19,979	43,925
	2,799,578	4,598,921
Commitments and Contingencies		
Stockholders' Deficit:		
Common stock, 0.00001 par value per share; 50 million shares authorized; 3,177,421 and 1,510,754 shares issued and outstanding at December 31, 1999 and 2000, stated at	2,889,590	1,889,590
Additional paid-in capital	1,180,182	1,310,308
Deferred compensation	—	(79,920)
Accumulated deficit	(6,264,204)	(6,679,833)
	(2,194,432)	(3,559,855)
Total stockholders' deficit		
Total liabilities and stockholders' deficit	\$ 605,146	\$ 1,039,066

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



**TASER INTERNATIONAL, INC.**

**STATEMENTS OF OPERATIONS**

**For the Years Ended December 31, 1999 and 2000**

	<u>1999</u>	<u>2000</u>
Net Sales	\$ 2,366,440	\$3,499,758
Cost of Products Sold	1,492,585	1,437,313
Gross profit	873,855	2,062,445
Operating expenses	633,828	430,871
Sales, general and administrative expenses	1,383,185	1,546,519
Research and development expenses	6,867	7,137
Depreciation	179,453	124,803
Loss from operations	(1,329,478)	(46,885)
Interest Expense	280,821	368,744
Net Loss	<u>\$(1,610,299)</u>	<u>\$ (415,629)</u>
Basic and diluted net loss per common share	<u>\$ (0.52)</u>	<u>\$ (0.17)</u>
Basic and diluted common shares	<u>3,076,410</u>	<u>2,482,976</u>

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



**TASER INTERNATIONAL, INC.**

**STATEMENTS OF STOCKHOLDERS' DEFICIT  
 For the Years Ended December 31, 1999 and 2000**

	Common Stock		Additional Paid-in Capital	Deferred Compensation	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount				
Balance, December 31, 1998	1,359,239	\$ 1,389,590	\$1,177,856	\$ —	\$(4,653,905)	\$(2,086,459)
Shares sold for cash	1,666,667	1,000,000	—	—	—	1,000,000
Issuance of common stock	151,515	500,000	—	—	—	500,000
Stock options granted for payment of consulting fees and loan guarantees	—	—	2,326	—	—	2,326
Net loss	—	—	—	—	(1,610,299)	(1,610,299)
Balance, December 31, 1999	3,177,421	2,889,590	1,180,182	—	(6,264,204)	(2,194,432)
Exchange of shares from related party for note payable	(1,666,667)	(1,000,000)	—	—	—	(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	—	—	13,917
Stock options granted for loan guarantees	—	—	36,289	—	—	36,289
Net loss	—	—	—	—	(415,629)	(415,629)
Balance, December 31, 2000	1,510,754	\$ 1,889,590	\$1,310,308	\$(79,920)	\$(6,679,833)	\$(3,559,855)

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



**TASER INTERNATIONAL, INC.**

**STATEMENTS OF CASH FLOWS  
 For the Years Ended December 31, 1999 and 2000**

	<b>1999</b>	<b>2000</b>
Cash Flows from Operating Activities:		
Net loss	\$(1,610,299)	\$ (415,629)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities —		
Depreciation	179,453	124,803
Change in assets and liabilities:		
Accounts receivable	90,474	(190,760)
Inventory	607,165	(63,002)
Prepays and other	16,598	(10,492)
Accounts payable and accrued liabilities	(152,510)	14,960
Customer deposits	62,317	477,012
Accrued interest	101,650	129,192
	(705,152)	66,084
Cash Flows from Investing Activities:		
Purchases of property and equipment, net	(133,760)	(99,759)
Cash Flows from Financing Activities:		
Net payments under capital leases	(19,195)	(16,266)
Payments on note payable	—	(12,000)
Net proceeds from notes payable to related parties	728,344	163,238
Net borrowings (payments) under line of credit	(1,329,635)	—
Issuance of common stock	1,500,000	—
Deferred compensation	—	(79,920)
Compensatory stock options	2,326	130,126
	881,840	185,178
Net Increase in Cash and Cash Equivalents	42,928	151,503
Cash and Cash Equivalents, beginning of year	11,977	54,905
Cash and Cash Equivalents, end of year	\$ 54,905	\$ 206,408
Supplemental Disclosure:		
Cash paid for interest	\$ 179,171	\$ 239,552
Noncash Investing and Financing Activities:		
Acquisition of property and equipment under capital leases	\$ 33,635	\$ 43,207
Exchange of shares from related party for note payable	\$ —	\$1,000,000

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

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**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 1999 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. During the period leading up to the start of production, the Company's activities included raising capital, hiring key personnel and obtaining the necessary licenses. All production costs during the period from inception through December 31, 1995, consisting of research and development activities and limited product manufacturing, were expensed as incurred.

Through 1996, the Company was developing its signature product, the AIR TASER, and establishing the marketing channels to promote retail sales. Significant nonrecurring expenditures were incurred, including research and development costs, the development of marketing and sales materials, the purchase of the licensing rights to the TASER technology and trademark, and the relocation of the manufacturing operations to Mexico, which resulted in significant operating losses.

In 1997, the Company introduced a new product, the AUTO TASER. As a result of significant expenditures for research and development, manufacturing difficulties, scrap, engineering changes and other costs associated with the start up of this product line, the Company continued to experience operating losses in 1997, 1998 and 1999. This product line was discontinued August 1, 1999.

In 1998, the Company formally changed its name from Air Taser, Inc. to TASER International, Inc. and began development of its ADVANCED TASER product, which was introduced for sale in December 1999.

*b. Financing*

The Company has been financed primarily from bank financing, usually guaranteed by major stockholders, and advances and investment by a number of major stockholders. Since inception, the Company has sustained significant operating losses and has, at December 31, 2000, a deficit in working capital of approximately \$1,009,000. In addition, new capital will be required to fund further product development, market penetration, working capital and future operations. The Company believes that additional financing will be available under terms and conditions that are acceptable to the Company. However, there can be no assurance that additional financing will be available. In the event the Company is unable to obtain the needed financing required, the two major stockholders have guaranteed to fund working capital and operational cash needs through at least December 31, 2001.

*c. Initial Public Offering*

The Company is contemplating an initial public offering (IPO) of 1,000,000 shares of common stock at an estimated price of \$10 per unit, consisting of one share of common stock and one warrant to purchase one share of common stock (Note 10).

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**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.

*b. Inventory*

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

	<u>1999</u>	<u>2000</u>
Raw materials and work-in-process	\$131,007	\$153,506
Finished goods	27,160	67,663
	<u>\$158,167</u>	<u>\$221,169</u>

*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. 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.

*e. Cost of Products Sold*

During 2000, the Company outsourced the assembly of its finished goods, but continued to manufacture certain 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. Prior to August 1999, 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.

At December 31, 1999, included within cost of products sold is a one-time charge related to the phase-out of the AUTO TASER product line of approximately \$355,000.

*f. Revenue Recognition*



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**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*g. 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.

*h. 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 \$24,652 and \$35,035 in 1999 and 2000, respectively. Advertising costs are included in sales, general and administrative expenses in the statements of operations.

*i. Warranty Costs*

The Company warrants its products from manufacturing defects for their lives and will replace any defective units with a new one. Included in accrued liabilities at December 31, 2000 is \$50,000 to cover estimated future warranty costs.

*j. Research and Development Expenses*

The Company expenses research and development costs as incurred. The Company incurred product development expense of \$6,867 and \$7,137 in 1999 and 2000, respectively. Product development costs are included in operating expenses in the statements of operations.

*k. Income Taxes*

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

Subsequent to December 31, 2000, 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 are not available to reduce future taxes payable by the Company as a C corporation.

Upon termination of the S status, the Company is required to implement Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109), which requires the calculation of existing temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Management does not expect such implementation to have a significant impact on the Company.

Had the Company been a C corporation in 1999 and 2000, no federal or state income tax benefit would have



**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*l. 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. Provision for bad debts was \$32,250 and \$72,905 at December 31, 1999 and 2000, respectively.

For the years ended December 31, 1999 and 2000, sales by product were as follows:

	<u>1999</u>	<u>2000</u>
	(000s omitted)	
Sales by product:		
AIR TASER	\$1,327	\$1,241
AUTO TASER	608	24
ADVANCED TASER	80	2,152
Other	351	83
	<u>\$2,366</u>	<u>\$3,500</u>
Geographic:		
United States	52%	82%
Other countries	48	18
	<u>100%</u>	<u>100%</u>

*m. 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 does not have material financial instruments with off-balance sheet risk.

The Company has notes payable to stockholders at varying terms which, based on the short-term nature of the notes and financing obtained from outside sources, the Company believes are stated at their estimated fair market value.

*n. Segment Information*

Effective January 1, 1998, 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.

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*p. Comprehensive Income*

Effective January 1, 1998, the Company 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, 1999 and 2000, the Company did not have any components of comprehensive income.

*q. 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. As a result of anti-dilutive effects, approximately 145,875 and 186,049 options and warrants were not included in the computation of diluted earnings per share for 1999 and 2000, respectively.

*r. Recent Accounting Pronouncements*

Effective January 1, 2000, the Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. During 1999 and 2000, the Company did not have any derivative instruments or hedging activities.

**3. Property and Equipment**

Property and equipment consist of the following at December 31, 1999 and 2000:

	<b>Estimated Useful Lives</b>	<b>1999</b>	<b>2000</b>
Leasehold improvements	5 years	\$ —	\$ 5,000
Production equipment	5 years	335,050	380,326
Telephone and office equipment	5 years	31,535	31,535
Computer equipment	3-5 years	332,460	383,492
Furniture and fixtures	5-7 years	22,767	57,542
		<u>721,812</u>	<u>857,895</u>
Less: accumulated depreciation		(465,702)	(583,622)
		<u>\$ 256,110</u>	<u>\$ 274,273</u>

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**4. 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, 1999 and 2000, was \$147,655 and \$93,241, respectively. Future minimum lease payments under operating leases as of December 31, 2000, are as follows:

2001	\$144,481
2002	142,643
2003	146,362
2004	150,193
2005	154,139
Thereafter	143,156
	<hr/>
Total	\$880,974

*b. Litigation*

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.

In February 2000, the Company was named a defendant in a suit with a former distributor in the state of New York. The distributor alleges unfair termination of the distribution relationship and is seeking substantial damages. The Company believes the case is without significant merit, and intends to vigorously defend itself. In the opinion of management, this dispute will not have a material adverse effect on the Company's financial position.

*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 remaining amounts under the contract upon termination which could total \$510,000.

**5. Income Taxes**

Concurrently with the change in tax status as discussed in Note 2, the Company will adopt 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 the deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

would provide a full valuation reserve for the deferred tax asset because the Company has not sustained taxable net income in any periods at sufficient levels to assure realization:

Deferred tax assets:	
Nondeductible reserves for bad debts, sales returns and other	\$ 42,171
Depreciation	26,646
Valuation reserve	(68,817)
	<u>          </u>
	\$ —

**6. Line of Credit**

During 1999, the Company had a line of credit with a bank with a total commitment of up to \$1,500,000. The line was used to fund the Company's working capital needs, and was personally guaranteed by two stockholders, had an interest rate of 10% and was secured by virtually all of the assets of the Company. At December 31, 1998, borrowings under the line were \$1,329,600. The line matured and was paid in full on February 15, 1999.

**7. Inventory Financing Agreement**

The Company has entered into an inventory financing agreement with its warehouser and minority stockholder. Under the agreement, the Company has the right to sell its product to the warehouser 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 bears interest at 10% and is paid monthly and matured March 31, 2000. As of December 31, 2000, no amounts of principal have been paid on this note and the balance is recorded as a current payable.

**8. Notes Payable**

At December 31, 1999 and 2000 debt obligations were as follows:

	<u>1999</u>	<u>2000</u>
Notes payable to stockholders, interest at varying rates of 9% to 27%, principal and interest due July 1, 2002	\$ 1,678,010	\$2,878,010
Note payable to stockholder, interest at 9.18% payable monthly, principal matures July 15, 2001	61,545	24,783
Note payable to private investor, interest at 11%, payable monthly, principal matured June 30, 2000	112,000	100,000
Capital leases, interest at varying rates of 7% to 23%, due in monthly installments through December 2005, secured by equipment	39,155	66,096
	<u>1,890,710</u>	<u>3,068,889</u>
Less: Current portion	(1,795,950)	(246,745)
Total	<u>\$ 94,760</u>	<u>\$2,822,144</u>

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

At December 31, 2000, aggregate annual maturities of long-term debt and capital leases were as follows:

2001	\$ 246,745
2002	2,809,359
2003	5,308
2004	3,589
2005	3,888
	<hr/>
	<u>\$3,068,889</u>

During 1998, a significant stockholder 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. In December 1998, the Company issued a promissory note for \$455,691, the remaining amounts 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, another stockholder 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 amounts 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, a stockholder 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 the stockholder at a fair market value of \$0.60 per share. The stock issued 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 carries interest at bank prime (9.5% at December 31, 2000) plus 1% and matures July 1, 2002.

In March 1999, the Company issued a promissory note to a stockholder 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 a stockholder for \$99,794 at an interest rate of 10% which matures July 1, 2002.

In July 1999, the Company issued a promissory note to a stockholder 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 a stockholder for \$200,000 to fund working capital needs at an interest rate of 10% which matures on July 1, 2002.

In January 2001, the Company issued a promissory note to a private investor to fund working capital for \$500,000 at an interest rate of 18% which matures the earlier of the close of the IPO or July 1, 2002.

**9. Stockholders' Equity**



**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

\$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 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, 2000, the Company has warrants outstanding to purchase 42,747 shares of common stock at prices ranging from \$0.24 to \$21.00 per share with an average exercise price of \$3.49 per share and a weighted average useful life of 3.58 years. A summary of warrants outstanding and exercisable at December 31, 2000 is presented in the table below:

Weighted Average Exercise Price	Outstanding	
	Warrants	Expiration Date
\$21.00	3,333	7/31/05
0.24	16,667	1/1/03
3.30	22,727	7/31/05
<u>\$ 3.49</u>	<u>42,727</u>	

In 2000, the Company issued 22,727 warrants to a stockholder as a loan guarantee. The warrants are exercisable at \$3.30 per share and expire July 31, 2005. These warrants have been recorded at fair value as additional paid-in capital and the related expense recorded in the accompanying financial statements.

In January 2001, the Company issued 5,000 warrants to a private investor as a loan guarantee and 5,000 warrants to its attorney related to the IPO. These warrants are exercisable at \$10 per share and expire January 1, 2006.

*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 13,333 options at an exercisable price of \$3.30. These options have been recorded at fair value as deferred compensation in the accompanying balance sheets and will be amortized into

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

The directors of the Company adopted the Company's 1998-1999 Stock Option Plan. The 1998-1999 Plan was administered by the Board of Directors which determined the employees, directors or consultants which will be granted options and the terms of the options, including the vesting provision which typically is over a three-year period.

The 1998-1999 Plan and options previously granted were voluntarily canceled by the recipients.

The Company has a 1999 Stock Option Plan (the "1999 Plan") that provides for officers, key employees and consultants to receive nontransferable stock options to purchase up to 833,333 shares of the Company's common stock. The term of the options may not exceed ten years although most options granted had an initial expiration period of between five and seven years. In 1998, the Company had a similar plan which was cancelled in 1999.

In 1999, the Company issued 16,667 five-year options to a stockholder at an exercise price of \$0.66 per share for consulting services, and 3,959 ten-year options to a lender at an exercise price of \$7.20 per share for a loan guarantee. In 2000, the Company issued 4,697 ten-year options to a non-employee at an exercise price of \$3.30 per share for consulting services, and 3,333 five-year options to a stockholder at an exercise price of \$0.24 per share for a loan guarantee. These options have been recorded at fair value as additional paid-in capital and the related expense recorded in the year in which the service is provided in the accompanying financial statements. In 2000, the 1999 Plan was cancelled.

A summary of the Company's stock options at December 31, 1999 and 2000 and for the years then ended is presented in the table below:

	1999		2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	65,334	\$6.37	124,875	\$0.82
Granted	124,791	0.82	18,530	3.30
Exercised	—	—	—	—
Expired/terminated	(65,250)	6.38	(83)	0.24
Options outstanding, end of year	124,875	\$0.82	143,322	\$1.14
Exercisable at end of year	42,352	\$1.21	84,979	\$1.02

Stock options outstanding and exercisable at December 31, 2000 are as follows:

Average Exercise Price	Outstanding		Exercisable	
	Options	Average Life(a)	Options	
\$0.24	3,333	3.50	3,333	
0.60	80,833	7.52	50,718	
0.66	36,667	3.00	23,426	
7.20	3,959	2.51	3,959	

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

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 6.64 years. Had the Company’s compensation cost been determined using the fair value based method of accounting prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company’s net loss and net loss per common share would have been adjusted to the following pro forma amounts (amounts in thousands except per common share amounts):

	<u>Year Ended December 31,</u>	
	<u>1999</u>	<u>2000</u>
Net loss available to common stockholders:		
As reported	\$(1,610)	\$ (416)
Pro forma	(1,633)	(440)
Basic and diluted net loss per common share:		
As reported	\$ (0.52)	\$(0.17)
Pro forma	(0.53)	(0.18)

In January 2001, the Company adopted the 2001 Stock Option Plan (the “2001 Plan”) that 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 issued 291,000 ten year options to employees, shareholders and consultants at exercise prices ranging from \$8.00 to \$8.80 per share.

**10. Subsequent Event**

The Company intends to file an SB-2 registration statement offering 1,000,000 units at an estimated initial offering price of \$10 per unit consisting of one share of common stock and one warrant to purchase one share of common stock. Also, the Company intends to issue to the representative of the IPO’s underwriters warrants which enable the representative to acquire 100,000 units for 120% of the IPO unit offering price.

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**You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from the information contained in this prospectus. We are offering to sell, and seeking offers to buy, units only in jurisdictions in which offers and sales are permitted.**

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**Until \_\_\_\_\_, 2001 (25 days after the date of this prospectus), all broker-dealers that effect the transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.**

**1,000,000 UNITS**

**[TASER LOGO]**

**PROSPECTUS**

**PAULSON INVESTMENT  
COMPANY, INC.**

February [ ], 2001

**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 24. Indemnification of Directors and Officers.**

Our certificate of incorporation allows and our bylaws require that we indemnify our directors and officers who are or were a party to, or are threatened to be made a party to, any proceeding (including a derivative action if the director or officer is not found liable to us), against all expenses reasonably incurred by a director or officer in connection with such a proceeding (including expenses, judgments, fines and amounts paid in settlement), if the director or officer acted in good faith, in a manner he or she believed was not opposed to our best interests, and, with respect to a criminal proceeding, had no reason to believe that his or her conduct was unlawful.

We have entered into separate indemnification agreements with each of our directors and officers. The agreements provide for mandatory indemnification for and limit the liability of our directors and officers in serving us to the fullest extent permitted by the Delaware General Corporation Law. Specifically, under the agreements, our directors and officers will not be personally liable for monetary damages for their errors or omissions, except for liability for the breach of a director's or officer's duty of loyalty to us or our stockholders, for intentional misconduct or acts not in good faith, for making any unlawful distribution, for any transaction from which the director or officer derived an improper benefit, or for violating section 16(b) of the Securities Exchange Act of 1934, as amended, or similar laws.

Our bylaws and indemnification agreements generally require that we advance to our directors and officers expenses incurred by them in defending a proceeding in advance of its final disposition, provided that the director or officer agrees to reimburse us for such advances if it is ultimately found that the director or officer is not entitled to indemnification. In addition, our bylaws permit us to purchase insurance on behalf of our directors and officers against any liability asserted against them in such capacity. We intend to obtain such insurance.

**Item 25. Other Expenses of Issuance and Distribution.**

The following table sets forth an itemization of SEC Registration, NASD filing and Nasdaq listing fees, and all other estimated expenses, all of which we will pay, in connection with the issuance and distribution of the securities being registered:

Nature of Expense	Amount
SEC Registration fee	\$ 8,649
NASD Filing fees	3,960
Nasdaq Listing fee	8,000
Accounting fees and expenses	125,000
Legal fees and expenses	125,000
Directors and officers insurance expenses	150,000
Printing and related expenses	145,000
Blue sky legal fees and expenses	65,000
Transfer agent fees and expenses	1,250
Miscellaneous expenses	18,131
Total	<u>\$650,000</u>

**Item 26. Recent Sales of Unregistered Securities.**



(1) In March 1998, pursuant to an exemption under Section 4(2) of the Securities Act, we sold shares of our common stock as follows: 20,833 shares at \$7.20 per share for an aggregate purchase price of \$150,000 to Bruce R. Culver; and 20,833 shares at \$7.20 per share for an aggregate purchase price of \$150,000 to Phillips W. Smith.

(2) In January 1999, pursuant to an exemption under Section 4(2) of the Securities Act, we sold shares of our common stock as follows: 1,666,667 shares at \$0.60 per share for an aggregate purchase price of \$1,000,000 to Bruce R. Culver. These shares were subject to a repurchase option that was exercised by us in July 2000 at the same price (\$0.60 per share) for an aggregate purchase price of \$1,000,000.

(3) In September 1999, pursuant to an exemption under Section 4(2) of the Securities Act, we sold shares of our common stock as follows: 151,515 shares at \$3.30 per share for an aggregate purchase price of \$500,000 to Bruce R. Culver.

**Item 27. Exhibits.**

Exhibit No.	Description
1.1	Form of Underwriting Agreement
3.1	Registrant's Certificate of Incorporation
3.2	Registrant's Bylaws
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*
4.3	Form of Public Warrant
4.4	Form of Unit Certificate*
4.5	Form of Warrant Agent Agreement*
4.6	Form of Representative's Warrant*
5.1	Opinion of Tonkon Torp LLP*
10.1	Employment Agreement with Patrick W. Smith, dated July 1, 1998
10.2	Employment Agreement with Thomas P. Smith, dated November 15, 2000
10.3	Employment Agreement with Kathleen C. Hanrahan, dated November 15, 2000
10.4	Form of Indemnification Agreement between the Registrant and its directors
10.5	Form of Indemnification Agreement between the Registrant and its officers
10.6	1999 Employee Stock Option Plan
10.7	2001 Stock Option Plan*
10.8	Form of Warrant issued to Bruce Culver and Phil Smith
10.9	Licensing Agreement with respect to intellectual property dated October 15, 1993, as amended, by and between the Registrant and John H. Cover, Jr., and related documents
10.10	Promissory Note, dated January 23, 2001 payable to Phillip Purer in the amount of \$500,000 and related security documents
10.11	Promissory Note, dated December 31, 1998, payable to B & M Distributing, Inc., in the amount of \$189,980 and related guarantee and security documents
10.12	Promissory Note dated October 24, 2000, payable to Bank of America in the amount of \$60,000 and related guarantee and security documents
10.13	Form of Promissory Notes issued to stockholders
10.14	Lease between the Registrant and Norton P. Remes and Joan A. Remes Revocable Trust, dated November 17, 2000

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**Exhibit  
No.**

**Description**

23.1	Consent of Tonkon, Torp LLP (included in Exhibit 5.1)
23.2	Consent of Arthur Andersen LLP, independent public accountants
24	Power of Attorney. Reference is made to the signature page.

\* To be filed by amendment.

**Item 28. Undertakings.**

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by a director, officer or controlling person of us in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

We hereby undertake to:

(1) File, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act");

(ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement; and notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the dollar value of the securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) under the Securities Act if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) Include any additional or changed material information on the plan of distribution.

(2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(4) For purposes of determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act as

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registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

In addition, we hereby undertake to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

[B/E]

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## SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, in the City of Scottsdale, Arizona on February 13, 2001.

TASER INTERNATIONAL, INC.

BY: /s/PATRICK W. SMITH

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Patrick W. Smith, *Chief Executive Officer*

Know all men by these presents, that each person whose signature appears below hereby constitutes and appoints Patrick W. Smith and Phillips W. Smith and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, or any registration statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto, and other documents in connection therewith,

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defaulting Underwriters or of the Company except to the extent provided in Section 8 hereof. In the event of a default by any Underwriter or Underwriters, as set forth in this Section 9, the Closing Date or Option Closing Date, as the case may be, may be postponed for such period, not exceeding seven days, as you, as Representative, may determine in order that the required changes in the Registration Statement or in the Prospectus or in any other documents or arrangements may be effected. The term "Underwriter" includes any person substituted for a defaulting Underwriter. Any action taken under this Section 9 shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

10. NOTICES.

All communications hereunder shall be in writing and, except as otherwise provided herein, will be mailed, delivered or telecopied and confirmed as follows: if to the Underwriters, to the Representative of the Underwriters, Paulson Investment Company, Inc., 811 SW Naito Parkway, Portland, Oregon 97204, Attention: Chester L.F. Paulson; with a copy to Weiss, Jensen, Ellis & Howard, P.C., U.S. Bancorp Tower, Suite 2300, 111 S.W. Fifth Avenue, Portland, Oregon 97204, Attention: Mark A. von Bergen, Esq.; if to the Company, to TASER International, Inc., 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260, Attention: Patrick W. Smith; with a copy to Tonkon Torp LLP, 888 S.W. Fifth Avenue, Suite 1600, Portland, Oregon 97204, Attention: Thomas P. Palmer, Esq.

11. TERMINATION.

This Agreement may be terminated by the Representative by notice to the Company as follows:

(a) at any time prior to the earlier of (i) the time the Firm Units are released to the Representative for sale by notice to the Underwriters, or (ii) 11:30 a.m. on the first business day following the date of this Agreement;

(b) at any time prior to the Closing Date if any of the following has occurred: (i) since the respective dates as of which information is given in the Registration Statement and the Prospectus, any material adverse change or any development involving a prospective material adverse change in or affecting the condition, financial or otherwise, of the Company, the earnings, business, management, properties, assets, rights, operations, condition (financial or otherwise) or prospects of the Company, whether or not arising in the ordinary course of business, (ii) any outbreak or escalation of hostilities or declaration of war or national emergency or other national or international calamity or crisis or change in economic or political conditions if the effect on the financial markets of the United States of such outbreak, escalation, declaration, emergency, calamity, crisis or change would, in the Representative's reasonable judgment, make it impracticable to market the Units or to enforce contracts for the sale of the Units, (iii) the Dow Jones Industrial Average shall have fallen by 15 percent or more from its closing price on the day immediately preceding the date that the Registration Statement is declared effective by the Commission, (iv) suspension of trading in securities generally on the New York Stock Exchange or the American Stock Exchange or limitation on prices (other than limitations on hours or numbers of days of trading) for securities on either such Exchange,

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(v) the enactment, publication, decree or other promulgation of any statute, regulation, rule or order of any court or other governmental authority which in the opinion of the Representative materially and adversely affects or may materially and adversely affect the business or operations of the Company, (vi) declaration of a banking moratorium by United States or New York State authorities, (vii) any downgrading in the rating of the Company's debt securities by any "nationally recognized statistical rating organization" (as defined for purposes of Rule 436(g) under the Exchange Act); (viii) the suspension or halt of trading of the Units, the Common Stock or the Warrants on the Nasdaq Stock Market or (ix) the taking of any action by any governmental body or agency in respect of its monetary or fiscal affairs which in your reasonable opinion has a material adverse effect on the securities markets in the United States; or

(c) as provided in Sections 6 and 9 of this Agreement.

12. SUCCESSORS.

This Agreement has been and is made solely for the benefit of the Underwriters, the Company and their respective successors, executors, administrators, heirs and assigns, and the officers, directors and controlling persons referred to herein, and no other person will have any right or obligation hereunder. No purchaser of any of the Units from any Underwriter shall be deemed a successor or assign merely because of such purchase.

13. INFORMATION PROVIDED BY UNDERWRITERS.

The Company and the Underwriters acknowledge and agree that the only information furnished or to be furnished by any Underwriter to the Company for inclusion in the Prospectus or the Registration Statement consists of the information set forth in the last paragraph on the front cover page of the Prospectus (insofar as such information relates to the Underwriters), the legends required by Item 502(d) of Regulation S-B under the Act and the information under the caption "Underwriting" in the Prospectus.

14. MISCELLANEOUS.

The reimbursement, indemnification and contribution agreements contained in this Agreement and the representations, warranties and covenants in this Agreement shall remain in full force and effect regardless of (a) any termination of this Agreement, (b) any investigation made by or on behalf of any Underwriter or controlling person thereof, or by or on behalf of the Company or its directors or officers and (c) delivery of and payment for the Units under this Agreement.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of Oregon. All disputes relating to this Underwriting Agreement shall be adjudicated before a court located in Multnomah County, Oregon to the exclusion of all other courts that might have jurisdiction.

TASER International, Inc.  
Underwriting Agreement  
Page 25

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If the foregoing letter is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicates hereof, whereupon it will become a binding agreement among the Company and the several Underwriters in accordance with its terms.

Very truly yours,

TASER International, Inc.

By: \_\_\_\_\_  
Patrick W. Smith,  
Chief Executive Officer

TASER International, Inc.  
Underwriting Agreement  
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The foregoing Underwriting Agreement is hereby confirmed and accepted as of the date first above written.

As Representative of the several Underwriters listed on Schedule I

PAULSON INVESTMENT COMPANY, INC.

By: \_\_\_\_\_  
Authorized Officer

TASER International, Inc.  
Underwriting Agreement  
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SCHEDULE I  
SCHEDULE OF UNDERWRITERS

Number of Firm Units to be Purchased

Paulson Investment Company, Inc.

Total

TASER International, Inc.  
Underwriting Agreement  
Schedule of Underwriters  
Page 1

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Exhibit 3.1

CERTIFICATE OF INCORPORATION  
OF  
TASER INTERNATIONAL, INC.

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

1. The name of the corporation is TASER International, Inc. (the "Corporation").

2. The street and the mailing address of the Corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, State of Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

3. The purpose of the Corporation is to conduct any lawful business, to promote any lawful purpose, and to engage in any lawful act or activity for which corporations may be organized under the Law.

4. (a) The Corporation is authorized to issue a total of 75,000,000 shares of two classes of stock: 50,000,000 shares of Common Stock, par value \$.00001 per share; and 25,000,000 shares of Preferred Stock, par value \$.00001 per share.

(b) Holders of Common Stock are entitled to one vote per share on any matter submitted to the stockholders. On dissolution of the Corporation, after any preferential amount with respect to any series of Preferred Stock has been paid or set aside, the holders of Common Stock and the holders of any series of Preferred Stock entitled to participate in such distribution of assets are entitled to receive the net assets of the Corporation.

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

(i) The number of shares in and the distinguishing designation of that series;

(ii) Whether shares of that series will have full, special, conditional, limited or no voting rights, except to the extent otherwise provided by the Law;

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(iii) Whether shares of that series will be convertible and the terms and conditions of the conversion, including provision for adjustment of the conversion rate in circumstances determined by the Board of Directors;

(iv) Whether shares of that series will be redeemable and the terms and conditions of the redemption, including the date or dates upon or after which they will be redeemable and the amount per share payable in case of redemption, which amount may vary under different conditions or at different redemption dates;

(v) The dividend rate, if any, on shares of that series, the manner of calculating any dividends and the preferences of any dividends;

(vi) The rights of shares of that series in the event of voluntary or involuntary dissolution of the Corporation and the right of priority of that series relative to the Common Stock and any other series of Preferred Stock on the distribution of assets on dissolution; and

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

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

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

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

(b) The Board of Directors of the Corporation shall be divided into three (3) classes designated Class A, Class B and Class C, respectively, as nearly equal in number as possible, with each director in office at the time of such initial classification receiving the classification approved by a majority of the Board of Directors. The initial term of office of directors of Class A shall expire at the annual meeting of stockholders of the Corporation in 2001, of Class B shall expire at the annual meeting of stockholders of the Corporation in 2002, and of Class C shall expire at the annual meeting of stockholders of the Corporation in 2003, and in all cases a director shall serve until the director's successor is elected and qualified or until the director's earlier death, resignation or removal. At each annual meeting of stockholders beginning

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with the annual meeting of stockholders in 2001, each director elected to succeed a director whose term is then expiring shall hold office until the third annual meeting of stockholders after his or her election and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. If the number of directors that constitutes the whole Board of Directors is changed as permitted by this Article, a majority of the whole Board of Directors that adopts the change shall also fix and determine the number of directors comprising each class; provided, however, that any increase or decrease in the number of directors shall be apportioned among the classes as equally as possible.

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

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

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

6. (a) All of the power of the Corporation, insofar as it may be lawfully vested by this Certificate of Incorporation in the Board of Directors, is hereby conferred upon the Board of Directors. In furtherance of and not in limitation of that

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

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

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

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

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bylaw, agreement, general or specific action of the Board of Directors, vote of stockholders or other document or arrangement.

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

10. The name and mailing address of the incorporator is Jeffrey S. Cronn, 1600 Pioneer Tower, 888 S.W. Fifth Avenue, Portland, Oregon 97204

IN WITNESS WHEREOF, the undersigned has signed this Certificate of Incorporation on the 5th day of January, 2001.

-----  
Jeffrey S. Cronn, Sole Incorporator

Certificate of Incorporation  
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Exhibit 3.2

BYLAWS OF TASER INTERNATIONAL, INC.,  
a Delaware corporation

Adopted January 6, 2001

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BYLAWS OF TASER INTERNATIONAL, INC.

ARTICLE I: OFFICES

Section 1.01 Registered Office.

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

Section 1.02. Other Offices.

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

ARTICLE II: MEETINGS OF STOCKHOLDERS

Section 2.01. Place of Meetings.

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

Section 2.02. Time of Meetings.

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

Section 2.03. Annual Meetings.

Section 2.03-a. Business to be Transacted. Except as otherwise required by law or regulation, no business proposed by a stockholder to be considered at an annual meeting of the stockholders (including the nomination of any person to be elected as a director of the Corporation) shall be considered by the stockholders at that meeting unless, no later than sixty (60) days before the annual meeting of stockholders or (if later) ten (10) days after the first public notice of that meeting is sent to stockholders, the Corporation receives from the stockholder proposing that business a written notice that sets forth: (1) the nature of the proposed business with reasonable particularity, including the exact text of any proposal to be presented for adoption, and the reasons for conducting that business at the annual meeting; (2) with respect to each such stockholder, that stockholder's name and address (as they appear on the records of



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the Corporation), business address and telephone number, residence address and telephone number, and the number of shares of each class of stock of the Corporation beneficially owned by that stockholder; (3) any interest of the stockholder in the proposed business; (4) the name or names of each person nominated by the stockholder to be elected or re-elected as a director, if any; and (5) with respect to each nominee, that nominee's name, business address and telephone number, and residence address and telephone number, the number of shares, if any, of each class of stock of the Corporation owned directly and beneficially by that nominee, and all information relating to that nominee that is required to be disclosed in solicitations of proxies for elections of directors, or is other required, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, or any provision of law subsequently replacing Regulation 14A, together with a duly acknowledged letter signed by the nominee stating his or her acceptance of the nomination by that stockholder, stating his or her intention to serve as a director if elected, and consenting to being named as a nominee for director in any proxy statement relating to such election. The person presiding at the annual meeting shall determine whether business (including the nomination of any person as a director) has been properly brought before the meeting and, if the facts so warrant, shall not permit any business (or voting with respect to any particular nominee) to be transacted that has not been properly brought before the meeting. Notwithstanding any other provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of the holders of not less than seventy-five percent (75%) of the voting power of the then outstanding shares of capital stock entitled to vote thereon (the "Voting Stock"), voting together as a single class, shall be required to amend or repeal, or to adopt a provision inconsistent with, this Section 2.03-a.

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

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

#### Section 2.04. Special Meetings.

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



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Section 2.05. Purpose of Special Meeting.

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

Section 2.06. Notice of Meetings.

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

Section 2.07. Waiver of Notice.

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

Section 2.08. Quorum; Adjournment.

The holders of a majority of the voting power of all shares entitled to vote, present in person or represented by proxy, shall constitute a quorum for the transaction of all business at meetings of the stockholders, except as may be otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the original meeting in accordance with the notice thereof. If a quorum is present when a duly called or held meeting is convened, the stockholders present in person or represented by proxy may continue to transact business until adjournment notwithstanding the withdrawal of enough stockholders originally present in person or by proxy to leave less than a quorum, and for the purposes of voting pursuant to Section 2.09 hereof, stockholders holding a majority of the voting power of all shares entitled to vote shall be deemed to be present in person.

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Section 2.09. Vote Required.

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

Section 2.10. Voting Rights.

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

Section 2.11. Proxies.

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

An appointment of a proxy or proxies for shares held jointly by two or more stockholders is valid if signed by any one of them, unless and until the Corporation receives from any one of those stockholders written notice denying the authority of such other person or persons to appoint a proxy or proxies or appointing a different proxy or proxies, in which case no proxy shall be appointed unless the instrument shall otherwise provide. No proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. Subject to the above, any duly executed proxy shall continue in full force and effect and shall not be revoked unless written notice of its revocation or a duly executed proxy bearing a later date is filed with the Secretary of the Corporation. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable proxy.

Section 2.12. Action in Writing.

Subject to the terms of any preferred stock of the Corporation, any action required or permitted to be taken by the stockholders of the Corporation must be taken at a duly called

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annual or special meeting of such stockholders or by written consent of all (but not less than all) stockholders entitled to vote in lieu of such a meeting.

Section 2.13. Closing of Books; Record Date.

The Board of Directors may fix, or authorize an officer to fix, a date, not more than sixty (60) nor less than ten (10) days preceding the date of any meeting of the stockholders of the Corporation, as a record date for the determination of the stockholders of record on the date so fixed or their legal representatives shall be entitled to notice of and to vote at such meeting, notwithstanding any transfer of shares on the books of the Corporation against the transfer of shares during the whole or any part of such period.

ARTICLE III: DIRECTORS

Section 3.01. General Powers.

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

Section 3.02. Number and Qualification.

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

Section 3.03. Classes and Terms.

The Board of Directors of the Corporation shall be divided into three classes designated Class A, Class B, and Class C, respectively, all as nearly equal in number as possible, with each director then in office receiving the classification that at least a majority of the Board of Directors designates. The initial term of office of directors of Class A shall expire at the annual meeting of stockholders of the Corporation in 2001, of Class B shall expire at the annual meeting of stockholders of the Corporation in 2002, and of Class C shall expire at the annual meeting of stockholders of the Corporation in 2003, and in all cases a director shall serve until the director's successor is elected and qualified or until his earlier death, resignation or removal. At each annual meeting of stockholders beginning with the annual meeting of stockholders in 2001, each director elected to succeed a director whose term is then expiring shall hold office until the third annual meeting of stockholders after his or her election and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. If the number of directors that constitutes the whole Board of Directors is changed as permitted by the

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Certificate of Incorporation or these Bylaws, the majority of the whole Board of Directors that adopts the change shall also fix and determine the number of directors comprising each class; provided, however, that any increase or decrease in the number of directors shall be apportioned among the classes as equally as possible. Notwithstanding any provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of 75% of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Section 3.03.

#### Section 3.04. Vacancies.

Vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office, or other cause, and newly-created directorships resulting from any increase in the authorized number of directors, may be filled by no less than a majority vote of the remaining directors then in office, though less than a quorum, who are designated to represent the same class or classes of stockholders that the vacant position, when filled, is to represent or by the sole remaining director (but not by the stockholders except as required by law); provided, however, that, with respect to any directorship to be filled by the Board of Directors by reason of an increase in the number of directors: (a) such directorship shall be for a term of office continuing only until the next election of one or more directors by the stockholders; and (b) the Board of Directors may not fill more than two such directorships during the period between any two successive annual meetings of stockholders. Each director chosen in accordance with this provision shall receive the classification of the vacant directorship to which he or she has been appointed or, if it is a newly-created directorship, shall receive the classification that at least a majority of the Board of Directors designates and shall hold office until the first meeting of stockholders held after his or her election for the purpose of electing directors of that classification and until his or her successor is elected and qualified or until his or her earlier death, resignation, or removal from office. Notwithstanding any provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of 75 % of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Section 3.04.

#### Section 3.05. Meetings.

Section 3.05-a. Place of Meetings. The Board of Directors may hold meetings, both regular and special, either within or without the State of Delaware.

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

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State of Delaware as shall from time to time be determined by resolution of the Board of Directors.

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

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

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

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

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

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

Section 3.05-h. Absent Directors. A director may give advance written consent or opposition to a proposal to be acted on at a meeting of the Board of Directors. Such advance written consent or opposition shall be ineffective unless the writing is delivered to the Chief Executive Officer, Chairman or Secretary of the Corporation prior to the meeting at which such proposal is to be considered. If the director is not present at the meeting, consent or opposition to a proposal does not constitute presence for purposes of determining the existence

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of a quorum, but such consent or opposition shall be counted as a vote in favor of or against the proposal and shall be entered in the minutes or other record of action at the meeting, if the proposal acted on at the meeting is substantially the same or has substantially the same effect as the proposal to which the director has consented or objected, such substantial similarity to be determined in the sole judgment of the presiding officer at the meeting.

#### Section 3.06. Committees.

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

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

(a) Approving or adopting, or recommending to the stockholders any action or matter expressly required by law to be submitted to stockholders for approval; or

(b) Adopting, amending or repealing any bylaw of the Corporation.

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

#### Section 3.07. Telephone Conference Meetings.

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

#### Section 3.08. Compensation.

Unless otherwise provided by the Board of Directors, directors shall be paid their expenses, if any, of attendance at each meeting of the Board of Directors or a committee thereof. Directors who are not employees of the Corporation shall be paid at least \$500 for attendance at each meeting of the Board of Directors, or any committee thereof, unless a different sum is fixed by resolution of the Board of Directors. directors may also receive other compensation, such as stock options or grants, for their service as directors or committee members as determined by the

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Board of Directors. Nothing herein contained shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 3.09. Limitation of Director Liability.

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

Section 3.10. Resignation and Removal.

A director may resign at any time by giving written notice to the Secretary or Assistant Secretary. Such resignation shall take effect on the date of the receipt of such notice or at such later date as specified therein. A director of any class of directors of the Corporation may be removed before the expiration date of that director's term of office only by an affirmative vote of the holders of seventy-five percent (75%) of the voting power of the Voting Stock, voting together as a single class. Notwithstanding any provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of 75% of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Section 3.10.

ARTICLE IV: OFFICERS

Section 4.01. Selection: Qualifications.

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

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



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Section 4.02. Salaries.

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

Section 4.03. Term of Office.

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

Section 4.04. Chairman of the Board.

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

Section 4.05. Chief Executive Officer.

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

Section 4.06. President.

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



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Section 4.07. Vice-Presidents.

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

Section 4.08. Secretary and Assistant Secretary.

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

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

Section 4.09. Chief Financial Officer.

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

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

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

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ARTICLE V. CERTIFICATES FOR SHARES

Section 5.01. Issuance of Shares and Fractional Shares.

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

Section 5.02. Form of Certificate.

The shares of the Corporation shall be represented by certificates, provided that the Board of Directors of the Corporation may resolve that some or all of any or all classes or series of its stock will be uncertificated shares as provided in Section 5.06. Certificates shall be signed by the Chairman of the Board or the President and by the Secretary or Assistant Secretary of the Corporation, certifying the number of shares of capital stock owned by him in the Corporation. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the designations, preferences, and relative, participating, optional, or other special rights of the various classes of stock or series thereof and the qualifications, limitations, or restrictions of such rights, together with a statement of the authority of the Board of Directors to determine the relative rights and preferences of subsequent classes or series, shall be set forth in full on the face or back of the certificate which the Corporation shall issue to represent such stock, or, in lieu thereof, such certificate shall contain a statement that the stock is, or may be, subject to certain rights, preferences, or restrictions and that a statement of the same will be furnished without charge by the Corporation upon request by any stockholder. Certificates representing the shares of the capital stock of the Corporation shall be in such form not inconsistent with law or the Certificate of Incorporation or these Bylaws as shall be determined by the Board of Directors.

Section 5.03. Facsimile Signatures.

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

Section 5.04. Lost, Stolen, or Destroyed Certificates.

The Board of Directors may direct a certificate or certificates to be issued in place of a certificate or certificates previously issued by the Corporation alleged to have been lost,

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

#### Section 5.05. Transfers of Stock.

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

#### Section 5.06. Uncertificated Shares.

Unless prohibited by the Certificate of Incorporation or these Bylaws, some or all of any or all classes and series of the Corporation's shares may be uncertificated shares. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares, such uncertificated shares shall be canceled and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the Corporation. Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the new stockholder the information required by Section 5.02 to be stated on certificates. If this Corporation becomes a publicly held corporation which adopts, in compliance with Section 17 of the Securities Exchange Act of 1934, a system of issuance, recordation, and transfer of its shares by electronic or other means not involving an issuance of certificates, this information is not required to be sent to new stockholders.

#### Section 5.07. Closing of Transfer Books: Record Date.

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

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rights, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the stockholders entitled to receive payment.

Section 5.08. Registered Stockholders.

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

Section 5.09. Stock Options and Agreements.

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

ARTICLE VI: DIVIDENDS

Section 6.01. Method of Payment.

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

Section 6.02. Closing of Books: Record Date.

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



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Section 6.03. Reserves.

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

ARTICLE VII: CHECKS

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

ARTICLE VIII: CORPORATE SEAL

The Corporation shall have no corporate seal.

ARTICLE IX: FISCAL YEAR

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

ARTICLE X: AMENDMENTS

These Bylaws shall not be adopted, altered, amended or repealed except in accordance with the provisions of the Certificate of Incorporation and these Bylaws. Unless a different requirement is mandated by the Certificate of Incorporation or these Bylaws, adoption, alteration, amendment or repeal of these Bylaws requires the affirmative action of a majority of the directors then in office or the vote of the holders of not less than seventy-five percent (75%) of the Voting Stock, voting together as a single class, at an annual meeting of the stockholders or any special meeting of the stockholders.

ARTICLE XI: BOOKS AND RECORDS

Section 11.01. Books and Records.

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

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

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

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

Section 11.02. Computerized Records.

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

Section 11.03. Examination and Copying by Stockholders.

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

ARTICLE XII: LOANS AND ADVANCES

Section 12.01. Loans, Guarantees, and Suretyship.

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

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

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

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ARTICLE XIII: INDEMNIFICATION

Section 13.01. Directors and Officers

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

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

Section 13.02. Employees and Other Agents

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

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Section 13.03. Good Faith.

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

1. one or more officers or employees of the Corporation whom the director or officer believed to be reliable and competent in the matters presented;

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

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

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

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

Section 13.04. Advances of Expenses

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

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made and to be made pursuant to this Section 13.04 or of other liability incurred by the director or officer in connection with any proceeding.

#### Section 13.05. Enforcement

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

#### Section 13.06. Non-Exclusivity of Rights

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

#### Section 13.07. Survival of Rights

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

#### Section 13.08. Insurance

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

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Section 13.09. Amendments

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

Section 13.10. Savings Clause

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

Section 13.11. Certain Definitions

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

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

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

Section 13.11-c. References to "OTHER ENTERPRISE" include, without limitation, employee benefit plans; references to "FINES" include, without limitation, any excise taxes assessed on a person with respect to any employee benefit plan; references to "SERVING AT THE REQUEST OF THE CORPORATION" include, without limitation, any service as a director, officer, employee or agent which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or its beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "NOT OPPOSED TO THE BEST INTERESTS OF THE CORPORATION" as referred to in this Article XIII.

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

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surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

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

#### Section 13.12. Notification and Defense of Claim

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

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

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

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

Section 13.11-d. The Corporation shall not be liable to indemnify the director or officer under this Article XIII for any amounts paid in settlement of any proceeding

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effected without its written consent, which shall not be unreasonably withheld. The director or officer shall permit the Corporation to settle any proceeding that the Corporation assumes the defense of, except that the Corporation shall not settle any action or claim in any manner that would impose any penalty or limitation on the director or officer without such person's written consent.

#### Section 13.13. Exclusions

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

#### Section 13.14. Subrogation

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

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ARTICLE XIV: DEFINITIONS AND USAGE

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

KNOW ALL PERSONS BY THESE PRESENTS, that the undersigned Secretary of the Corporation, does hereby certify that the foregoing Bylaws were duly adopted as the Bylaws of the Corporation in accordance with the Delaware General Corporation Law on January 6, 2001.

Dated: January 6, 2001.

-----  
Kathleen C. Hanrahan, Secretary

Bylaws - Taser International, Inc.  
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Exhibit 4.3

VOID AFTER 5:00 P.M. PACIFIC TIME ON \_\_\_\_\_, 2006

WARRANTS TO PURCHASE COMMON STOCK

W-\_\_\_\_\_ Warrants

TASER INTERNATIONAL, INC.

CUSIP \_\_\_\_\_

THIS CERTIFIES THAT

or registered assigns, is the registered holder of the number of Warrants (the "Warrants") set forth above. Each Warrant entitles the holder thereof to purchase from TASER International, Inc., a corporation incorporated under the laws of the state of Delaware (the "Company"), subject to the terms and conditions set forth hereinafter and in the Warrant Agreement hereinafter more fully described (the "Warrant Agreement"), at any time on or before the close of business on \_\_\_\_\_, 2006 or, if such Warrant is redeemed as provided in the Warrant Agreement, at any time prior to the effective time of such redemption (the "Expiration Date"), one fully paid and non-assessable share of Common Stock of the Company (the "Common Stock") upon presentation and surrender of this Warrant Certificate, with the instructions for the registration and delivery of Common Stock filled in, at the stock transfer office in Glendale, California, of U.S. Stock Transfer Corporation, Warrant Agent of the Company (the "Warrant Agent") or of its successor warrant agent or, if there be no successor warrant agent, at the corporate offices of the Company, and upon payment of the Exercise Price (as defined in the Warrant Agreement) and any applicable taxes paid either in cash, or by certified or official bank check, payable in lawful money of the United States of America to the order of the Company. Each Warrant initially entitles the holder to purchase one share of Common Stock initially for \$ [150% of the initial public offering price of the Units]. The number and kind of securities or other property for which the Warrants are exercisable are subject to further adjustment in certain events, such as mergers, splits, stock dividends, recapitalizations and the like, to prevent dilution. After three months following the closing of the Company's initial public offering, the Company may redeem any or all outstanding and unexercised Warrants at any time if the average Daily Price equals or exceeds \$\_\_\_\_\_ [200% of the initial public offering price of the Units] for ten consecutive trading days immediately preceding the date of notice of such redemption, upon 30 days notice, at a price equal to \$0.25 per Warrant. For the purpose of the foregoing sentence, the term "Daily Price" shall mean, for any relevant day, the closing bid price on that day as reported by the principal exchange or quotation system on which prices for the Common Stock are reported. All Warrants not theretofore exercised or redeemed will expire on \_\_\_\_\_, 2006.

This Warrant Certificate is subject to all of the terms, provisions and conditions of the Warrant Agreement, dated as of \_\_\_\_\_, 2001 (the "Warrant Agreement"), between

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the Company and the Warrant Agent, to all of which terms, provisions and conditions the registered holder of this Warrant Certificate consents by acceptance hereof. The Warrant Agreement is incorporated herein by reference and made a part hereof and reference is made to the Warrant Agreement for a full description of the rights, limitations of rights, obligations, duties and immunities of the Warrant Agent, the Company and the holders of the Warrant Certificates. Copies of the Warrant Agreement are available for inspection at the stock transfer office of the Warrant Agent or may be obtained upon written request addressed to the Company at 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260, Attention: Chief Financial Officer.

The Company shall not be required upon the exercise of the Warrants evidenced by this Warrant Certificate to issue fractions of Warrants, Common Stock or other securities, but shall make adjustment therefor in cash on the basis of the current market value of any fractional interest as provided in the Warrant Agreement.

In certain cases, the sale of securities by the Company upon exercise of Warrants would violate the securities laws of the United States, certain states thereof or other jurisdictions. The Company has agreed to use all commercially reasonable efforts to cause a registration statement to continue to be effective during the term of the Warrants with respect to such sales under the Securities Act of 1933, as amended, and to take such action under the laws of various states as may be required to cause the sale of securities upon exercise to be lawful. However, the Company will not be required to honor the exercise of Warrants if, in the opinion of the Board of Directors, upon advice of counsel, the sale of securities upon such exercise would be unlawful. In certain cases, the Company may, but is not required to, purchase Warrants submitted for exercise for a cash price equal to the difference between the market price of the securities obtainable upon such exercise and the exercise price of such Warrants.

This Warrant Certificate, with or without other Warrant Certificates, upon surrender to the Warrant Agent, any successor warrant agent or, in the absence of any successor warrant agent, at the corporate offices of the Company, may be exchanged for another Warrant Certificate or Certificates evidencing in the aggregate the same number of Warrants as the Warrant Certificate or Certificates so surrendered. If the Warrants evidenced by this Warrant Certificate shall be exercised in part, the holder hereof shall be entitled to receive upon surrender hereof another Warrant Certificate or Certificates evidencing the number of Warrants not so exercised.

No holder of this Warrant Certificate, as such, shall be entitled to vote, receive dividends or be deemed the holder of Common Stock or any other securities of the Company which may at any time be issuable on the exercise hereof for any purpose whatever, nor shall anything contained in the Warrant Agreement or herein be construed to confer upon the holder of this Warrant Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof or give or withhold consent to any corporate action (whether upon any matter submitted to stockholders at any meeting thereof, or give or withhold consent to any merger, recapitalization, issuance of stock, reclassification of stock, change of par value or change of stock to no par value, consolidation, conveyance or otherwise) or to receive notice of meetings or

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other actions affecting stockholders (except as provided in the Warrant Agreement) or to receive dividends or subscription rights or otherwise until the Warrants evidenced by this Warrant Certificate shall have been exercised and the Common Stock purchasable upon the exercise thereof shall have become deliverable as provided in the Warrant Agreement.

If this Warrant Certificate shall be surrendered for exercise within any period during which the transfer books for the Company's Common Stock or other class of stock purchasable upon the exercise of the Warrants evidenced by this Warrant Certificate are closed for any purpose, the Company shall not be required to make delivery of certificates for shares purchasable upon such transfer until the date of the reopening of said transfer books.

Every holder of this Warrant Certificate by accepting the same consents and agrees with the Company, the Warrant Agent, and with every other holder of a Warrant Certificate that:

(a) This Warrant Certificate is transferable on the registry books of the Warrant Agent only upon the terms and conditions set forth in the Warrant Agreement; and

(b) The Company and the Warrant Agent may deem and treat the person in whose name this Warrant Certificate is registered as the absolute owner hereof (notwithstanding any notation of ownership or other writing thereon made by anyone other than the Company or the Warrant Agent) for all purposes whatever and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

The Company shall not be required to issue or deliver any certificate for shares of Common Stock or other securities upon the exercise of Warrants evidenced by this Warrant Certificate until any tax which may be payable in respect thereof by the holder of this Warrant Certificate pursuant to the Warrant Agreement shall have been paid, such tax being payable by the holder of this Warrant Certificate at the time of surrender.

This Warrant Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Warrant Agent.

WITNESS the facsimile signatures of the proper officers of the Company and its corporate seal.

Dated: \_\_\_\_\_, 2001

TASER International, Inc.

By: \_\_\_\_\_  
Patrick W. Smith,  
Chief Executive Officer

Attest: \_\_\_\_\_  
Secretary

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Countersigned

U.S. Stock Transfer Corporation

By: \_\_\_\_\_  
Authorized Officer

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FORM OF ELECTION TO PURCHASE

(TO BE EXECUTED BY THE REGISTERED HOLDER IN ORDER TO EXERCISE THE  
WARRANTS IN WHOLE OR IN PART)

To: TASER INTERNATIONAL, INC.

The undersigned Registered Holder ( )

-----  
(Please insert Social Security or other  
identification number of Registered Holder)

hereby irrevocably elects to exercise the right of purchase represented by the  
within this Warrant Certificate for, and to purchase thereunder, \_\_\_\_\_  
shares of Common Stock provided for therein and tenders payment herewith to the  
order of TASER INTERNATIONAL, INC. in the amount of \$\_\_\_\_\_. The  
undersigned requests that certificates for such shares of Common Stock be issued  
as follows:

Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
Deliver to: \_\_\_\_\_  
Address: \_\_\_\_\_

and if said number of Warrants being exercised shall not be all the Warrants  
evidenced by this Warrant Certificate, that a new Certificate for the balance of  
such Warrants as well as the shares of Common Stock represented by this Warrant  
Certificate be registered in the name of, and delivered to, the Registered  
Holder at the address stated below:

Address: \_\_\_\_\_  
Dated: \_\_\_\_\_, \_\_\_\_\_

Signature

\_\_\_\_\_  
(Signature must conform in all respects to the name of Registered Holder as  
specified in the case of this Warrant Certificate in every particular, without  
alteration or any change whatever.)

Signature Guaranteed:

\_\_\_\_\_  
The signature should be guaranteed by an eligible institution (Banks,  
Stockbrokers, Savings and Loan Association and Credit Union with membership in  
an approved signature Medallion Program), pursuant to S.E.C. Rule 17Ad-15.

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FORM OF ASSIGNMENT

(TO BE SIGNED ONLY UPON ASSIGNMENT)

FOR VALUE RECEIVED, the undersigned Registered Holder ( )

-----  
(Please insert  
Social Security or other  
identification number of  
Registered Holder)

hereby sells, assigns and transfers unto

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
(Please Print Name and Address including Zip Code)

Warrants evidenced by the within Warrant Certificate, and irrevocably  
constitutes and appoints

\_\_\_\_\_  
to transfer this Warrant Certificate on the books of TASER International, Inc. Attorney  
with the full power of substitution in the premises.

Dated: \_\_\_\_\_, \_\_\_\_\_

Signature:

\_\_\_\_\_  
(Signature must conform in all respects to the name of Registered Holder as  
specified on the face of this Unit Certificate in every particular, without  
alteration or any change whatsoever, and the signature must be guaranteed in the  
usual manner.)

Signature Guaranteed:

\_\_\_\_\_  
The signature should be guaranteed by an eligible institution (Banks,  
Stockbrokers, Savings and Loan Association and Credit Union with membership in  
an approved signature Medallion Program), pursuant to S.E.C. Rule 17Ad-15.  
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Exhibit 10.1

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into this 1st day of July, 1998, to be effective as of July 1, 1998 between TASER International, Incorporated (the "Company"), located at 7339 East Evans Road, Scottsdale, Arizona 85260 and Patrick W. Smith (the "Executive"), residing at 15550 North Frank Lloyd Wright #1101, Scottsdale, Arizona 85260.

RECITALS:

WHEREAS, the Company wishes to provide for the continued employment of Executive as its President and Chief Executive Officer for the term, and on the conditions, set forth herein; and

WHEREAS, Executive desires to be assured of certain minimum compensation from Company for Executive's services during the term hereof and to be protected, and compensated, in the event of any change in the control affecting the Company; and,

WHEREAS, Company desires reasonable protection of Company's confidential business and technical information which has been developed by the Company in recent years at substantial expense.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the Company and Executive each intend to be legally bound, covenant and agree as follows:

1. EMPLOYMENT. Upon the terms and conditions set forth in this Agreement, Company hereby employs Executive as its President and Chief Executive Officer, and Executive accepts such employment. Except as expressly provided herein, the termination of this Agreement by either party shall also terminate Executive's employment by Company.
2. DUTIES. Executive shall devote his full-time and best efforts to the Company and shall fulfill the duties of his position which shall include such duties as may, from time to time, be assigned to him by the Board of Directors of the Company, provided such duties are reasonably consistent with Executive's education, experience and background.
3. TERM. Subject to the provisions of Sections 6 and 11 hereof, Executive's employment shall commence on the effective date hereof ("Employment Date") and continue through June 30, 2001, but shall be automatically extended, unless otherwise terminated in accordance herewith, for an additional two (2) year term commencing on July 1, 2001 through June 30, 2003, and thereafter, shall be automatically extended for additional consecutive two (2) year terms on each July 1, thereafter, unless either party gives written notice to the other of termination in accordance herewith. In any event, the Agreement shall automatically terminate, without notice, when Executive reaches 70 years of age. If employment is continued after the age of 70 by mutual agreement, it shall be terminable at will by either party.
4. COMPENSATION.

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- (a) 1998-2000 Annual Base Salary. For services rendered under this Agreement during the first year (July 1, 1998 through June 30, 1999) of this Agreement, Company shall pay Executive a minimum Base Salary ("Base Salary") (Base Salary shall mean regular cash compensation paid on a periodic basis exclusive of any and all benefits, bonuses or other incentive payments made or obligated by Company to Executive hereunder) at an annual rate of \$65,000, payable in accordance with existing payroll practices of the Company. On July 1, 1999, Executive's Base Salary shall be increased at the discretion of the Board of Directors based on performance. In subsequent years, based upon extensions of this Agreement, Executive's Base Salary shall be adjusted annually based upon a performance and compensation review conducted by the Compensation Committee of the Company's Board of Directors, and negotiated and mutually agreed to, in good faith, between Executive and the Company's Board of Directors. Such review will be based upon both individual and Company performance and shall be completed by August 1 of each subsequent year. The foregoing 1998-2000 minimum Base Salary for Executive shall not prohibit Company's Board of Directors (or the Compensation Committee of Company's Board of Directors), to set Executive's Base Salary during such initial three (3) year term at an annual rate greater than that prescribed above; however, in no instance shall Executive's Base Salary be less than that set forth above.
- (b) Annual Year-End Cash Bonus. Executive shall also be eligible to earn an annual year-end cash bonus which shall be determined by a review at the discretion of the Company's Board of Directors.
- (c) Fringe Benefits. In addition to the compensation and incentive payments payable to Executive as provided in Sections 4(a) and (b) above:
  - (i) Vacation. Executive shall be entitled to four (4) weeks paid vacation each calendar year. All such paid vacation shall accumulate, so that if Executive's full vacation is not taken in a particular calendar year, any unused portion shall be carried into subsequent years; however, such accumulation shall not exceed an aggregate of four (4) calendar weeks.
  - (ii) Long Term Disability. The Company shall also maintain (so long as such insurance is available at commercially standard rates) long-term disability policy on Executive providing for the payment to age 65 of benefit equivalent to seventy percent (70%) of Executive's annual Base Salary in the event Executive becomes permanently disabled as defined in Section 6(b)(ii).

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- (iii) Other Benefits. The Executive shall be entitled to participate in all other benefit programs offered by the Company to its full-time executive employees, including, but not limited to, health, medical, dental and eye care; Southwest Airlines travel benefits; retirement benefits through the Company's pension and/or profit sharing plans; sick leave benefits; and accidental death and dismemberment coverages.

5. BUSINESS EXPENSES. The Company shall, in accordance with, and to the extent of, its policies in effect from time to time, bear all customary business expenses (including the advancement of certain expenses) incurred by the Executive in performing his duties as an executive of the Company, provided that Executive accounts promptly such expenses to Company in the manner prescribed from time to time by the Company.

6. TERMINATION. Subject to the respective continuing obligations of the parties pursuant to Sections 7, 8, 9, 10, 11, 12 and 13, this Agreement may be terminated prior to the expiration of its then remaining applicable term only as follows:

- (a) By the Company. The Company may terminate this Agreement under the following circumstances:
  - (i) For "Cause". Company may terminate this Agreement on thirty (30) days written notice to Executive for "cause", including, fraud, misrepresentation, theft or embezzlement of Company assets, material intentional violations of law or Company policies, or a material breach of the provisions of this Agreement, including specifically the repeated failure to perform his duties as required by Section 2 hereof after written notice of such failure from Company; however, in the event of termination related to Executive's performance, Executive's termination shall only be effective upon the expiration of a sixty (60) day cure period following a lack of corrective action having been undertaken by Executive during said cure period.
  - (ii) Without "Cause". The Company may terminate this Agreement upon twelve (12) months written notice without "cause." The Base Salary compensation due and owing by the Company to Executive following either of such early terminations of this Agreement shall be paid as set forth at Section 7(a)(iv) hereof.
- (b) Death and Disability.
  - (i) Death. If Executive should die during the term of this Agreement, this Agreement shall thereupon terminate; provided, however, that the Company shall pay to the Executive's beneficiary or estate the compensation provided in Section 7(a)(iii) below.

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- (ii) Permanent Disability. In the event the Executive should become permanently disabled during the term of this Agreement, this Agreement shall also terminate. For the purposes hereof, a permanent disability shall mean that disability resulting from injury, disease or other cause, whether mental or physical, which incapacitates the Executive from performing his normal duties as an employee, appears to be permanent in nature and contemplates the continuous, necessary and substantially complete loss of all management and professional activities for a continuous period of six (6) months.
- (iii) Partial Disability. If the Executive should become partially disabled, he shall be entitled to his salary as provided herein for a period of nine (9) months. At the end of said period of time, if such Executive remains partially disabled, the disabled Executive's salary shall be reduced according to the amount of time the disabled Executive is able to devote to the Company's business.
- (iv) Temporary Disability. In the event the Executive should become disabled, but such disability is not permanent, as defined above, such disabled Executive shall be entitled to his salary for a period of nine (9) months. If such temporary disability continues longer than said period of time, then the disabled Executive shall be deemed to have become permanently disabled for the purposes of this Agreement at the end of said nine (9) month period.

7. COMPENSATION PAYABLE FOLLOWING EARLY TERMINATION.

- (a) In the event of any termination pursuant to Section 6, Executive's Base Salary shall be paid as follows:
  - (i) In the event of termination pursuant to Section 6(a)(i) (for "cause"), Executive's Base Salary shall continue to be paid on a semi-monthly basis for sixty (60) days from the effective date of such termination and Executive shall also be entitled to continue to participate in those benefit programs provided by subsections 4(e)(iv-viii) (inclusive), for twelve (12) months following such termination, at Executive's expense;
  - (ii) In the event of termination of this Agreement by reason of Executive's death, Executive's Base Salary shall terminate as of the end of the eighteenth (18th) month following the Executive's death;
  - (iii) In the event of termination of this Agreement by reason of disability, Executive's Base Salary shall be terminated as of the end the eighteenth (18th) month period following Executive's inability to perform his duties occurs; and
  - (iv) In the event of any termination by the Company pursuant to Section 6(a)(ii) (without "cause"), Executive's Base Salary shall be continued to be paid on a

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semi-monthly basis, but shall terminate at the end of the twelve (12) month period following such written notice of termination by the Company. In lieu of such continued semi-monthly Base Salary, the Company and Executive may agree to a lump-sum distribution to Executive pursuant to such termination in a form, substance and manner mutually acceptable to Company and Executive, pursuant to a written Severance Agreement then mutually negotiated between the Company and Executive in connection with such termination.

- (b) In the event of termination by reason of Executive's death, disability, termination without cause, or any Change in Control, as defined at Section 11:
- (i) Executive shall receive a pro rata portion (prorated through the last day Base Salary is payable pursuant to clauses (a)(ii), (a)(iii) and (a)(iv), respectively) of any bonus or incentive payment (for the year in which death, disability or termination occurred), to which he would have been entitled had he remained continuously employed for the full fiscal year in which death, disability or termination occurred and continued to perform his duties in the same manner as they were performed immediately prior to the death, disability or termination;
  - (ii) The right to exercise any unexpired and non-vested stock options previously granted Executive shall immediately vest and accelerate; and
  - (iii) Any and all payments owing to Executive arising from a termination of this Agreement resulting from a permanent or partial disability of Executive shall first be provided and paid pursuant to the Company's existing disability policy, as then in effect, but shall be further supplemented to the extent provided by this Agreement but all such payments due and owing to Executive arising from such permanent or partial disability shall not be cumulative or aggregated.

8. CONFIDENTIAL INFORMATION.

- (a) For purposes of this Section 8, the term "Confidential Information" means information which is not generally known and which is proprietary to Company, including: (i) trade secret information about Company and its services; and (ii) information relating to the business of Company as conducted at any time within the previous two (2) years or anticipated to be conducted by Company, and to any of its past, current or anticipated products, including, without limitation, information about Company's research, development, services, purchasing, accounting, engineering, marketing, selling, leasing or servicing. All information which Executive has a reasonable basis to consider Confidential Information or which is treated by Company as being Confidential Information shall be presumed to be Confidential Information, whether originated by Executive, or by others, and without regard to the manner in which Executive obtains access to such information.

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- (b) Executive will not during the term of this Agreement and following expiration or termination of this Agreement, use or disclose any Confidential Information to any person not employed by Company without the prior authorization of Company and will use reasonably prudent care to safeguard, protect and to prevent the unauthorized disclosure of, all of such Confidential Information.

9. INVENTIONS.

- (a) For purposes of this Section 9, the term "Inventions" means discoveries, improvements and ideas (whether or not in writing or reduced to practice) and works of authorship, whether or not patentable or copyrightable: (1) which relate directly to the business of Company, or to Company's actual or demonstrably anticipated research or development; (2) which result from any work performed by Executive for Company; (3) for which equipment, supplies, facilities or trade secret information of Company is utilized; or (4) which were conceived or developed during the time Executive was obligated to perform the duties described in Section 2.
- (b) Executive agrees that all Inventions made, authored or conceived by Executive, either solely or jointly with others, during Executive's employment with Company (except as otherwise provided above), shall be the sole and exclusive property of Company. Upon termination of this Agreement, Executive shall turn over to a designated representative of Company all property in Executive's possession and custody belonging to Company. Executive shall not retain any copies or reproductions of correspondence, memoranda, reports, notebooks, drawings, photographs or other documents relating in any way to the affairs of Company which came into Executive's possession at any time during the term of this Agreement.

Executive is hereby notified that this Agreement does not apply to any invention for which no equipment, supplies, facility, or trade secret information of Company was used and which was developed initially on the Executive's own time and: (1) which does not relate: (a) directly to the business of Company; or (b) to Company's actual or demonstrably anticipated research or development; or (2) which does not result from any work performed by Executive for the Company.

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10. NON-COMPETITION. Executive agrees that for a period of eighteen (18) months following termination of this Agreement for any reason (except in the case of termination of this Agreement pursuant to Section 11 because of a Change in Control or any Business Combination or any termination of this Agreement without cause), he will not directly or indirectly, alone or as a partner, officer, director, or shareholder of any other firm or entity, engage in any commercial activity in the United States in competition with any part of Company's business: (a) that was under the Executive's management or supervision during the last year of employment by Company; or (b) with respect to which Executive has Confidential Information as defined in Section 8 of this Agreement.

11. "BUSINESS COMBINATION" OR "CHANGE IN CONTROL".

- (a) Change in Control. For purposes of this Section 11, a "Business Combination" or "Change in Control" with respect to, or concerning, the Company shall mean the following:
  - (i) the sale, lease, exchange or other transfer, directly or indirectly of all or substantially all of the assets of the Company (in one transaction or in a series of related transactions) to a person or entity that is not controlled by the Company;
  - (ii) the approval by the shareholders of the Company of any plan or proposal for the liquidation or dissolution of the Company;
  - (iii) a merger or consolidation to which the Company is a party if the shareholders of the Company immediately prior to effective date of such merger or consolidation have "beneficial ownership" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), immediately following the effective date of such merger or consolidation, of securities of the surviving corporation representing: (A) more than 50%, but not more than 80%, of the combined voting power of the surviving corporation's then outstanding securities ordinarily having the right to vote at elections of directors, unless such merger or consolidation has been approved in advance by the Incumbent Directors; or (B) 50% or less of the combined voting power of the surviving corporation's then outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the Incumbent Directors);

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- (iv) any person becomes after the effective date of this Agreement the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of: (A) 20% or more, but not 50% or more, of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors, unless the transaction resulting in such ownership has been approved in advance by the Incumbent Directors; or (B) 50% or more of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the Incumbent Directors);
  - (v) the Incumbent Directors cease, for any reason, to constitute at least a majority of the Company's Board; or
  - (vi) a change in control of the Company of a nature that would be required to be reported pursuant to Section 13 or 15(d) of the Exchange Act, whether or not the Company is then subject to such reporting requirements.
- (b) Incumbent Directors. For purposes of this Section 11, the term "Incumbent Directors" shall mean any individual who is a member of the Board of the Company on the effective date of this Agreement, as well as any individual who subsequently becomes a member of the Board whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the then Incumbent Directors (either by specific vote or by approval of the Proxy Statement of the Company in which such individual is named as a nominee for director without objection to such nomination).
- (c) Executive's Option to Terminate This Agreement. It is expressly recognized by the parties that a Business Combination would necessarily result in material alteration or diminishment of Executive's position and responsibilities. Therefore, if, during the term of this Agreement, there shall occur, with or without the consent of Company, any Business Combination or Change in Control, Executive shall have an exclusive option to terminate this Agreement on twenty (20) calendar days' notice to the Company.
- (d) Compensation Payable to Executive Upon Termination Following a Change in Control. It is expressly recognized that Executive's position with Company and agreement to be bound by the terms of this Agreement represent a commitment in terms of Executive's personal and professional career which cannot be reduced to monetary terms, and thus, necessarily constitutes a forbearance of options now and in the future open to Executive in Company's areas of endeavor. Accordingly, in the event Executive elects to terminate this Agreement in connection with any Business Combination or Change in Control under this Section 11:
- (i) Executive shall be under no obligation whatever to seek other employment opportunities during any period between termination of this Agreement under this Section 11 and the expiration of Executive's then unexpired two (2) year term of this Agreement as it existed at the time of termination, or twenty-four (24) months,

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whichever is longer, and Executive shall not be obligated to accept any other employment opportunity which may be offered to Executive during such period;

(ii) During such unexpired term of this Agreement, or for twenty-four (24) months thereafter, whichever is longer, Executive shall continue to receive on a semimonthly basis, Executive's Base Salary then in effect upon the date of such notice to the Company hereunder;

(iii) In lieu of the continued cash compensation provided in Section 11(d)(ii) above, Executive may elect, in writing, to receive from the Company a lump sum cash settlement in an amount equal to 199% of Executive's then existing Base Salary (at the rate in effect immediately prior to such Business Combination); provided, however, Executive's election to receive a lump sum cash settlement from the Company, in lieu of the semi-monthly payments specified above, shall occur and be paid within 90 days of the termination of this Agreement arising from any such Business Combination or any Change in Control.

(iv) Executive's termination of this Agreement by reason of a Change in Control described in this Section 11 and the receipt by Executive of any amounts pursuant to subsection 11(d), shall not preclude Executive's continued employment with Company, or the surviving entity in any Business Combination, on such terms as shall then be mutually negotiated between Company (or any such surviving entity) and Executive following such termination;

(v) The right to exercise all unexpired and non-vested stock options in favor of Executive shall immediately vest and accelerate;

(vi) Executive shall be entitled to continue to participate in those benefit programs and perquisites provided by subsection 4(c) hereof, for twenty-four (24) months following termination, at the Company's expense; and

(vii) Notwithstanding any other provisions of this Agreement, or any other agreement, contract or understanding heretofore, or hereafter, entered into between the Company and Executive, if any "payments" (including without limitation, any benefits or transfers of property or the acceleration of the vesting of any benefits) and the nature of compensation under any arrangement that is considered contingent on a change in control for purpose of Section 2800 of the Internal Revenue Code of 1986, as amended (the "Code"), together with any other payments that Executive has the right to receive from the Company, or any corporation that is a member of an "affiliated group" (as defined in Section 1504A of the Code without regard to Section 1504B of the Code), of which the Company is a member, would constitute a "parachute payment" (as defined in Section 2800 of the Code), the aggregate amount of such payments shall be reduced to equal the largest amount as would result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code; provided however, Executive shall be entitled to designate and select among such payments that will be reduced, and/or eliminated, in order to comply with the forgoing provision of the Code.

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12. NO ADEQUATE REMEDY. The parties declare that is impossible to measure in money the damages which will accrue to either party by reason of a failure to perform any of the obligations under this Agreement. Therefore, if either party shall institute any action or proceeding to enforce the provisions hereof, such person against whom such action or proceeding is brought hereby waives the claim or defense that such party has an adequate remedy at law, and such person shall not urge in any such action or proceeding the claim or defense that such party has an adequate remedy at law.

13. MISCELLANEOUS.

- (a) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of all successors and assigns of the Company, whether by way of merger, consolidation, operation of law, assignment, purchase or other acquisition of substantially all of the assets or business of Company and shall only be assignable under the foregoing circumstances and shall be deemed to be materially breached by Company if any such successor or assign does not absolutely and unconditionally assume all of Company's obligations to Executive hereunder. Any such successor or assign shall be included in the term "Company" as used in this Agreement.
- (b) Notices. All notices, requests and demands given to, or made, pursuant hereto shall, except as otherwise specified herein, be in writing and be delivered or mailed to any such party at its address which:

- (i) In the case of Company shall be:

TASER International, Incorporated  
7339 East Evans Road  
Scottsdale, Arizona 85260

With a copy to:

Thomas P. Palmer, Esq.  
Tonkon Torp, LLP  
1600 Pioneer Tower  
888 SW Fifth Avenue  
Portland, Oregon 97204

- (ii) In the case of the Executive shall be:

Mr. Patrick Smith  
15550 North Frank Lloyd Wright, #1101  
Scottsdale, Arizona 85260

Either party may, by notice hereunder, designate a change of address. Any notice, if mailed properly addressed, postage prepaid, registered or certified mail, shall be deemed dispatched on the registered date or that stamped on the certified mail receipt, and shall be deemed received within the fifth business day thereafter, or when it is actually received, whichever is sooner.

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- (c) Captions. The various headings or captions in this Agreement are for convenience only and shall not affect the meaning or interpretation of this Agreement.
- (d) Governing Law. The validity, construction and performance of this Agreement shall be governed by the laws of the State of Arizona. Any dispute involving or affecting this agreement, or the services to be performed shall be determined and resolved by binding arbitration in the County of Maricopa, State of Arizona, in accordance with the Commercial Arbitration Rules of the American Arbitration Association.
- (e) Construction. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Agreement.
- (f) Waivers. No failure on the part of either party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any right or remedy granted hereby or by any related document or by law.
- (g) Modification. This Agreement may not be, and shall not be, modified or amended except by a written instrument signed by both parties hereto.
- (h) No Conflicting Business. Executive agrees that he will not, during the term of this Agreement, transact business with the Company personally, or as an agent, owner, partner, shareholder of any other entity; provided, however, Executive may enter into any business transaction that is, in the opinion of the Company's Board of Directors, reasonable, prudent or beneficial to the Company, so long as any such business transaction is at arms-length as though between independent and prudent individuals and is ratified and approved by the designated members of the Company's Board of Directors.
- (i) Entire Agreement. This Agreement constitutes the entire Agreement and understanding between the parties hereto in reference to all the matters herein agreed upon; provided, however, that this Agreement shall not deprive Executive of any other rights Executive may have now, or in the future, pursuant to law or the provisions of Company benefit plans.
- (j) Counterparts. This Agreement shall be executed in at least two counterparts, each of which shall constitute an original, but both of which, when taken together, will constitute one in the same instrument.
- (k) Amendment. This Agreement may be modified only by written agreement executed by both parties hereto.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered the day and year first above written.

TASER INTERNATIONAL, INCORPORATED

By: /s/ Phil Smith

-----  
Its: Chairman

EXECUTIVE

/s/ Patrick W. Smith

-----  
Patrick W. Smith

12.

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EXHIBIT 10.2

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into this 15th day of November, 2000, to be effective as of November 15, 1998 between TASER International, Incorporated (the "Company"), located at 7339 East Evans Road, Scottsdale, Arizona 85260 and Thomas P. Smith (the "Executive"), residing at 5140 East Paradise Lane; Scottsdale, Arizona 85254.

RECITALS:

WHEREAS, the Company wishes to provide for the continued employment of Executive as its Chief Financial Officer for the term, and on the conditions, set forth herein; and

WHEREAS, Executive desires to be assured of certain minimum compensation from Company for Executive's services during the term hereof and to be protected, and compensated, in the event of any change in the control affecting the Company; and,

WHEREAS, Company desires reasonable protection of Company's confidential business and technical information which has been developed by the Company in recent years at substantial expense.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the Company and Executive each intend to be legally bound, covenant and agree as follows:

1. EMPLOYMENT. Upon the terms and conditions set forth in this Agreement, Company hereby employs Executive as its Chief Financial Officer, and Executive accepts such employment. Except as expressly provided herein, the termination of this Agreement by either party shall also terminate Executive's employment by Company.
2. DUTIES. Executive shall devote his full-time and best efforts to the Company and shall fulfill the duties of his position which shall include such duties as may, from time to time, be assigned to him by the Board of Directors of the Company, provided such duties are reasonably consistent with Executive's education, experience and background.
3. TERM. Subject to the provisions of Sections 6 and 11 hereof, Executive's employment shall commence on the effective date hereof ("Employment Date") and continue through June 30, 2001, but shall be automatically extended, unless otherwise terminated in accordance herewith, for an additional two (2) year term commencing on July 1, 2001 through June 30, 2003, and thereafter, shall be automatically extended for additional consecutive two (2) year terms on each July 1, thereafter, unless either party gives written notice to the other of termination in accordance herewith. In any event, the Agreement shall automatically terminate, without notice, when Executive reaches 70 years of age. If employment is continued after the age of 70 by mutual agreement, it shall be terminable at will by either party.
4. COMPENSATION.

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- (a) 1998-2000 Annual Base Salary. For services rendered under this Agreement during the first year (July 1, 1998 through June 30, 1999) of this Agreement, Company shall pay Executive a minimum Base Salary ("Base Salary") (Base Salary shall mean regular cash compensation paid on a periodic basis exclusive of any and all benefits, bonuses or other incentive payments made or obligated by Company to Executive hereunder) at an annual rate of \$65,000, payable in accordance with existing payroll practices of the Company. On July 1, 1999, Executive's Base Salary shall be increased at the discretion of the Board of Directors based on performance. In subsequent years, based upon extensions of this Agreement, Executive's Base Salary shall be adjusted annually based upon a performance and compensation review conducted by the Compensation Committee of the Company's Board of Directors, and negotiated and mutually agreed to, in good faith, between Executive and the Company's Board of Directors. Such review will be based upon both individual and Company performance and shall be completed by August 1 of each subsequent year. The foregoing 1998-2000 minimum Base Salary for Executive shall not prohibit Company's Board of Directors (or the Compensation Committee of Company's Board of Directors), to set Executive's Base Salary during such initial three (3) year term at an annual rate greater than that prescribed above; however, in no instance shall Executive's Base Salary be less than that set forth above.
- (b) Annual Year-End Cash Bonus. Executive shall also be eligible to earn an annual year-end cash bonus which shall be determined by a review at the discretion of the Company's Board of Directors.
- (c) Fringe Benefits. In addition to the compensation and incentive payments payable to Executive as provided in Sections 4(a) and (b) above:
  - (i) Vacation. Executive shall be entitled to four (4) weeks paid vacation each calendar year. All such paid vacation shall accumulate, so that if Executive's full vacation is not taken in a particular calendar year, any unused portion shall be carried into subsequent years; however, such accumulation shall not exceed an aggregate of four (4) calendar weeks.
  - (ii) Long Term Disability. The Company shall also maintain (so long as such insurance is available at commercially standard rates) long-term disability policy on Executive providing for the payment to age 65 of benefit equivalent to seventy percent (70%) of Executive's annual Base Salary in the event Executive becomes permanently disabled as defined in Section 6(b)(ii).

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(iii) Other Benefits. The Executive shall be entitled to participate in all other benefit programs offered by the Company to its full-time executive employees, including, but not limited to, health, medical, dental and eye care; Southwest Airlines travel benefits; retirement benefits through the Company's pension and/or profit sharing plans; sick leave benefits; and accidental death and dismemberment coverages.

5. BUSINESS EXPENSES. The Company shall, in accordance with, and to the extent of, its policies in effect from time to time, bear all customary business expenses (including the advancement of certain expenses) incurred by the Executive in performing his duties as an executive of the Company, provided that Executive accounts promptly such expenses to Company in the manner prescribed from time to time by the Company.

6. TERMINATION. Subject to the respective continuing obligations of the parties pursuant to Sections 7, 8, 9, 10, 11, 12 and 13, this Agreement may be terminated prior to the expiration of its then remaining applicable term only as follows:

- (a) By the Company. The Company may terminate this Agreement under the following circumstances:
  - (i) For "Cause". Company may terminate this Agreement on thirty (30) days written notice to Executive for "cause", including, fraud, misrepresentation, theft or embezzlement of Company assets, material intentional violations of law or Company policies, or a material breach of the provisions of this Agreement, including specifically the repeated failure to perform his duties as required by Section 2 hereof after written notice of such failure from Company; however, in the event of termination related to Executive's performance, Executive's termination shall only be effective upon the expiration of a sixty (60) day cure period following a lack of corrective action having been undertaken by Executive during said cure period.
  - (ii) Without "Cause". The Company may terminate this Agreement upon twelve (12) months written notice without "cause." The Base Salary compensation due and owing by the Company to Executive following either of such early terminations of this Agreement shall be paid as set forth at Section 7(a)(iv) hereof.
- (b) Death and Disability.
  - (i) Death. If Executive should die during the term of this Agreement, this Agreement shall thereupon terminate; provided, however, that the Company shall pay to the Executive's beneficiary or estate the compensation provided in Section 7(a)(iii) below.

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- (ii) Permanent Disability. In the event the Executive should become permanently disabled during the term of this Agreement, this Agreement shall also terminate. For the purposes hereof, a permanent disability shall mean that disability resulting from injury, disease or other cause, whether mental or physical, which incapacitates the Executive from performing his normal duties as an employee, appears to be permanent in nature and contemplates the continuous, necessary and substantially complete loss of all management and professional activities for a continuous period of six (6) months.
- (iii) Partial Disability. If the Executive should become partially disabled, he shall be entitled to his salary as provided herein for a period of nine (9) months. At the end of said period of time, if such Executive remains partially disabled, the disabled Executive's salary shall be reduced according to the amount of time the disabled Executive is able to devote to the Company's business.
- (iv) Temporary Disability. In the event the Executive should become disabled, but such disability is not permanent, as defined above, such disabled Executive shall be entitled to his salary for a period of nine (9) months. If such temporary disability continues longer than said period of time, then the disabled Executive shall be deemed to have become permanently disabled for the purposes of this Agreement at the end of said nine (9) month period.

7. COMPENSATION PAYABLE FOLLOWING EARLY TERMINATION.

- (a) In the event of any termination pursuant to Section 6, Executive's Base Salary shall be paid as follows:
  - (i) In the event of termination pursuant to Section 6(a)(i) (for "cause"), Executive's Base Salary shall continue to be paid on a semi-monthly basis for sixty (60) days from the effective date of such termination and Executive shall also be entitled to continue to participate in those benefit programs provided by subsections 4(e)(iv-viii) (inclusive), for twelve (12) months following such termination, at Executive's expense;
  - (ii) In the event of termination of this Agreement by reason of Executive's death, Executive's Base Salary shall terminate as of the end of the eighteenth (18th) month following the Executive's death;
  - (iii) In the event of termination of this Agreement by reason of disability, Executive's Base Salary shall be terminated as of the end the eighteenth (18th) month period following Executive's inability to perform his duties occurs; and
  - (iv) In the event of any termination by the Company pursuant to Section 6(a)(ii) (without "cause"), Executive's Base Salary shall be continued to be paid on a

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semi-monthly basis, but shall terminate at the end of the twelve (12) month period following such written notice of termination by the Company. In lieu of such continued semi-monthly Base Salary, the Company and Executive may agree to a lump-sum distribution to Executive pursuant to such termination in a form, substance and manner mutually acceptable to Company and Executive, pursuant to a written Severance Agreement then mutually negotiated between the Company and Executive in connection with such termination.

- (b) In the event of termination by reason of Executive's death, disability, termination without cause, or any Change in Control, as defined at Section 11:
  - (i) Executive shall receive a pro rata portion (prorated through the last day Base Salary is payable pursuant to clauses (a)(ii), (a)(iii) and (a)(iv), respectively) of any bonus or incentive payment (for the year in which death, disability or termination occurred), to which he would have been entitled had he remained continuously employed for the full fiscal year in which death, disability or termination occurred and continued to perform his duties in the same manner as they were performed immediately prior to the death, disability or termination;
  - (ii) The right to exercise any unexpired and non-vested stock options previously granted Executive shall immediately vest and accelerate; and
  - (iii) Any and all payments owing to Executive arising from a termination of this Agreement resulting from a permanent or partial disability of Executive shall first be provided and paid pursuant to the Company's existing disability policy, as then in effect, but shall be further supplemented to the extent provided by this Agreement but all such payments due and owing to Executive arising from such permanent or partial disability shall not be cumulative or aggregated.

8. CONFIDENTIAL INFORMATION.

- (a) For purposes of this Section 8, the term "Confidential Information" means information which is not generally known and which is proprietary to Company, including: (i) trade secret information about Company and its services; and (ii) information relating to the business of Company as conducted at any time within the previous two (2) years or anticipated to be conducted by Company, and to any of its past, current or anticipated products, including, without limitation, information about Company's research, development, services, purchasing, accounting, engineering, marketing, selling, leasing or servicing. All information which Executive has a reasonable basis to consider Confidential Information or which is treated by Company as being Confidential Information shall be presumed to be Confidential Information, whether originated by Executive, or by others, and without regard to the manner in which Executive obtains access to such information.

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- (b) Executive will not during the term of this Agreement and following expiration or termination of this Agreement, use or disclose any Confidential Information to any person not employed by Company without the prior authorization of Company and will use reasonably prudent care to safeguard, protect and to prevent the unauthorized disclosure of, all of such Confidential Information.

#### 9. INVENTIONS.

- (a) For purposes of this Section 9, the term "Inventions" means discoveries, improvements and ideas (whether or not in writing or reduced to practice) and works of authorship, whether or not patentable or copyrightable: (1) which relate directly to the business of Company, or to Company's actual or demonstrably anticipated research or development; (2) which result from any work performed by Executive for Company; (3) for which equipment, supplies, facilities or trade secret information of Company is utilized; or (4) which were conceived or developed during the time Executive was obligated to perform the duties described in Section 2.
- (b) Executive agrees that all Inventions made, authored or conceived by Executive, either solely or jointly with others, during Executive's employment with Company (except as otherwise provided above), shall be the sole and exclusive property of Company. Upon termination of this Agreement, Executive shall turn over to a designated representative of Company all property in Executive's possession and custody belonging to Company. Executive shall not retain any copies or reproductions of correspondence, memoranda, reports, notebooks, drawings, photographs or other documents relating in any way to the affairs of Company which came into Executive's possession at any time during the term of this Agreement.

Executive is hereby notified that this Agreement does not apply to any invention for which no equipment, supplies, facility, or trade secret information of Company was used and which was developed initially on the Executive's own time and: (1) which does not relate: (a) directly to the business of Company; or (b) to Company's actual or demonstrably anticipated research or development; or (2) which does not result from any work performed by Executive for the Company.

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10. NON-COMPETITION. Executive agrees that for a period of eighteen (18) months following termination of this Agreement for any reason (except in the case of termination of this Agreement pursuant to Section 11 because of a Change in Control or any Business Combination or any termination of this Agreement without cause), he will not directly or indirectly, alone or as a partner, officer, director, or shareholder of any other firm or entity, engage in any commercial activity in the United States in competition with any part of Company's business: (a) that was under the Executive's management or supervision during the last year of employment by Company; or (b) with respect to which Executive has Confidential Information as defined in Section 8 of this Agreement.

11. "BUSINESS COMBINATION" OR "CHANGE IN CONTROL".

- (a) Change in Control. For purposes of this Section 11, a "Business Combination" or "Change in Control" with respect to, or concerning, the Company shall mean the following:
  - (i) the sale, lease, exchange or other transfer, directly or indirectly of all or substantially all of the assets of the Company (in one transaction or in a series of related transactions) to a person or entity that is not controlled by the Company;
  - (ii) the approval by the shareholders of the Company of any plan or proposal for the liquidation or dissolution of the Company;
  - (iii) a merger or consolidation to which the Company is a party if the shareholders of the Company immediately prior to effective date of such merger or consolidation have "beneficial ownership" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), immediately following the effective date of such merger or consolidation, of securities of the surviving corporation representing: (A) more than 50%, but not more than 80%, of the combined voting power of the surviving corporation's then outstanding securities ordinarily having the right to vote at elections of directors, unless such merger or consolidation has been approved in advance by the Incumbent Directors; or (B) 50% or less of the combined voting power of the surviving corporation's then outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the Incumbent Directors);



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- (iv) any person becomes after the effective date of this Agreement the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of: (A) 20% or more, but not 50% or more, of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors, unless the transaction resulting in such ownership has been approved in advance by the Incumbent Directors; or (B) 50% or more of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the Incumbent Directors);
  - (v) the Incumbent Directors cease, for any reason, to constitute at least a majority of the Company's Board; or
  - (vi) a change in control of the Company of a nature that would be required to be reported pursuant to Section 13 or 15(d) of the Exchange Act, whether or not the Company is then subject to such reporting requirements.
- (b) Incumbent Directors. For purposes of this Section 11, the term "Incumbent Directors" shall mean any individual who is a member of the Board of the Company on the effective date of this Agreement, as well as any individual who subsequently becomes a member of the Board whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the then Incumbent Directors (either by specific vote or by approval of the Proxy Statement of the Company in which such individual is named as a nominee for director without objection to such nomination).
- (c) Executive's Option to Terminate This Agreement. It is expressly recognized by the parties that a Business Combination would necessarily result in material alteration or diminishment of Executive's position and responsibilities. Therefore, if, during the term of this Agreement, there shall occur, with or without the consent of Company, any Business Combination or Change in Control, Executive shall have an exclusive option to terminate this Agreement on twenty (20) calendar days' notice to the Company.
- (d) Compensation Payable to Executive Upon Termination Following a Change in Control. It is expressly recognized that Executive's position with Company and agreement to be bound by the terms of this Agreement represent a commitment in terms of Executive's personal and professional career which cannot be reduced to monetary terms, and thus, necessarily constitutes a forbearance of options now and in the future open to Executive in Company's areas of endeavor. Accordingly, in the event Executive elects to terminate this Agreement in connection with any Business Combination or Change in Control under this Section 11:
- (i) Executive shall be under no obligation whatever to seek other employment opportunities during any period between termination of this Agreement under this Section 11 and the expiration of Executive's then unexpired two (2) year term of this Agreement as it existed at the time of termination, or twenty-four (24) months,

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whichever is longer, and Executive shall not be obligated to accept any other employment opportunity which may be offered to Executive during such period;

(ii) During such unexpired term of this Agreement, or for twenty-four (24) months thereafter, whichever is longer, Executive shall continue to receive on a semimonthly basis, Executive's Base Salary then in effect upon the date of such notice to the Company hereunder;

(iii) In lieu of the continued cash compensation provided in Section 11(d)(ii) above, Executive may elect, in writing, to receive from the Company a lump sum cash settlement in an amount equal to 199% of Executive's then existing Base Salary (at the rate in effect immediately prior to such Business Combination); provided, however, Executive's election to receive a lump sum cash settlement from the Company, in lieu of the semi-monthly payments specified above, shall occur and be paid within 90 days of the termination of this Agreement arising from any such Business Combination or any Change in Control.

(iv) Executive's termination of this Agreement by reason of a Change in Control described in this Section 11 and the receipt by Executive of any amounts pursuant to subsection 11(d), shall not preclude Executive's continued employment with Company, or the surviving entity in any Business Combination, on such terms as shall then be mutually negotiated between Company (or any such surviving entity) and Executive following such termination;

(v) The right to exercise all unexpired and non-vested stock options in favor of Executive shall immediately vest and accelerate;

(vi) Executive shall be entitled to continue to participate in those benefit programs and perquisites provided by subsection 4(c) hereof, for twenty-four (24) months following termination, at the Company's expense; and

(vii) Notwithstanding any other provisions of this Agreement, or any other agreement, contract or understanding heretofore, or hereafter, entered into between the Company and Executive, if any "payments" (including without limitation, any benefits or transfers of property or the acceleration of the vesting of any benefits) and the nature of compensation under any arrangement that is considered contingent on a change in control for purpose of Section 2800 of the Internal Revenue Code of 1986, as amended (the "Code"), together with any other payments that Executive has the right to receive from the Company, or any corporation that is a member of an "affiliated group" (as defined in Section 1504A of the Code without regard to Section 1504B of the Code), of which the Company is a member, would constitute a "parachute payment" (as defined in Section 2800 of the Code), the aggregate amount of such payments shall be reduced to equal the largest amount as would result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code; provided however, Executive shall be entitled to designate and select among such payments that will be reduced, and/or eliminated, in order to comply with the forgoing provision of the Code.

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12. NO ADEQUATE REMEDY. The parties declare that is impossible to measure in money the damages which will accrue to either party by reason of a failure to perform any of the obligations under this Agreement. Therefore, if either party shall institute any action or proceeding to enforce the provisions hereof, such person against whom such action or proceeding is brought hereby waives the claim or defense that such party has an adequate remedy at law, and such person shall not urge in any such action or proceeding the claim or defense that such party has an adequate remedy at law.

13. MISCELLANEOUS.

- (a) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of all successors and assigns of the Company, whether by way of merger, consolidation, operation of law, assignment, purchase or other acquisition of substantially all of the assets or business of Company and shall only be assignable under the foregoing circumstances and shall be deemed to be materially breached by Company if any such successor or assign does not absolutely and unconditionally assume all of Company's obligations to Executive hereunder. Any such successor or assign shall be included in the term "Company" as used in this Agreement.
- (b) Notices. All notices, requests and demands given to, or made, pursuant hereto shall, except as otherwise specified herein, be in writing and be delivered or mailed to any such party at its address which:

- (i) In the case of Company shall be:

TASER International, Incorporated  
7339 East Evans Road  
Scottsdale, Arizona 85260

With a copy to:

Thomas P. Palmer, Esq.  
Tonkon Torp, LLP  
1600 Pioneer Tower  
888 SW Fifth Avenue  
Portland, Oregon 97204

- (ii) In the case of the Executive shall be:

Thomas P. Smith  
5140 East Paradise Lane  
Scottsdale, Arizona 85254.

Either party may, by notice hereunder, designate a change of address. Any notice, if mailed properly addressed, postage prepaid, registered or certified mail, shall be deemed dispatched on the registered date or that stamped on the certified mail receipt, and shall be deemed received within the

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fifth business day thereafter, or when it is actually received, whichever is sooner.

- (c) Captions. The various headings or captions in this Agreement are for convenience only and shall not affect the meaning or interpretation of this Agreement.
- (d) Governing Law. The validity, construction and performance of this Agreement shall be governed by the laws of the State of Arizona. Any dispute involving or affecting this agreement, or the services to be performed shall be determined and resolved by binding arbitration in the County of Maricopa, State of Arizona, in accordance with the Commercial Arbitration Rules of the American Arbitration Association.
- (e) Construction. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Agreement.
- (f) Waivers. No failure on the part of either party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any right or remedy granted hereby or by any related document or by law.
- (g) Modification. This Agreement may not be, and shall not be, modified or amended except by a written instrument signed by both parties hereto.
- (h) No Conflicting Business. Executive agrees that he will not, during the term of this Agreement, transact business with the Company personally, or as an agent, owner, partner, shareholder of any other entity; provided, however, Executive may enter into any business transaction that is, in the opinion of the Company's Board of Directors, reasonable, prudent or beneficial to the Company, so long as any such business transaction is at arms-length as though between independent and prudent individuals and is ratified and approved by the designated members of the Company's Board of Directors.
- (i) Entire Agreement. This Agreement constitutes the entire Agreement and understanding between the parties hereto in reference to all the matters herein agreed upon; provided, however, that this Agreement shall not deprive Executive of any other rights Executive may have now, or in the future, pursuant to law or the provisions of Company benefit plans.
- (j) Counterparts. This Agreement shall be executed in at least two counterparts, each of which shall constitute an original, but both of which, when taken together, will constitute one in the same instrument.
- (k) Amendment. This Agreement may be modified only by written agreement executed

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by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be  
duly executed and delivered the day and year first above written.

TASER INTERNATIONAL, INCORPORATED

By: /s/ Phil Smith  
-----  
Its: Chairman  
-----

EXECUTIVE

/s/ Thomas P. Smith  
-----  
Thomas P. Smith

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EXHIBIT 10.3

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into this 15th day of November, 2000, to be effective as of November 15, 2000 between TASER International, Incorporated (the "Company"), located at 7339 East Evans Road, Scottsdale, Arizona 85260 and Kathleen C. Hanrahan (the "Executive"), residing at 6714 West Columbine Drive, Peoria, AZ 85381.

RECITALS:

WHEREAS, the Company wishes to provide for the continued employment of Executive as its Chief Financial Officer for the term, and on the conditions, set forth herein; and

WHEREAS, Executive desires to be assured of certain minimum compensation from Company for Executive's services during the term hereof and to be protected, and compensated, in the event of any change in the control affecting the Company; and,

WHEREAS, Company desires reasonable protection of Company's confidential business and technical information which has been developed by the Company in recent years at substantial expense.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the Company and Executive each intend to be legally bound, covenant and agree as follows:

1. EMPLOYMENT. Upon the terms and conditions set forth in this Agreement, Company hereby employs Executive as its Chief Financial Officer, and Executive accepts such employment. Except as expressly provided herein, the termination of this Agreement by either party shall also terminate Executive's employment by Company.
2. DUTIES. Executive shall devote her full-time and best efforts to the Company and shall fulfill the duties of her position which shall include such duties as may, from time to time, be assigned to him by the Board of Directors of the Company, provided such duties are reasonably consistent with Executive's education, experience and background.
3. TERM. Subject to the provisions of Sections 6 and 11 hereof, Executive's employment shall commence on the effective date hereof ("Employment Date") and continue through November 14, 2002, but shall be automatically extended, unless otherwise terminated in accordance herewith, for an additional two (2) year term commencing on November 15, 2002 through November 15, 2004, and thereafter, shall be automatically extended for additional consecutive two (2) year terms on each November 15, thereafter, unless either party gives written notice to the other of termination in accordance herewith. In any event, the Agreement shall automatically terminate, without notice, when Executive reaches 70 years of age. If employment is continued after the age of 70 by mutual agreement, it shall be terminable at will by either party.
4. COMPENSATION.

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(a)

2000-2002 Annual Base Salary. For services rendered under this Agreement during the first year (November 15, 2000 through November 14, 2002) of this Agreement, Company shall pay Executive a minimum Base Salary ("Base Salary") (Base Salary shall mean regular cash compensation paid on a periodic basis exclusive of any and all benefits, bonuses or other incentive payments made or obligated by Company to Executive hereunder) at an annual rate of \$75,000, payable in accordance with existing payroll practices of the Company. On November 15, 2001, Executive's Base Salary shall be increased at the discretion of the Board of Directors based on performance. In subsequent years, based upon extensions of this Agreement, Executive's Base Salary shall be adjusted annually based upon a performance and compensation review conducted by the Compensation Committee of the Company's Board of Directors, and negotiated and mutually agreed to, in good faith, between Executive and the Company's Board of Directors. Such review will be based upon both individual and Company performance and shall be completed by December 15 of each subsequent year. The foregoing 2000-2002 minimum Base Salary for Executive shall not prohibit Company's Board of Directors (or the Compensation Committee of Company's Board of Directors ), to set Executive's Base Salary during such initial two (2) year term at an annual rate greater than that prescribed above; however, in no instance shall Executive's Base Salary be less than that set forth above.

(b) Annual Year-End Cash Bonus. Executive shall also be eligible to earn an annual year-end cash bonus which shall be determined by a review at the discretion of the Company's Board of Directors.

(c) Fringe Benefits. In addition to the compensation and incentive payments payable to Executive as provided in Sections 4(a) and (b) above:

(i) Vacation. Executive shall be entitled to four (4) weeks paid vacation each calendar year. All such paid vacation shall accumulate, so that if Executive's full vacation is not taken in a particular calendar year, any unused portion shall be carried into subsequent years; however, such accumulation shall not exceed an aggregate of four (4) calendar weeks.

(ii) Long Term Disability. The Company shall also maintain (so long as such insurance is available at commercially standard rates) long-term disability policy on Executive providing for the payment to age 65 of benefit equivalent to seventy percent (70%) of Executive's annual Base Salary in the event Executive becomes permanently disabled as defined in Section 6(b)(iii).

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- (iii) Other Benefits. The Executive shall be entitled to participate in all other benefit programs offered by the Company to its full-time executive employees, including, but not limited to, health, medical, dental and eye care; Southwest Airlines travel benefits; retirement benefits through the Company's pension and/or profit sharing plans; sick leave benefits; and accidental death and dismemberment coverages.

5. BUSINESS EXPENSES. The Company shall, in accordance with, and to the extent of, its policies in effect from time to time, bear all customary business expenses (including the advancement of certain expenses) incurred by the Executive in performing her duties as an executive of the Company, provided that Executive accounts promptly such expenses to Company in the manner prescribed from time to time by the Company.

6. TERMINATION. Subject to the respective continuing obligations of the parties pursuant to Sections 7, 8, 9, 10, 11, 12 and 13, this Agreement may be terminated prior to the expiration of its then remaining applicable term only as follows:

- (a) By the Company. The Company may terminate this Agreement under the following circumstances:
  - (i) For "Cause". Company may terminate this Agreement on thirty (30) days written notice to Executive for "cause", including, fraud, misrepresentation, theft or embezzlement of Company assets, material intentional violations of law or Company policies, or a material breach of the provisions of this Agreement, including specifically the repeated failure to perform her duties as required by Section 2 hereof after written notice of such failure from Company; however, in the event of termination related to Executive's performance, Executive's termination shall only be effective upon the expiration of a sixty (60) day cure period following a lack of corrective action having been undertaken by Executive during said cure period.
  - (ii) Without "Cause". The Company may terminate this Agreement upon six (6) months written notice without "cause." The Base Salary compensation due and owing by the Company to Executive following either of such early terminations of this Agreement shall be paid as set forth at Section 7(a)(iv) hereof.
- (b) Death and Disability.
  - (i) Death. If Executive should die during the term of this Agreement, this Agreement shall thereupon terminate; provided, however, that the Company shall pay to the Executive's beneficiary or estate the compensation provided in Section 7(a)(iii) below.



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- (ii) Permanent Disability. In the event the Executive should become permanently disabled during the term of this Agreement, this Agreement shall also terminate. For the purposes hereof, a permanent disability shall mean that disability resulting from injury, disease or other cause, whether mental or physical, which incapacitates the Executive from performing her normal duties as an employee, appears to be permanent in nature and contemplates the continuous, necessary and substantially complete loss of all management and professional activities for a continuous period of six (6) months.
- (iii) Partial Disability. If the Executive should become partially disabled, he shall be entitled to her salary as provided herein for a period of nine (9) months. At the end of said period of time, if such Executive remains partially disabled, the disabled Executive's salary shall be reduced according to the amount of time the disabled Executive is able to devote to the Company's business.
- (iv) Temporary Disability. In the event the Executive should become disabled, but such disability is not permanent, as defined above, such disabled Executive shall be entitled to her salary for a period of nine (9) months. If such temporary disability continues longer than said period of time, then the disabled Executive shall be deemed to have become permanently disabled for the purposes of this Agreement at the end of said nine (9) month period.

7. COMPENSATION PAYABLE FOLLOWING EARLY TERMINATION.

- (a) In the event of any termination pursuant to Section 6, Executive's Base Salary shall be paid as follows:
  - (i) In the event of termination pursuant to Section 6(a)(i) (for "cause"), Executive's Base Salary shall continue to be paid on a semi-monthly basis for sixty (60) days from the effective date of such termination and Executive shall also be entitled to continue to participate in those benefit programs provided by subsections 4(e)(iv-viii) (inclusive), for twelve (12) months following such termination, at Executive's expense;
  - (ii) In the event of termination of this Agreement by reason of Executive's death, Executive's Base Salary shall terminate as of the end of the eighteenth (18th) month following the Executive's death;
  - (iii) In the event of termination of this Agreement by reason of disability, Executive's Base Salary shall be terminated as of the end the eighteenth (18th) month period following Executive's inability to perform her duties occurs; and
  - (iv) In the event of any termination by the Company pursuant to Section 6(a)(ii) (without "cause"), Executive's Base Salary shall be continued to be paid on a



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semi-monthly basis, but shall terminate at the end of the twelve (12) month period following such written notice of termination by the Company. In lieu of such continued semi-monthly Base Salary, the Company and Executive may agree to a lump-sum distribution to Executive pursuant to such termination in a form, substance and manner mutually acceptable to Company and Executive, pursuant to a written Severance Agreement then mutually negotiated between the Company and Executive in connection with such termination.

- (b) In the event of termination by reason of Executive's death, disability, termination without cause, or any Change in Control, as defined at Section 11:
  - (i) Executive shall receive a pro rata portion (prorated through the last day Base Salary is payable pursuant to clauses (a)(ii), (a)(iii) and (a)(iv), respectively) of any bonus or incentive payment (for the year in which death, disability or termination occurred), to which he would have been entitled had he remained continuously employed for the full fiscal year in which death, disability or termination occurred and continued to perform her duties in the same manner as they were performed immediately prior to the death, disability or termination;
  - (ii) The right to exercise any unexpired and non-vested stock options previously granted Executive shall immediately vest and accelerate; and
  - (iii) Any and all payments owing to Executive arising from a termination of this Agreement resulting from a permanent or partial disability of Executive shall first be provided and paid pursuant to the Company's existing disability policy, as then in effect, but shall be further supplemented to the extent provided by this Agreement but all such payments due and owing to Executive arising from such permanent or partial disability shall not be cumulative or aggregated.

8. CONFIDENTIAL INFORMATION.

- (a) For purposes of this Section 8, the term "Confidential Information" means information which is not generally known and which is proprietary to Company, including: (i) trade secret information about Company and its services; and (ii) information relating to the business of Company as conducted at any time within the previous two (2) years or anticipated to be conducted by Company, and to any of its past, current or anticipated products, including, without limitation, information about Company's research, development, services, purchasing, accounting, engineering, marketing, selling, leasing or servicing. All information which Executive has a reasonable basis to consider Confidential Information or which is treated by Company as being Confidential Information shall be presumed to be Confidential Information, whether originated by Executive, or by others, and without regard to the manner in which Executive obtains access to such information.

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- (b) Executive will not during the term of this Agreement and following expiration or termination of this Agreement, use or disclose any Confidential Information to any person not employed by Company without the prior authorization of Company and will use reasonably prudent care to safeguard, protect and to prevent the unauthorized disclosure of, all of such Confidential Information.

9. INVENTIONS.

- (a) For purposes of this Section 9, the term "Inventions" means discoveries, improvements and ideas (whether or not in writing or reduced to practice) and works of authorship, whether or not patentable or copyrightable: (1) which relate directly to the business of Company, or to Company's actual or demonstrably anticipated research or development; (2) which result from any work performed by Executive for Company; (3) for which equipment, supplies, facilities or trade secret information of Company is utilized; or (4) which were conceived or developed during the time Executive was obligated to perform the duties described in Section 2.
- (b) Executive agrees that all Inventions made, authored or conceived by Executive, either solely or jointly with others, during Executive's employment with Company (except as otherwise provided above), shall be the sole and exclusive property of Company. Upon termination of this Agreement, Executive shall turn over to a designated representative of Company all property in Executive's possession and custody belonging to Company. Executive shall not retain any copies or reproductions of correspondence, memoranda, reports, notebooks, drawings, photographs or other documents relating in any way to the affairs of Company which came into Executive's possession at any time during the term of this Agreement.

Executive is hereby notified that this Agreement does not apply to any invention for which no equipment, supplies, facility, or trade secret information of Company was used and which was developed initially on the Executive's own time and: (1) which does not relate: (a) directly to the business of Company; or (b) to Company's actual or demonstrably anticipated research or development; or (2) which does not result from any work performed by Executive for the Company.

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10. NON-COMPETITION. Executive agrees that for a period of eighteen (18) months following termination of this Agreement for any reason (except in the case of termination of this Agreement pursuant to Section 11 because of a Change in Control or any Business Combination or any termination of this Agreement without cause), he will not directly or indirectly, alone or as a partner, officer, director, or shareholder of any other firm or entity, engage in any commercial activity in the United States in competition with any part of Company's business: (a) that was under the Executive's management or supervision during the last year of employment by Company; or (b) with respect to which Executive has Confidential Information as defined in Section 8 of this Agreement.

11. "BUSINESS COMBINATION" OR "CHANGE IN CONTROL".

- (a) Change in Control. For purposes of this Section 11, a "Business Combination" or "Change in Control" with respect to, or concerning, the Company shall mean the following:
- (i) the sale, lease, exchange or other transfer, directly or indirectly of all or substantially all of the assets of the Company (in one transaction or in a series of related transactions) to a person or entity that is not controlled by the Company;
  - (ii) the approval by the shareholders of the Company of any plan or proposal for the liquidation or dissolution of the Company;
  - (iii) a merger or consolidation to which the Company is a party if the shareholders of the Company immediately prior to effective date of such merger or consolidation have "beneficial ownership" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), immediately following the effective date of such merger or consolidation, of securities of the surviving corporation representing: (A) more than 50%, but not more than 80%, of the combined voting power of the surviving corporation's then outstanding securities ordinarily having the right to vote at elections of directors, unless such merger or consolidation has been approved in advance by the Incumbent Directors; or (B) 50% or less of the combined voting power of the surviving corporation's then outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the Incumbent Directors);



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- (iv) any person becomes after the effective date of this Agreement the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of: (A) 20% or more, but not 50% or more, of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors, unless the transaction resulting in such ownership has been approved in advance by the Incumbent Directors; or (B) 50% or more of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the Incumbent Directors);
  - (v) the Incumbent Directors cease, for any reason, to constitute at least a majority of the Company's Board; or
  - (vi) a change in control of the Company of a nature that would be required to be reported pursuant to Section 13 or 15(d) of the Exchange Act, whether or not the Company is then subject to such reporting requirements.
- (b) Incumbent Directors. For purposes of this Section 11, the term "Incumbent Directors" shall mean any individual who is a member of the Board of the Company on the effective date of this Agreement, as well as any individual who subsequently becomes a member of the Board whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the then Incumbent Directors (either by specific vote or by approval of the Proxy Statement of the Company in which such individual is named as a nominee for director without objection to such nomination).
- (c) Executive's Option to Terminate This Agreement. It is expressly recognized by the parties that a Business Combination would necessarily result in material alteration or diminishment of Executive's position and responsibilities. Therefore, if, during the term of this Agreement, there shall occur, with or without the consent of Company, any Business Combination or Change in Control, Executive shall have an exclusive option to terminate this Agreement on twenty (20) calendar days' notice to the Company.
- (d) Compensation Payable to Executive Upon Termination Following a Change in Control. It is expressly recognized that Executive's position with Company and agreement to be bound by the terms of this Agreement represent a commitment in terms of Executive's personal and professional career which cannot be reduced to monetary terms, and thus, necessarily constitutes a forbearance of options now and in the future open to Executive in Company's areas of endeavor. Accordingly, in the event Executive elects to terminate this Agreement in connection with any Business Combination or Change in Control under this Section 11:
- (i) Executive shall be under no obligation whatever to seek other employment opportunities during any period between termination of this Agreement under this Section 11 and the expiration of Executive's then unexpired two (2) year term of this Agreement as it existed at the time of termination, or twenty-four (24) months,

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whichever is longer, and Executive shall not be obligated to accept any other employment opportunity which may be offered to Executive during such period;

(ii) During such unexpired term of this Agreement, or for twenty-four (24) months thereafter, whichever is longer, Executive shall continue to receive on a semimonthly basis, Executive's Base Salary then in effect upon the date of such notice to the Company hereunder;

(iii) In lieu of the continued cash compensation provided in Section 11(d)(ii) above, Executive may elect, in writing, to receive from the Company a lump sum cash settlement in an amount equal to 199% of Executive's then existing Base Salary (at the rate in effect immediately prior to such Business Combination); provided, however, Executive's election to receive a lump sum cash settlement from the Company, in lieu of the semi-monthly payments specified above, shall occur and be paid within 90 days of the termination of this Agreement arising from any such Business Combination or any Change in Control.

(iv) Executive's termination of this Agreement by reason of a Change in Control described in this Section 11 and the receipt by Executive of any amounts pursuant to subsection 11(d), shall not preclude Executive's continued employment with Company, or the surviving entity in any Business Combination, on such terms as shall then be mutually negotiated between Company (or any such surviving entity) and Executive following such termination;

(v) The right to exercise all unexpired and non-vested stock options in favor of Executive shall immediately vest and accelerate;

(vi) Executive shall be entitled to continue to participate in those benefit programs and perquisites provided by subsection 4(c) hereof, for twenty-four (24) months following termination, at the Company's expense; and

(vii) Notwithstanding any other provisions of this Agreement, or any other agreement, contract or understanding heretofore, or hereafter, entered into between the Company and Executive, if any "payments" (including without limitation, any benefits or transfers of property or the acceleration of the vesting of any benefits) and the nature of compensation under any arrangement that is considered contingent on a change in control for purpose of Section 2800 of the Internal Revenue Code of 1986, as amended (the "Code"), together with any other payments that Executive has the right to receive from the Company, or any corporation that is a member of an "affiliated group" (as defined in Section 1504A of the Code without regard to Section 1504B of the Code), of which the Company is a member, would constitute a "parachute payment" (as defined in Section 2800 of the Code), the aggregate amount of such payments shall be reduced to equal the largest amount as would result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code; provided however, Executive shall be entitled to designate and select among such payments that will be reduced, and/or eliminated, in order to comply with the forgoing provision of the Code.

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12. NO ADEQUATE REMEDY. The parties declare that is impossible to measure in money the damages which will accrue to either party by reason of a failure to perform any of the obligations under this Agreement. Therefore, if either party shall institute any action or proceeding to enforce the provisions hereof, such person against whom such action or proceeding is brought hereby waives the claim or defense that such party has an adequate remedy at law, and such person shall not urge in any such action or proceeding the claim or defense that such party has an adequate remedy at law.

13. MISCELLANEOUS.

(a) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of all successors and assigns of the Company, whether by way of merger, consolidation, operation of law, assignment, purchase or other acquisition of substantially all of the assets or business of Company and shall only be assignable under the foregoing circumstances and shall be deemed to be materially breached by Company if any such successor or assign does not absolutely and unconditionally assume all of Company's obligations to Executive hereunder. Any such successor or assign shall be included in the term "Company" as used in this Agreement.

(b) Notices. All notices, requests and demands given to, or made, pursuant hereto shall, except as otherwise specified herein, be in writing and be delivered or mailed to any such party at its address which:

(i) In the case of Company shall be:

TASER International, Incorporated  
7339 East Evans Road  
Scottsdale, Arizona 85260

With a copy to:

Thomas P. Palmer, Esq.  
Tonkon Torp, LLP  
1600 Pioneer Tower  
888 SW Fifth Avenue  
Portland, Oregon 97204

(ii) In the case of the Executive shall be:

Kathleen C. Hanrahan  
6714 West Columbine Drive  
Peoria, AZ 85381.

Either party may, by notice hereunder, designate a change of address. Any notice, if mailed properly addressed, postage prepaid, registered or certified mail, shall be deemed dispatched on the registered date or that stamped on the certified mail receipt, and shall be deemed received within the



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fifth business day thereafter, or when it is actually received, whichever is sooner.

- (c) Captions. The various headings or captions in this Agreement are for convenience only and shall not affect the meaning or interpretation of this Agreement.
- (d) Governing Law. The validity, construction and performance of this Agreement shall be governed by the laws of the State of Arizona. Any dispute involving or affecting this agreement, or the services to be performed shall be determined and resolved by binding arbitration in the County of Maricopa, State of Arizona, in accordance with the Commercial Arbitration Rules of the American Arbitration Association.
- (e) Construction. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Agreement.
- (f) Waivers. No failure on the part of either party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any right or remedy granted hereby or by any related document or by law.
- (g) Modification. This Agreement may not be, and shall not be, modified or amended except by a written instrument signed by both parties hereto.
- (h) No Conflicting Business. Executive agrees that he will not, during the term of this Agreement, transact business with the Company personally, or as an agent, owner, partner, shareholder of any other entity; provided, however, Executive may enter into any business transaction that is, in the opinion of the Company's Board of Directors, reasonable, prudent or beneficial to the Company, so long as any such business transaction is at arms-length as though between independent and prudent individuals and is ratified and approved by the designated members of the Company's Board of Directors.
- (i) Entire Agreement. This Agreement constitutes the entire Agreement and understanding between the parties hereto in reference to all the matters herein agreed upon; provided, however, that this Agreement shall not deprive Executive of any other rights Executive may have now, or in the future, pursuant to law or the provisions of Company benefit plans.
- (j) Counterparts. This Agreement shall be executed in at least two counterparts, each of which shall constitute an original, but both of which, when taken together, will constitute one in the same instrument.
- (k) Amendment. This Agreement may be modified only by written agreement executed

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by both parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered the day and year first above written.

TASER INTERNATIONAL, INCORPORATED

By: /s/ Phil Smith

Its: Chairman

EXECUTIVE

/s/ Kathleen C. Hanrahan

Kathleen C. Hanrahan

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EXHIBIT 10.4

TASER INTERNATIONAL, INC.

AGREEMENT CONCERNING INDEMNIFICATION AND RELATED MATTERS

(DIRECTORS)

This Agreement is made as of \_\_\_\_\_, 2001, by and between TASER International, Inc., a Delaware corporation (the "Corporation"), and \_\_\_\_\_ (the "Director"), a director of the Corporation.

WHEREAS, it is essential to the Corporation to retain and attract as directors of the Corporation the most capable persons available and persons who have significant experience in business, corporate and financial matters; and

WHEREAS, the Corporation has identified the Director as a person possessing the background and abilities desired by the Corporation and desires the Director to serve as a director of the Corporation; and

WHEREAS, the substantial increase in corporate litigation may, from time to time, subject corporate directors to burdensome litigation, the risks of which frequently far outweigh the advantages of serving in such capacity; and

WHEREAS, in recent times the cost of liability insurance has increased and the availability of such insurance is, from time-to-time, severely limited; and

WHEREAS, the Corporation and the Director recognize that serving as a director of a corporation at times calls for subjective evaluations and judgments upon which reasonable persons may differ and that, in that context, it is anticipated and expected that directors of corporations will and do from time to time commit actual or alleged errors or omissions in the good faith exercise of their corporate duties and responsibilities; and

WHEREAS, it is the express policy of the Corporation to indemnify its directors to the fullest extent permitted by law; and

WHEREAS, the Certificate of Incorporation permits, and the Bylaws of the Corporation require, indemnification of the directors of the Corporation to the fullest extent permitted by law, including but not limited to the General Corporation law of Delaware (the "DGCL"), and the DGCL expressly provides that the indemnification provisions set forth therein are not exclusive, and thereby contemplates that contracts may be entered into between the Corporation and its directors with respect to indemnification; and

WHEREAS, the Corporation and the Director desire to articulate clearly in contractual form their respective rights and obligations with regard to the Director's service on behalf of the Corporation as a director and with regard to claims for loss, liability, expense or damage which, directly or indirectly, may arise out of or relate to such service.

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NOW THEREFORE, the Corporation and the Director agree as follows:

1. Agreement to Serve.

The Director shall serve as a director of the Corporation for so long as the Director is duly elected or until the Director tenders a resignation in writing. This Agreement creates no obligation on either party to continue the service of the Director for a particular term or any term.

2. Definitions.

As used in this Agreement:

(a) The term "Proceeding" shall include any threatened, pending or completed action, suit or proceeding, whether formal or informal, whether brought by or in the right of the Corporation or otherwise, and whether of a civil, criminal, administrative or investigative nature, in which the Director may be or may have been involved as a party, witness or otherwise, by reason of the fact that the Director is or was a director of the Corporation, or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, whether or not serving in such capacity at the time any liability or expense is incurred for which exculpation, indemnification or reimbursement can be provided under this Agreement.

(b) The term "Expenses" includes, without limitation thereto, expenses of investigations, judicial or administrative proceedings or appeals, attorney, accountant and other professional fees and disbursements and any expenses of establishing a right to indemnification under Section 12 of this Agreement, but shall not include amounts paid in settlement by the Director or the amount of judgments or fines against the Director.

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

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

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under this Agreement with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

(e) For purposes of this Agreement, the meaning of the phrase "to the fullest extent permitted by law" shall include, but not be limited to:

(i) to the fullest extent authorized or permitted by any amendments to or replacements of the DGCL adopted after the date of this Agreement that increase the extent to which a corporation may indemnify or exculpate its officers or directors; and

(ii) to the fullest extent permitted by the provision of the DGCL that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the DGCL.

3. Limitation of Liability.

(a) To the fullest extent permitted by law, the Director shall have no monetary liability of any kind or nature whatsoever in respect of the Director's errors or omissions (or alleged errors or omissions) in serving the Corporation or any of its subsidiaries, their respective stockholders or any other enterprise at the request of the Corporation, so long as such errors or omissions (or alleged errors or omissions), if any, are not shown by clear and convincing evidence to have involved:

(i) any breach of the Director's duty of loyalty to such corporations, stockholders or enterprises;

(ii) any act or omission not in good faith or which involved intentional misconduct or a knowing violation of law;

(iii) any unlawful distribution under Section 174 of the DGCL (including, without limitation, dividends, stock repurchases and stock redemptions);

(iv) any transaction from which the Director derived an improper personal benefit; or

(v) profits made from the purchase and sale by the Director of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provision of any state statutory law or common law.

(b) Without limiting the generality of subparagraph (a) above and to the fullest extent permitted by law, the Director shall have no personal liability to the Corporation or any of its subsidiaries, their respective stockholders or any other person claiming derivatively through the Corporation, regardless of the theory or principle under which such liability may be asserted, for:

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- (i) punitive, exemplary or consequential damages;
- (ii) treble or other damages computed based upon any multiple of damages actually and directly proved to have been sustained;
- (iii) fees of attorneys, accountants, expert witnesses or professional consultants; or
- (iv) civil fines or penalties of any kind or nature whatsoever.

4. Indemnity in Third-Party Proceedings.

To the fullest extent permitted by law, the Corporation shall indemnify the Director in accordance with the provisions of this Section 4 if the Director was or is a party to, or is threatened to be made a party to, any Proceeding (other than a Proceeding by or in the right of the Corporation to procure a judgment in its favor), against all Expenses, judgments, fines and amounts paid in settlement, actually and reasonably incurred by the Director in connection with such Proceeding if the Director acted in good faith and in a manner the Director reasonably believed was in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, the Director, in addition, had no reasonable cause to believe that the Director's conduct was unlawful. However, the Director shall not be entitled to indemnification under this Section 4 in connection with any Proceeding charging improper personal benefit to the Director in which the Director is adjudged liable on the basis that personal benefit was improperly received by the Director unless and only to the extent that the court conducting such Proceeding or any other court of competent jurisdiction determines upon application that, despite such adjudication of liability, the Director is fairly and reasonably entitled to indemnification in view of all the relevant circumstances of the case; or in connection with any Proceeding (or part thereof) initiated by such person or any Proceeding by such person against the Corporation or its directors, officers, employees or agents unless: (1) such indemnification is expressly required to be made by law, (2) the Proceeding was authorized by the Board of Directors, or (3) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the DGCL.

5. Indemnity in Proceedings by or in the Right of the Corporation.

To the fullest extent provided by law, the Corporation shall indemnify the Director in accordance with the provisions of this Section 5 if the Director was or is a party to, or is threatened to be made a party to, any Proceeding by or in the right of the Corporation to procure a judgment in its favor, against all Expenses actually and reasonably incurred by the Director in connection with the defense or settlement of such Proceeding if the Director acted in good faith and in a manner the Director reasonably believed was in or not opposed to the best interests of the Corporation. However, the Director shall not be entitled to indemnification under this Section 5 in connection with any Proceeding in which the Director has been adjudged liable to the Corporation unless and only to the extent that the court conducting such Proceeding or any other court of competent jurisdiction determines upon application that, despite such adjudication of liability, the Director is fairly and reasonably entitled to indemnification for such Expenses in view of all the relevant circumstances of the case; or in connection with any Proceeding (or part thereof) initiated

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by such person or any Proceeding by such person against the Corporation or its directors, officers, employees or other agents unless (1) such indemnification is expressly required to be made by law, (2) the Proceeding was authorized by the Board of Directors, or (3) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the DGCL.

6. Indemnification of Expenses of Successful Party.

Notwithstanding any other provisions of this Agreement other than Section 9, to the extent that the Director has been successful, on the merits or otherwise, in defense of any Proceeding or in defense of any claim, issue or matter therein, including the dismissal of an action without prejudice, the Corporation shall indemnify the Director against all Expenses actually and reasonably incurred in connection therewith.

7. Good Faith.

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

(i) one or more directors or employees of the Corporation whom the Director believed to be reliable and competent in the matters presented;

(ii) counsel, independent accountants or other persons as to matters which the Director believed to be within such person's professional or expert competence; or

(iii) a committee of the Board of Directors upon which such such Director does not serve, as to matters within such committee's designated authority, which committee the Director reasonably believes to merit confidence.

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

(c) The provisions of this Section 7 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth by the DGCL.

8. Exclusions.

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Notwithstanding any provision in this Agreement other than Section 6, the Corporation shall not be obligated under this Agreement to make any indemnification in connection with any claim made against the Director:

(a) for which payment is made to or required to be made to or on behalf of the Director under any insurance policy, except with respect to any deductible amount, self-insured retention or any excess amount to which the Director is entitled under this Agreement beyond the amount of payment under such insurance policy;

(b) if a court having jurisdiction in the matter finally determines that such indemnification is not lawful under any applicable statute or public policy;

(c) in connection with any Proceeding (or part of any Proceeding) initiated by the Director, or any Proceeding by the Director against the Corporation or its directors, officers, employees or other persons entitled to be indemnified by the Corporation, unless:

(i) the Corporation is expressly required by law to make the indemnification;

(ii) the Proceeding was authorized by the Board of Directors of the Corporation; or

(iii) the Director initiated the Proceeding pursuant to Section 12 of this Agreement and the Director is successful in whole or in part in such Proceeding; or

(d) for an accounting of profits made from the purchase and sale by the Director of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provision of any state statutory law or common law.

9. Advances of Expenses.

The Corporation shall pay the Expenses incurred by the Director in any Proceeding (other than a Proceeding brought for an accounting of profits made from the purchase and sale by the Director of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provision of any state statutory law or common law) in advance of the final disposition of the Proceeding at the written request of the Director, if the Director:

(a) furnishes the Corporation a written affirmation of the Director's good faith belief that the Director is entitled to be indemnified under this Agreement; and

(b) furnishes the Corporation a written undertaking to repay the advance to the extent that it is ultimately determined that the Director is not entitled to be indemnified by the Corporation. Such undertaking shall be an unlimited general obligation of the Director but need not be secured.

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Advances pursuant to this Section 9 shall be made no later than 10 days after receipt by the Corporation of the affirmation and undertaking described in subparagraphs (a) and (b) above, and shall be made without regard to the Director's ability to repay the amount advanced and without regard to the Director's ultimate entitlement to indemnification under this Agreement. The Corporation may establish a trust, escrow account or other secured funding source for the payment of advances made and to be made pursuant to this Section 9 or of other liability incurred by the Director in connection with any Proceeding.

10. Nonexclusivity and Continuity of Rights.

The indemnification, advancement of Expenses, and exculpation from liability provided by this Agreement shall not be deemed exclusive of any other rights to which the Director may be entitled under any other agreement, the Certificate of Incorporation, Bylaws, vote of stockholders or directors, the Act, or otherwise, both as to action in the Director's official capacity and as to action in another capacity while holding such office or occupying such position. The indemnification under this Agreement shall continue as to the Director even though the Director may have ceased to be a director of the Corporation or a director, officer, employee or agent of an enterprise related to the Corporation and shall inure to the benefit of the heirs, executors, administrators and personal representatives of the Director.

11. Procedure Upon Application for Indemnification.

Any indemnification under Sections 4, 5 or 6 shall be made no later than 45 days after receipt of the written request of the Director, unless a determination that the Director is not entitled to indemnification under this Agreement is made within such 45-day period by:

(a) the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the applicable Proceeding;

(b) if such quorum cannot be obtained, majority vote of a committee duly designated by the Board of Directors consisting solely of two or more directors not at the time parties to the Proceeding;

(c) special legal counsel selected by the Board of Directors or its committee in the manner prescribed in subparagraph (a) or (b) above or, if a quorum of the Board of Directors cannot be obtained under subparagraph (a) above and a committee cannot be designated under subparagraph (b) above, the special legal counsel shall be selected by majority vote of the full Board of Directors, including directors who are parties to the Proceeding; or

(d) the stockholders of the Corporation.

12. Enforcement.

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The Director may enforce any right to indemnification, advances or exculpation provided by this Agreement in any court of competent jurisdiction if:

(a) the Corporation denies the claim for indemnification, advances or exculpation, in whole or in part; or

(b) the Corporation does not dispose of such claim within 45 days of request therefor.

It shall be a defense to any such enforcement action (other than an action brought to enforce a claim for advancement of Expenses pursuant to, and in compliance with, Section 9 of this Agreement) that the Director is not entitled to indemnification or exculpation under this Agreement. However, except as provided in Section 13 of this Agreement, the Corporation shall not assert any defense to an action brought to enforce a claim for advancement of Expenses pursuant to Section 9 of this Agreement if the Director has tendered to the Corporation the affirmation and undertaking required thereunder. The burden of proving by clear and convincing evidence that indemnification or exculpation is not appropriate shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors or independent legal counsel) to have made a determination prior to the commencement of such action that indemnification or exculpation is proper in the circumstances because the Director has met the applicable standard of conduct nor an actual determination by the Corporation (including its Board of Directors or independent legal counsel) that indemnification or exculpation is improper because the Director has not met such applicable standard of conduct, shall be asserted as a defense to the action or create a presumption that the Director is not entitled to indemnification or exculpation under this Agreement or otherwise. The Director's expenses incurred in connection with successfully establishing the Director's right to indemnification, advances or exculpation, in whole or in part, in any Proceeding shall also be paid or reimbursed by the Corporation.

13. Notification and Defense of Claim.

As a condition precedent to indemnification under this Agreement, not later than 30 days after receipt by the Director of notice of the commencement of any Proceeding the Director shall, if a claim in respect of the Proceeding is to be made against the Corporation under this Agreement, notify the Corporation in writing of the commencement of the Proceeding. The failure to properly notify the Corporation shall not relieve the Corporation from any liability which it may have to the Director: (a) unless the Corporation shall be shown to have suffered actual damages as a result of such failure; or (b) otherwise than under this Agreement. With respect to any Proceeding as to which the Director so notifies the Corporation of the commencement:

(a) The Corporation shall be entitled to participate in the Proceeding at its own expense.

(b) Except as otherwise provided in this Section 13, the Corporation may, at its option and jointly with any other indemnifying party similarly notified and electing to assume such defense, assume the defense of the Proceeding, with legal counsel reasonably satisfactory to the Director. The Director shall have the right to use separate legal counsel in the Proceeding, but the

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Corporation shall not be liable to the Director under this Agreement, including Section 9 above, for the fees and expenses of separate legal counsel incurred after notice from the Corporation of its assumption of the defense, unless (i) the Director reasonably concludes that there may be a conflict of interest between the Corporation and the Director in the conduct of the defense of the Proceeding, or (ii) the Corporation does not use legal counsel to assume the defense of such Proceeding. The Corporation shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Corporation or as to which the Director has made the conclusion provided for in (i) above.

(c) If two or more persons who may be entitled to indemnification from the Corporation, including the Director, are parties to any Proceeding, the Corporation may require the Director to use the same legal counsel as the other parties. The Director shall have the right to use separate legal counsel in the Proceeding, but the Corporation shall not be liable to the Director under this Agreement, including Section 9 above, for the fees and expenses of separate legal counsel incurred after notice from the Corporation of the requirement to use the same legal counsel as the other parties, unless the Director reasonably concludes that there may be a conflict of interest between the Director and any of the other parties required by the Corporation to be represented by the same legal counsel.

(d) The Corporation shall not be liable to indemnify the Director under this Agreement for any amounts paid in settlement of any Proceeding effected without its written consent, which shall not be unreasonably withheld. The Director shall permit the Corporation to settle any Proceeding that the Corporation assumes the defense of, except that the Corporation shall not settle any action or claim in any manner that would impose any penalty, limitation, disqualification or disenfranchisement on the Director without the Director's written consent.

14. Partial Indemnification.

If the Director is entitled under any provision of this Agreement to indemnification by the Corporation for some or a portion of the Expenses, judgments, fines or amounts paid in settlement, actually and reasonably incurred by the Director in connection with such Proceeding, but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify the Director for the portion of such Expenses, judgments, fines or amounts paid in settlement to which the Director is entitled.

15. Interpretation and Scope of Agreement.

Nothing in this Agreement shall be interpreted to constitute a contract of service for any particular period or pursuant to any particular terms or conditions. The Corporation retains the right, in its discretion, to terminate the service relationship of the Director, with or without cause, or to alter the terms and conditions of the Director's service all without prejudice to any rights of the Director which may have accrued or vested prior to such action by the Corporation.

16. Severability.

If this Agreement or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, the remainder of this Agreement shall continue to be valid and the

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Corporation shall nevertheless indemnify the Director as to Expenses, judgments, fines and amounts paid in settlement with respect to any Proceeding to the fullest extent permitted by any applicable portion of this Agreement that shall not have been invalidated.

17. Subrogation.

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

18. Notices.

All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given upon delivery by hand to the party to whom the notice or other communication shall have been directed, or on the third business day after the date on which it is mailed by United States mail with first-class postage prepaid, addressed as follows:

(a) If to the Director, to the address indicated on the signature page of this Agreement.

(b) If to the Corporation, to: TASER International, Inc.  
7860 East McClain Drive, Suite 2  
Scottsdale, Arizona 85260

With a copy to: Thomas P. Palmer  
Tonkon Torp LLP  
1600 Pioneer Tower  
888 S.W. Fifth Avenue  
Portland, Oregon 97204-2099

or to any other address as either party may designate to the other in writing.

19. Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall constitute the original.

20. Applicable Law.

This Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware without regard to the conflict of laws provisions thereof.

21. Successors and Assigns.

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This Agreement shall be binding upon the Corporation and its successors and assigns.

22. Attorney Fees.

If any suit or action (including, without limitation, any bankruptcy proceeding) is instituted to enforce or interpret any provision of this Agreement, the prevailing party shall be entitled to recover from the party not prevailing, in addition to other relief that may be provided by law, an amount determined reasonable as attorney fees at trial and on any appeal of such suit or action.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first written above.

TASER INTERNATIONAL, INC.

DIRECTOR:

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Signature: \_\_\_\_\_  
Address: \_\_\_\_\_

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EXHIBIT 10.5

TASER INTERNATIONAL, INC.

AGREEMENT CONCERNING INDEMNIFICATION AND RELATED MATTERS  
(OFFICERS)

This Agreement is made as of \_\_\_\_\_, 2001, by and between TASER International, Inc., a Delaware corporation (the "Corporation"), and \_\_\_\_\_ (the "Officer"), an executive officer of the Corporation.

WHEREAS, it is essential to the Corporation to retain and attract as executive officers of the Corporation the most capable persons available and persons who have significant experience in business, corporate and financial matters; and

WHEREAS, the Corporation has identified the Officer as a person possessing the background and abilities desired by the Corporation and desires the Officer to serve as an executive officer of the Corporation; and

WHEREAS, the substantial increase in corporate litigation may, from time to time, subject corporate officers to burdensome litigation, the risks of which frequently far outweigh the advantages of serving in such capacity; and

WHEREAS, in recent times the cost of liability insurance has increased and the availability of such insurance is, from time-to-time, severely limited; and

WHEREAS, the Corporation and the Officer recognize that serving as an executive officer of a corporation at times calls for subjective evaluations and judgments upon which reasonable persons may differ and that, in that context, it is anticipated and expected that officers of corporations will and do from time to time commit actual or alleged errors or omissions in the good faith exercise of their corporate duties and responsibilities; and

WHEREAS, it is the express policy of the Corporation to indemnify its executive officers to the fullest extent permitted by law; and

WHEREAS, the Certificate of Incorporation permits, and the Bylaws of the Corporation require, indemnification of the officers of the Corporation to the fullest extent permitted by law, including but not limited to the General Corporation law of Delaware (the "DGCL"), and the DGCL expressly provides that the indemnification provisions set forth therein are not exclusive, and thereby contemplates that contracts may be entered into between the Corporation and its officers with respect to indemnification; and

WHEREAS, the Corporation and the Officer desire to articulate clearly in contractual form their respective rights and obligations with regard to the Officer's service on behalf of the Corporation as an officer and with regard to claims for loss, liability, expense or damage which, directly or indirectly, may arise out of or relate to such service.

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NOW THEREFORE, the Corporation and the Officer agree as follows:

1. Agreement to Serve.

The Officer shall serve as an officer of the Corporation for until the Officer tenders a resignation in writing or is discharged by the Corporation as provided in the Employment Agreement between the Officer and the Corporation. This Agreement creates no obligation on either party to continue the service of the Officer for a particular term or any term.

2. Definitions.

As used in this Agreement:

(a) The term "Proceeding" shall include any threatened, pending or completed action, suit or proceeding, whether formal or informal, whether brought by or in the right of the Corporation or otherwise, and whether of a civil, criminal, administrative or investigative nature, in which the Officer may be or may have been involved as a party, witness or otherwise, by reason of the fact that the Officer is or was an officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, whether or not serving in such capacity at the time any liability or expense is incurred for which exculpation, indemnification or reimbursement can be provided under this Agreement.

(b) The term "Expenses" includes, without limitation thereto, expenses of investigations, judicial or administrative proceedings or appeals, attorney, accountant and other professional fees and disbursements and any expenses of establishing a right to indemnification under Section 13 of this Agreement, but shall not include amounts paid in settlement by the Officer or the amount of judgments or fines against the Officer.

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

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



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under this Agreement with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

(e) For purposes of this Agreement, the meaning of the phrase "to the fullest extent permitted by law" shall include, but not be limited to:

(i) to the fullest extent authorized or permitted by any amendments to or replacements of the DGCL adopted after the date of this Agreement that increase the extent to which a corporation may indemnify or exculpate its officers or directors; and

(ii) to the fullest extent permitted by the provision of the DGCL that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the DGCL.

3. Limitation of Liability.

(a) To the fullest extent permitted by law, the Officer shall have no monetary liability of any kind or nature whatsoever in respect of the Officer's errors or omissions (or alleged errors or omissions) in serving the Corporation or any of its subsidiaries, their respective stockholders or any other enterprise at the request of the Corporation, so long as such errors or omissions (or alleged errors or omissions), if any, are not shown by clear and convincing evidence to have involved:

(i) any breach of the Officer's duty of loyalty to such corporations, stockholders or enterprises;

(ii) any act or omission not in good faith or which involved intentional misconduct or a knowing violation of law;

(iii) any unlawful distribution under Section 174 of the DGCL (including, without limitation, dividends, stock repurchases and stock redemptions);

(iv) any transaction from which the Officer derived an improper personal benefit; or

(v) profits made from the purchase and sale by the Officer of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provision of any state statutory law or common law.

(b) Without limiting the generality of subparagraph (a) above and to the fullest extent permitted by law, the Officer shall have no personal liability to the Corporation or any of its subsidiaries, their respective stockholders or any other person claiming derivatively through the Corporation, regardless of the theory or principle under which such liability may be asserted, for:



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- (i) punitive, exemplary or consequential damages;
- (ii) treble or other damages computed based upon any multiple of damages actually and directly proved to have been sustained;
- (iii) fees of attorneys, accountants, expert witnesses or professional consultants; or
- (iv) civil fines or penalties of any kind or nature whatsoever.

4. Indemnity in Third-Party Proceedings.

To the fullest extent permitted by law, the Corporation shall indemnify the Officer in accordance with the provisions of this Section 4 if the Officer was or is a party to, or is threatened to be made a party to, any Proceeding (other than a Proceeding by or in the right of the Corporation to procure a judgment in its favor), against all Expenses, judgments, fines and amounts paid in settlement, actually and reasonably incurred by the Officer in connection with such Proceeding if the Officer acted in good faith and in a manner the Officer reasonably believed was in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, the Officer, in addition, had no reasonable cause to believe that the Officer's conduct was unlawful. However, the Officer shall not be entitled to indemnification under this Section 4 in connection with any Proceeding charging improper personal benefit to the Officer in which the Officer is adjudged liable on the basis that personal benefit was improperly received by the Officer unless and only to the extent that the court conducting such Proceeding or any other court of competent jurisdiction determines upon application that, despite such adjudication of liability, the Officer is fairly and reasonably entitled to indemnification in view of all the relevant circumstances of the case; or in connection with any Proceeding (or part thereof) initiated by such person or any Proceeding by such person against the Corporation or its directors, officers, employees or agents unless: (1) such indemnification is expressly required to be made by law, (2) the Proceeding was authorized by the Board of Directors, or (3) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the DGCL.

5. Indemnity in Proceedings by or in the Right of the Corporation.

To the fullest extent provided by law, the Corporation shall indemnify the Officer in accordance with the provisions of this Section 5 if the Officer was or is a party to, or is threatened to be made a party to, any Proceeding by or in the right of the Corporation to procure a judgment in its favor, against all Expenses actually and reasonably incurred by the Officer in connection with the defense or settlement of such Proceeding if the Officer acted in good faith and in a manner the Officer reasonably believed was in or not opposed to the best interests of the Corporation. However, the Officer shall not be entitled to indemnification under this Section 5 in connection with any Proceeding in which the Officer has been adjudged liable to the Corporation unless and only to the extent that the court conducting such Proceeding or any other court of competent jurisdiction determines upon application that, despite such adjudication of liability, the Officer is fairly and reasonably entitled to indemnification for such Expenses in view of all the relevant circumstances of the case; or in connection with any Proceeding (or part thereof) initiated by such person or any

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Proceeding by such person against the Corporation or its directors, officers, employees or other agents unless (1) such indemnification is expressly required to be made by law, (2) the Proceeding was authorized by the Board of Directors, or (3) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the DGCL.

6. Indemnification of Expenses of Successful Party.

Notwithstanding any other provisions of this Agreement other than Section 9, to the extent that the Officer has been successful, on the merits or otherwise, in defense of any Proceeding or in defense of any claim, issue or matter therein, including the dismissal of an action without prejudice, the Corporation shall indemnify the Officer against all Expenses actually and reasonably incurred in connection therewith.

7. Good Faith.

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

(i) one or more directors or employees of the Corporation whom the Officer believed to be reliable and competent in the matters presented;

(ii) counsel, independent accountants or other persons as to matters which the Officer believed to be within such person's professional or expert competence; or

(iii) a committee of the Board of Directors upon which such Officer does not serve, as to matters within such committee's designated authority, which committee the Officer reasonably believes to merit confidence.

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

(c) The provisions of this Section 7 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth by the DGCL.

8. Exclusions.



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Notwithstanding any provision in this Agreement other than Section 6, the Corporation shall not be obligated under this Agreement to make any indemnification in connection with any claim made against the Officer:

(a) for which payment is made to or required to be made to or on behalf of the Officer under any insurance policy, except with respect to any deductible amount, self-insured retention or any excess amount to which the Officer is entitled under this Agreement beyond the amount of payment under such insurance policy;

(b) if a court having jurisdiction in the matter finally determines that such indemnification is not lawful under any applicable statute or public policy;

(c) in connection with any Proceeding (or part of any Proceeding) initiated by the Officer, or any Proceeding by the Officer against the Corporation or its directors, officers, employees or other persons entitled to be indemnified by the Corporation, unless:

(i) the Corporation is expressly required by law to make the indemnification;

(ii) the Proceeding was authorized by the Board of Directors of the Corporation; or

(iii) the Officer initiated the Proceeding pursuant to Section 12 of this Agreement and the Officer is successful in whole or in part in such Proceeding; or

(d) for an accounting of profits made from the purchase and sale by the Officer of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provision of any state statutory law or common law.

9. Advances of Expenses.

The Corporation shall pay the Expenses incurred by the Officer in any Proceeding (other than a Proceeding brought for an accounting of profits made from the purchase and sale by the Officer of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provision of any state statutory law or common law) in advance of the final disposition of the Proceeding at the written request of the Officer, if the Officer:

(a) furnishes the Corporation a written affirmation of the Officer's good faith belief that the Officer is entitled to be indemnified under this Agreement; and

(b) furnishes the Corporation a written undertaking to repay the advance to the extent that it is ultimately determined that the Officer is not entitled to be indemnified by the Corporation. Such undertaking shall be an unlimited general obligation of the Officer but need not be secured.

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Advances pursuant to this Section 9 shall be made no later than 10 days after receipt by the Corporation of the affirmation and undertaking described in subparagraphs (a) and (b) above, and shall be made without regard to the Officer's ability to repay the amount advanced and without regard to the Officer's ultimate entitlement to indemnification under this Agreement. The Corporation may establish a trust, escrow account or other secured funding source for the payment of advances made and to be made pursuant to this Section 9 or of other liability incurred by the Officer in connection with any Proceeding.

10. Nonexclusivity and Continuity of Rights.

The indemnification, advancement of Expenses, and exculpation from liability provided by this Agreement shall not be deemed exclusive of any other rights to which the Officer may be entitled under any other agreement, the Certificate of Incorporation, Bylaws, vote of stockholders or directors, the Act, or otherwise, both as to action in the Officer's official capacity and as to action in another capacity while holding such office or occupying such position. The indemnification under this Agreement shall continue as to the Officer even though the Officer may have ceased to be an officer of the Corporation or a director, officer, employee or agent of an enterprise related to the Corporation and shall inure to the benefit of the heirs, executors, administrators and personal representatives of the Officer.

11. Procedure Upon Application for Indemnification.

Any indemnification under Sections 4, 5 or 6 shall be made no later than 45 days after receipt of the written request of the Officer, unless a determination that the Officer is not entitled to indemnification under this Agreement is made within such 45-day period by:

(a) the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the applicable Proceeding;

(b) if such quorum cannot be obtained, majority vote of a committee duly designated by the Board of Directors consisting solely of two or more directors not at the time parties to the Proceeding;

(c) special legal counsel selected by the Board of Directors or its committee in the manner prescribed in subparagraph (a) or (b) above or, if a quorum of the Board of Directors cannot be obtained under subparagraph (a) above and a committee cannot be designated under subparagraph (b) above, the special legal counsel shall be selected by majority vote of the full Board of Directors, including directors who are parties to the Proceeding; or

(d) the stockholders of the Corporation.

12. Enforcement.

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The Officer may enforce any right to indemnification, advances or exculpation provided by this Agreement in any court of competent jurisdiction if:

(a) the Corporation denies the claim for indemnification, advances or exculpation, in whole or in part; or

(b) the Corporation does not dispose of such claim within 45 days of request therefor.

It shall be a defense to any such enforcement action (other than an action brought to enforce a claim for advancement of Expenses pursuant to, and in compliance with, Section 9 of this Agreement) that the Officer is not entitled to indemnification or exculpation under this Agreement. However, except as provided in Section 13 of this Agreement, the Corporation shall not assert any defense to an action brought to enforce a claim for advancement of Expenses pursuant to Section 9 of this Agreement if the Officer has tendered to the Corporation the affirmation and undertaking required thereunder. The burden of proving by clear and convincing evidence that indemnification or exculpation is not appropriate shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors or independent legal counsel) to have made a determination prior to the commencement of such action that indemnification or exculpation is proper in the circumstances because the Officer has met the applicable standard of conduct nor an actual determination by the Corporation (including its Board of Directors or independent legal counsel) that indemnification or exculpation is improper because the Officer has not met such applicable standard of conduct, shall be asserted as a defense to the action or create a presumption that the Officer is not entitled to indemnification or exculpation under this Agreement or otherwise. The Officer's expenses incurred in connection with successfully establishing the Officer's right to indemnification, advances or exculpation, in whole or in part, in any Proceeding shall also be paid or reimbursed by the Corporation.

### 13. Notification and Defense of Claim.

As a condition precedent to indemnification under this Agreement, not later than 30 days after receipt by the Officer of notice of the commencement of any Proceeding the Officer shall, if a claim in respect of the Proceeding is to be made against the Corporation under this Agreement, notify the Corporation in writing of the commencement of the Proceeding. The failure to properly notify the Corporation shall not relieve the Corporation from any liability which it may have to the Officer: (a) unless the Corporation shall be shown to have suffered actual damages as a result of such failure; or (b) otherwise than under this Agreement. With respect to any Proceeding as to which the Officer so notifies the Corporation of the commencement:

(a) The Corporation shall be entitled to participate in the Proceeding at its own expense.

(b) Except as otherwise provided in this Section 13, the Corporation may, at its option and jointly with any other indemnifying party similarly notified and electing to assume such defense, assume the defense of the Proceeding, with legal counsel reasonably satisfactory to the Officer. The Officer shall have the right to use separate legal counsel in the Proceeding, but the

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Corporation shall not be liable to the Officer under this Agreement, including Section 9 above, for the fees and expenses of separate legal counsel incurred after notice from the Corporation of its assumption of the defense, unless (i) the Officer reasonably concludes that there may be a conflict of interest between the Corporation and the Officer in the conduct of the defense of the Proceeding, or (ii) the Corporation does not use legal counsel to assume the defense of such Proceeding. The Corporation shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Corporation or as to which the Officer has made the conclusion provided for in (i) above.

(c) If two or more persons who may be entitled to indemnification from the Corporation, including the Officer, are parties to any Proceeding, the Corporation may require the Officer to use the same legal counsel as the other parties. The Officer shall have the right to use separate legal counsel in the Proceeding, but the Corporation shall not be liable to the Officer under this Agreement, including Section 9 above, for the fees and expenses of separate legal counsel incurred after notice from the Corporation of the requirement to use the same legal counsel as the other parties, unless the Officer reasonably concludes that there may be a conflict of interest between the Officer and any of the other parties required by the Corporation to be represented by the same legal counsel.

(d) The Corporation shall not be liable to indemnify the Officer under this Agreement for any amounts paid in settlement of any Proceeding effected without its written consent, which shall not be unreasonably withheld. The Officer shall permit the Corporation to settle any Proceeding that the Corporation assumes the defense of, except that the Corporation shall not settle any action or claim in any manner that would impose any penalty, limitation, disqualification or disenfranchisement on the Officer without the Officer's written consent.

14. Partial Indemnification.

If the Officer is entitled under any provision of this Agreement to indemnification by the Corporation for some or a portion of the Expenses, judgments, fines or amounts paid in settlement, actually and reasonably incurred by the Officer in connection with such Proceeding, but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify the Officer for the portion of such Expenses, judgments, fines or amounts paid in settlement to which the Officer is entitled.

15. Interpretation and Scope of Agreement.

Nothing in this Agreement shall be interpreted to constitute a contract of service for any particular period or pursuant to any particular terms or conditions. The Corporation retains the right, in its discretion, to terminate the service relationship of the Officer, with or without cause, or to alter the terms and conditions of the Officer's service all without prejudice to any rights of the Officer which may have accrued or vested prior to such action by the Corporation.

16. Severability.

If this Agreement or any portion thereof shall be invalidated on any ground by any court of competent jurisdiction, the remainder of this Agreement shall continue to be valid and the

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Corporation shall nevertheless indemnify the Officer as to Expenses, judgments, fines and amounts paid in settlement with respect to any Proceeding to the fullest extent permitted by any applicable portion of this Agreement that shall not have been invalidated.

17. Subrogation.

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

18. Notices.

All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given upon delivery by hand to the party to whom the notice or other communication shall have been directed, or on the third business day after the date on which it is mailed by United States mail with first-class postage prepaid, addressed as follows:

(a) If to the Officer, to the address indicated on the signature page of this Agreement.

(b) If to the Corporation, to: TASER International, Inc.  
7860 East McClain Drive, Suite 2  
Scottsdale, Arizona 85260

With a copy to: Thomas P. Palmer  
Tonkon Torp LLP  
1600 Pioneer Tower  
888 S.W. Fifth Avenue  
Portland, Oregon 97204-2099

or to any other address as either party may designate to the other in writing.

19. Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall constitute the original.

20. Applicable Law.

This Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware without regard to the conflict of laws provisions thereof.

21. Successors and Assigns.

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This Agreement shall be binding upon the Corporation and its successors and assigns.

22. Attorney Fees.

If any suit or action (including, without limitation, any bankruptcy proceeding) is instituted to enforce or interpret any provision of this Agreement, the prevailing party shall be entitled to recover from the party not prevailing, in addition to other relief that may be provided by law, an amount determined reasonable as attorney fees at trial and on any appeal of such suit or action.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first written above.

TASER INTERNATIONAL, INC.

OFFICER:

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Signature: \_\_\_\_\_  
Address: \_\_\_\_\_

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EXHIBIT 10.6

TASER INTERNATIONAL, INC.  
1999 STOCK OPTION PLAN

ARTICLE 1.  
ESTABLISHMENT AND PURPOSE

1.1 ESTABLISHMENT. TASER International, Incorporated (the "Company") hereby establishes a plan providing for the grant of stock options to certain eligible individuals who have or will render services to the Company and any Subsidiary. This plan shall be known as the TASER International, Incorporated 1999 Stock Option Plan (the "Plan"). This Plan has been approved by the Board of Directors and the Shareholders of the Company in contemplation of a restatement of the Company's Articles of Incorporation. Accordingly, this Plan assumes the filing of the Restated Articles of Incorporation.

1.2 PURPOSE. The purpose of the Plan is to advance the interests of the Company and its shareholders by enhancing the Company's ability to attract and retain qualified persons to perform services for the Company by providing incentives to such persons to put forth maximum efforts for the Company and by rewarding persons who contribute to the achievement of the Company's economic objectives.

ARTICLE 2.  
DEFINITIONS

The following terms have the meanings set forth below, unless the context otherwise requires:

2.1 "AFFILIATE" means with respect to any Person, (i) any Person directly or indirectly controlling, controlled by, or under common control with such Person, (ii) any person owning or controlling ten percent (10%) or more of the outstanding voting interests of such Person, (iii) any officer, director, or general partner of such Person, or (iv) any Person who is an officer, director, general partner or holder of ten percent (10%) or more of the voting interests of any Person described in clauses (i) through (iii) of this sentence. For purposes of this definition, the term "controls," "is controlled by," or "is under common control with" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person or power to direct or cause the direction of the management and policies of a person or entity, whether through the ownership of voting securities, by contract or otherwise.

2.2 "BOARD" means the Board of Directors of the Company.

2.3 "CODE" means the Internal Revenue Code of 1986, as amended.

2.4 "COMMITTEE" means the group of individuals administering the Plan, as provided in Article 3 of the Plan.

2.5 "COMMON STOCK" means the common stock of the Company, no par value, or the number and kind of shares of stock or other securities into which such Common Stock may be changed in accordance with Section 4.3 of the Plan.

2.6 "CONVERSION RIGHT" means the right, if granted pursuant to Section 6.6 below, of a Participant to require the Company to convert an Option, in whole or in part at any time after it becomes exercisable and prior to its expiration, into shares of Common Stock without the payment of any exercise price. If a Participant is

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granted a Conversion Right, then upon exercise of the Option or a part thereof, the Company shall deliver to the Participant (subject to Article 9 below) that number of shares of Common Stock computed by multiplying (A) the number of Option Shares underlying the Option or part thereof being exercised by (B) the quotient obtained by dividing (x) the difference between (i) the aggregate Fair Market Value for the Option Shares underlying the Option (or part thereof being exercised) immediately prior to the exercise of the Conversion Right and (ii) the aggregate exercise price for the Option (or part thereof being exercised) by (y) the aggregate Fair Market Value for the Option Shares underlying the Option (or part thereof being exercised) immediately prior to the exercise of the Conversion Right.

2.7 "DISABILITY" means the permanent and total disability of the Participant within the meaning of Section 22(e)(3) of the Code.

2.8 "ELIGIBLE RECIPIENT" means all employees (including, without limitation, officers and directors who are also employees), directors, consultants and independent contractors of the Company.

2.9 "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

2.10 "FAIR MARKET VALUE" means, with respect to the Common Stock, the following:

(a) If the Common Stock is listed or admitted to unlisted trading privileges on any national securities exchange or is not so listed or admitted but transactions in the Common Stock are reported on The Nasdaq National Market(R), the last sale price of the Common Stock on such exchange or reported by The Nasdaq National Market(R) System as of such date (or, if no shares were traded on such day, as of the next preceding day on which there was such a trade).

(b) If the Common Stock is not so listed or admitted to unlisted trading privileges or reported on The Nasdaq National Market(R), and bid and asked prices therefor in the over-the-counter market are reported by The Nasdaq SmallCap Market(SM), the Nasdaq Bulletin Board, or the National Quotation Bureau, Inc. (or any comparable reporting service), the mean of the closing bid and asked prices as of such date, as so reported by the applicable Nasdaq(R) system, or, if not so reported thereon, as reported by the National Quotation Bureau, Inc. (or such comparable reporting service).

(c) In all other cases, such price as the Committee determines in good faith in the exercise of its reasonable discretion.

2.11 "INCENTIVE STOCK OPTION" means a right to purchase Common Stock granted to an Eligible Recipient pursuant to Article 6 of the Plan that qualifies as an "incentive stock option" within the meaning of Section 422 of the Code.

2.12 "NON-QUALIFIED STOCK OPTION" means a right to purchase Common Stock granted to an Eligible Recipient pursuant to Article 6 of the Plan that does not qualify as an Incentive Stock Option.

2.13 "OPTION" means an Incentive Stock Option or a Non-Qualified Stock Option.

2.14 "OPTION SHARES" means the shares of Common Stock issuable upon exercise of an Option.

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2.15 "PARTICIPANT" means an Eligible Recipient who receives one or more Options under of the Plan.

2.16 "PERSON" means any individual, corporation, partnership, group, association, or other "person" (as such term is used in Section 14(d) of the Exchange Act), other than the Company, a wholly-owned Subsidiary of the Company, or any employee benefit plan sponsored by the Company or a wholly-owned Subsidiary of the Company.

2.17 "PREVIOUSLY ACQUIRED SHARES" mean shares of Common Stock that are already owned by the Participant.

2.18 "RETIREMENT" means the retirement of a Participant pursuant to and in accordance with the regular or, if approved by the Board for purposes of the Plan, any early retirement plan or practice of the Company or Subsidiary then covering the Participant.

2.19 "SECURITIES ACT" means the Securities Act of 1933, as amended.

2.20 "SUBSIDIARY" means any subsidiary corporation of the Company within the meaning of Section 424(f) and (g) of the Code.

ARTICLE 3.  
PLAN ADMINISTRATION

3.1 THE COMMITTEE. The Plan shall be administered by the Board, or by a committee of the Board consisting of not less than two persons; provided, however, that from and after the date on which the Company first registers a class of its equity securities under Section 12 of the Exchange Act, the Plan shall be administered to the extent provided herein by a committee appointed by the Board consisting of not less than two members of the Board. Members of such a committee, if established, shall be appointed from time to time by the Board, shall serve at the pleasure of the Board and may resign at any time upon written notice to the Board. A majority of the members of such a committee shall constitute a quorum. Such a committee shall act by majority approval of the members, shall keep minutes of its meetings and shall provide copies of such minutes to the Board. Action of such a committee may be taken without a meeting if unanimous written consent is given. Copies of minutes of such a committee's meetings and of its actions by written consent shall be provided to the Board and kept with the corporate records of the Company. As used in this Plan, the term "Committee" will refer to the Board or to such a committee, if established.

3.2 AUTHORITY OF THE COMMITTEE.

(a) In accordance with and subject to the provisions of the Plan, the Committee shall have the authority to recommend to the Board for its consideration and approval (i) the Eligible Recipients who shall be selected as Participants, (ii) the nature and extent of the Options to be granted to each Participant (including the number of shares of Common Stock to be subject to each Option, the exercise price and the manner in which Options will vest or become exercisable), (iii) the time or times when Options will be granted, (iv) the duration of each Option, (v) the restrictions and other conditions to which the exercisability or vesting of Options may be subject, and (vi) such other provisions of the Options as the Committee may deem necessary or desirable and as consistent with the terms of the Plan. The Committee shall determine the form or forms of the option agreements with Participants which shall

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evidence the particular terms, conditions, rights, and duties of the Company and the Participants with respect to Options granted pursuant to the Plan, which agreements shall be consistent with the provisions of the Plan.

(b) With the consent of the Participant affected thereby and subject to the consideration and approval of the Board, the Committee may amend or modify the terms of any outstanding Option in any manner, provided that the amended or modified terms are permitted by the Plan as then in effect. Without limiting the generality of the foregoing sentence, the Committee may, with the consent of the Participant affected thereby and subject to consideration and approval of the Board, modify the exercise price, number of shares, or other terms and conditions of an Option, extend the term of an Option, accelerate the exercisability or vesting or otherwise terminate any restrictions relating to an Option, accept the surrender of any outstanding Option, or, to the extent not previously exercised or vested, authorize the grant of new Options in substitution for surrendered Options.

(c) The Committee shall have the authority to interpret the Plan and, subject to the provisions of the Plan, to establish, adopt, and revise such rules and regulations relating to the Plan as it may deem necessary or advisable for the administration of the Plan. The Committee's decisions and determinations under the Plan need not be uniform and may be made selectively among Participants, whether or not such Participants are similarly situated. Each determination, interpretation, or other action made or taken by the Committee pursuant to the provisions of the Plan shall be conclusive and binding for all purposes and on all persons, including, without limitation, the Company and its Subsidiaries, the shareholders of the Company, the Committee and each of its members, the directors, officers, and employees of the Company and its Subsidiaries, and the Participants and their respective successors in interest. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted under the Plan.

ARTICLE 4.  
STOCK SUBJECT TO THE PLAN

4.1 NUMBER OF SHARES. Subject to adjustment as provided in Section 4.3 below, the maximum number of shares of Common Stock that shall be authorized and reserved for issuance under the Plan shall be 5,000,000 shares of Common Stock.

4.2 SHARES AVAILABLE FOR USE. Shares of Common Stock that may be issued upon exercise of Options shall be applied to reduce the maximum number of shares of Common Stock remaining available for use under the Plan. Any shares of Common Stock that are subject to an Option (or any portion thereof) that lapses, expires, or for any reason is terminated unexercised shall automatically again become available for use under the Plan. Also, Previously Acquired Shares which are tendered to the Company in satisfaction or partial satisfaction of the Exercise Price pursuant to Section 6.6 or in satisfaction or partial satisfaction of withholding obligations pursuant to Article 10 shall become available for use under the Plan to the extent permitted by Rule 16b-3 of the Exchange Act.

4.3 ADJUSTMENTS TO SHARES.

(a) In the event of a stock split, any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering,

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extraordinary dividend or divestiture (including a spin-off), or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) shall make appropriate adjustment (which determination shall be conclusive) as to the number and kind of securities subject to and reserved under the Plan and, in order to prevent dilution or enlargement of the rights of Participants, the number, kind, and exercise price of securities subject to outstanding Options. Without limiting the generality of the foregoing, in the event that any of such transactions are effected in such a way that holders of Common Stock shall be entitled to receive stock, securities, or assets, including cash, with respect to or in exchange for such Common Stock, all Participants holding outstanding Options shall upon the exercise of such Options receive, in lieu of any shares of Common Stock they may be entitled to receive, such stock, securities, or assets, including cash, as would have been issued to such Participants if their Options had been exercised and such Participants had received Common Stock prior to such transaction.

(b) Notwithstanding Section 4.3(a), there shall be no adjustment to the shares authorized pursuant to this Plan for an event described in Section 4.3(a) which occurs before or simultaneously with the Effective Date of this Plan.



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ARTICLE 5.  
PARTICIPATION

Participants in the Plan shall be those Eligible Recipients who, in the judgment of the Committee, have performed, are performing, or during the term of an Option will perform, services in the management, operation, and development of the Company or any Subsidiary or Affiliate thereof, and significantly contributed, are significantly contributing, or are expected to significantly contribute to the achievement of corporate economic objectives. Eligible Recipients may be granted from time to time one or more Options, as may be recommended by the Committee in its sole discretion to the Board of Directors for its consideration and approval. The number, type, terms, and conditions of Options granted to various Eligible Recipients need not be uniform, consistent, or in accordance with any plan, regardless of whether such Eligible Recipients are similarly situated. Upon determination by the Committee and consideration and approval by the Board that an Option is to be granted to an Eligible Recipient, written notice shall be given such person, specifying the terms, conditions, rights and duties related thereto. Each Eligible Recipient to whom an Option is to be granted shall enter into an agreement with the provisions of the Plan, specifying such terms, conditions, rights and duties. Options shall be deemed to be granted as of the date specified in the grant resolution of the Board, and the related option agreements shall be dated as of such date.

ARTICLE 6.  
STOCK OPTIONS

6.1 GRANT. An Eligible Recipient may be granted one or more Options under the Plan and such Options shall be subject to such terms and conditions, consistent with the other provisions of the Plan, as shall be determined by the Committee in its sole discretion upon the consideration and approval of the Board. The Committee may recommend to the Board whether an Option is to be considered an Incentive Stock Option or a Non-Qualified Stock Option; provided, however, that an Incentive Stock Option shall be granted only to an Eligible Recipient who is an employee of the Company or a Subsidiary or Affiliate thereof. The terms of the agreement relating to a Non-Qualified Stock Option shall expressly provide that such Option shall not be treated as an Incentive Stock Option. Options shall be granted for no cash consideration unless minimal cash consideration is required by applicable law.

6.2 EXERCISE. An Option shall become exercisable at such times and in such installments (which may be cumulative) as shall be determined by the Committee in its sole discretion at the time the Option is granted. Upon the completion of its exercise period, an Option, to the extent not then exercised, shall expire.

6.3 EXERCISE PRICE.

(a) Incentive Stock Options. The per share price to be paid by the Participant at the time an Incentive Stock Option is exercised shall be determined by the Committee, in its discretion and upon the consideration and approval of the Board, at the date of its grant; provided, however, that such price shall not be less than (i) 100% of the Fair Market Value of one share of Common Stock on the date the Option is granted, or (ii) 110% of the Fair Market Value of one share of Common Stock on the date the Option is granted if, at that time the Option is granted, the Participant owns, directly or indirectly (as determined pursuant to Section 424(d) of the Code), more than 10% of the total combined

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voting power of all classes of stock of the Company or any Subsidiary or parent corporation of the Company (within the meaning of Sections 424(f) and 424(e), respectively, of the Code).

(b) Non-Qualified Stock Options. The per share price to be paid by the Participant at the time a Non-Qualified Stock Option is exercised shall be determined by the Committee in its sole discretion upon the consideration and approval of the Board at the time the Option is granted; provided, however, that such price shall not be less than 85% of the Fair Market Value of one share of Common Stock on the date the Option is granted.

#### 6.4 DURATION.

(a) Incentive Stock Options. The period during which an Incentive Stock Option may be exercised shall be fixed by the Committee in its sole discretion upon consideration and approval of the Board at the time such Option is granted; provided, however, that in no event shall such period exceed ten (10) years from its date of grant or, in the case of a Participant who owns, directly or indirectly (as determined pursuant to Section 424(d) of the Code), more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation of the Company (within the meaning of Section 424(f) and 424(e), respectively, of the Code), five (5) years from its date of grant.

(b) Non-Qualified Stock Options. The period during which a Non-Qualified Stock Option may be exercised shall be fixed by the Committee in its sole discretion upon consideration and approval of the Board at its date of grant.

(c) Effect of Termination of Employment or Other Service. Notwithstanding this Section 6.4, except as provided in Articles 7 and 8 of the Plan, all Options granted to a Participant shall terminate and may no longer be exercised upon the termination of the Participant's employment or other status with the Company, its Affiliates or Subsidiaries.

6.5 MANNER OF EXERCISE. An Option may be exercised by a Participant in whole or in part from time to time, subject to the conditions contained herein and in the agreement evidencing such Option, by delivery, in person or through certified or registered mail, of written notice of exercise to the Company at its principal executive office (Attention: Chief Executive Officer), and by paying in full the total Option exercise price for the shares of Common Stock purchased. Such notice shall be in a form satisfactory to the Committee and shall specify the particular Option (or portion thereof) that is being exercised and the number of shares with respect to which the Option is being exercised. Subject to compliance with Section 11.1 of the Plan, the exercise of the Option shall be deemed effective upon receipt of such notice and payment complying with the terms of the Plan and the execution of the agreement evidencing such Option. As soon as practicable after the effective exercise of the Option, the Participant shall be recorded on the stock transfer books of the Company as the owner of the shares purchased, and the Company shall deliver to the Participant one or more duly issued stock certificates evidencing such ownership. If a Participant exercises any Option with respect to some, but not all, of the shares of Common Stock subject to such Option, the right to exercise such Option with respect to the remaining shares shall continue until it expires or terminates in accordance with its terms. An Option shall only be exercisable with respect to whole shares.

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6.6 PAYMENT OF EXERCISE PRICE. The total purchase price of the shares to be purchased upon exercise of an Option shall be paid entirely in cash (by certified check or money order) provided, however, that the Committee, in its sole discretion upon the original grant of the Option or thereafter, and upon the consideration and approval of the Board, may allow such payments to be made, in whole or in part, by transfer from the Participant to the Company of Previously Acquired Shares or by exercise of a Conversion Right. In determining whether or upon what terms and conditions a Participant will be permitted to pay the purchase price of an Option in a form other than cash, the Committee may consider all relevant facts and circumstances including, without limitation, the tax and securities law consequences to the Participant and the Company and the financial accounting consequences to the Company. In the event the Participant is permitted to pay the purchase price of an Option in whole or in part with Previously Acquired Shares, the value of such shares shall be equal to their Fair Market Value on the date of exercise of the Option. No shares of the Common Stock shall be delivered pursuant to the exercise of any Option until payment in full of any amount required to be paid pursuant to the Plan or the applicable option agreement is, or is arranged to be, received by the Company.

6.7 RIGHTS AS A SHAREHOLDER. The Participant shall have no rights as a shareholder with respect to any shares of Common Stock covered by an Option until the Participant shall have become the holder of record of such shares, and no adjustments shall be made for dividends or other distributions or other rights as to which there is a record date preceding the date the Participant becomes the holder of record of such shares, except as the Committee may determine pursuant to Section 4.3 of the Plan.

6.8 DISPOSITION OF COMMON STOCK ACQUIRED PURSUANT TO THE EXERCISE OF INCENTIVE STOCK OPTIONS. Prior to making a disposition (as defined in Section 424(c) of the Code) of any shares of Common Stock acquired pursuant to the exercise of an Incentive Stock Option granted under the Plan before the expiration of two years after its date of grant or before the expiration of one year after its date of exercise and the date on which such shares of Common Stock were transferred to the Participant pursuant to exercise of the Option, the Participant shall send written notice to the Company of the proposed date of such disposition, the number of shares to be disposed of, the amount of proceeds to be received from such disposition and any other information relating to such disposition that the Company may reasonably request. The right of a Participant to make any such disposition shall be conditioned on the receipt by the Company of all amounts necessary to satisfy any federal, state, or local withholding and employment-related tax requirements attributable to such disposition. The Committee shall have the right, in its sole discretion, to endorse the certificates representing such shares with a legend restricting transfer and to cause a stop transfer order to be entered with the Company's transfer agent until such time as the Company receives the amounts necessary to satisfy such withholding and employment-related tax requirements or until the later of the expiration of two years from its date of grant or one year from its date of exercise and the date on which such shares were transferred to the Participant pursuant to the exercise of the Option.

6.9 AGGREGATE LIMITATION OF STOCK SUBJECT TO INCENTIVE STOCK OPTIONS. To the extent that the aggregate Fair Market Value (determined as of the date an Incentive Stock Option is granted) of the shares of Common Stock with respect to which incentive stock options (within the meaning of Section 422 of the Code) are exercisable for the first time by a Participant during any calendar year (under the Plan and any other incentive stock option plans of the Company or any Subsidiary or any parent corporation of the Company) exceeds \$100,000 (or such other amount as may be prescribed by the Code from time to time), such excess Options shall be treated as Non-Qualified Stock Options. The determination shall be made by taking incentive stock options into account in the order in which they were granted. If such excess only applies to a portion of an

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incentive stock option, the Committee, in its discretion, shall designate which shares shall be treated as shares to be acquired upon exercise of an incentive stock option.

ARTICLE 7.  
EFFECT OF TERMINATION OF EMPLOYMENT OR OTHER SERVICE

7.1 TERMINATION OF EMPLOYMENT OR OTHER SERVICE DUE TO DEATH, DISABILITY, OR RETIREMENT. Except as otherwise provided in Article 8 of the Plan or as otherwise determined by the Committee upon the consideration and approval of the Board either at time an Option is granted or thereafter, in the event a Participant's employment or other service with the Company and all Subsidiaries or Affiliates is terminated by reason of such Participant's death, Disability, or Retirement, all outstanding Options then held by the Participant shall become immediately exercisable in full and remain exercisable after such termination for a period of three months in the case of Retirement and one year in the case of death or Disability (but in no event after the expiration date of any such Option).

7.2 TERMINATION OF EMPLOYMENT OR OTHER SERVICE FOR REASONS OTHER THAN DEATH, DISABILITY, OR RETIREMENT. Except as otherwise provided in Article 8 of the Plan or as otherwise determined by the Committee upon the consideration and approval of the Board either at the time an Option is granted or thereafter, in the event of termination of the Participant's employment or other status with the Company and all Subsidiaries or Affiliates in relation to which the Option was granted for any reason other than death, Disability, or Retirement, all rights of the Participant under the Plan shall immediately terminate without notice of any kind, and no Options then held by the Participant shall thereafter be exercisable; provided, however, that if such termination is due to any reason other than termination by the Company or any Subsidiary or Affiliate for "cause," all outstanding Options then held by such Participant shall remain exercisable to the extent exercisable as of such termination for a period of three months after such termination (but in no event after the expiration date of any such Option). For purposes of this Section 7.2, "cause" shall be as defined in any employment or other agreement or policy applicable to the Participant or, if no such agreement or policy exists, shall mean (a) dishonesty, fraud, misrepresentation, embezzlement, or material or deliberate injury or attempted injury, in each case related to the Company or any Subsidiary, (b) any unlawful or criminal activity of a serious nature, (c) any willful breach of duty, habitual neglect of duty, or unreasonable job performance, or (d) any material breach of a confidentiality or noncompetition agreement entered into with the Company or any Subsidiary.

7.3 MODIFICATION OF EFFECT OF TERMINATION. Notwithstanding the provisions of this Article 7, upon a Participant's termination of employment or other status with the Company and all Subsidiaries or Affiliates with respect to which Options were granted, the Committee may, in its sole discretion upon the consideration and approval of the Board (which may be exercised before or following such termination) cause Options, or any portions thereof, then held by such Participant to become exercisable and remain exercisable following such termination in the manner determined by the Committee upon the consideration and approval of the Board; provided, however, that no Option shall be exercisable after the expiration date thereof and any Incentive Stock Option that remains unexercised more than three months following employment termination by reason of Retirement or more than one year following employment termination by reason of death or Disability shall thereafter be deemed to be a Non-Qualified Stock Option.

7.5 DATE OF TERMINATION. Unless the Committee shall otherwise determine in its sole discretion, a Participant's employment or other service shall, for purposes of the Plan, be deemed to have terminated on the

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date such Participant ceases to perform services for the Company and all Subsidiaries or Affiliates, as determined in good faith by the Committee.

ARTICLE 8.  
CHANGE OF CONTROL

8.1 CHANGE IN CONTROL. For purposes of this Article 8, a "Change in Control" of the Company shall mean (a) the sale, lease, exchange, or other transfer of all or substantially all of the assets of the Company (in one transaction or in a series of related transactions) to a corporation that is not controlled by the Company, (b) the approval by the shareholders of the Company of any plan or proposal for the liquidation or dissolution of the Company, or (c) a change in control of the Company of a nature that would be required to be reported (assuming such event has not been "previously reported") in response to Item 1(a) of the Current Report on Form 8-K, as in effect on the effective date of the Plan, pursuant to Section 13 or 15(d) of the Exchange Act, whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred at such time as (i) any Person becomes after the effective date of the Plan the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 20% or more of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors, or (ii) individuals who constitute the Board on the effective date of the Plan cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the effective date of the Plan whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors comprising or deemed pursuant hereto to comprise the Board on the effective date of the Plan (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director) shall be, for purposes of this clause (ii) and the following sentence, considered as though such person were a member of the Board on the effective date of the Plan. Notwithstanding anything in the foregoing to the contrary, no Change in Control shall be deemed to have occurred for purposes of this Section 8.1 by virtue of any transaction which shall have been approved by the affirmative vote of at least a majority of the members of the Board or by the shareholders of the Company on the effective date of the Plan.

8.2 ACCELERATION OF VESTING. If a Change of Control of the Company shall be about to occur or shall occur, the Committee, in its sole discretion and upon the consideration and approval of the Board, may determine that all outstanding Options shall become immediately exercisable in full and shall remain exercisable during the remaining term thereof, regardless of whether the employment or other status of the Participants with respect to which Options have been granted shall continue with the Company or any Subsidiary.

8.3 CASH PAYMENT. If a Change in Control of the Company shall be about to occur or shall occur, then the Committee, in its sole discretion upon the consideration and approval of the Board and without the consent of any Participant effected thereby, may determine that some or all Participants holding outstanding Options shall receive, with respect to some or all of the shares of Common Stock subject to such Options, as of the effective date of any such Change in Control of the Company, cash in an amount equal to the excess of the Fair Market Value of such shares immediately prior to the effective date of such Change in Control of the Company over the exercise price per share of such Options.

8.4 LIMITATION ON CHANGE IN CONTROL PAYMENTS. Notwithstanding anything in Sections 8.2 or 8.3 above to the contrary, if, with respect to a Participant, the acceleration of the exercisability of an Option as provided in Section 8.2 or the payment of cash in exchange for all or part of an Option as provided in Section

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8.3 above (which acceleration or payment could be deemed a "payment" within the meaning of Section 280G(b)(2) of the Code), together with any other payments which such Participant has the right to receive from the Company or any corporation which is a member of an "affiliated group" (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), then the acceleration of exercisability and the payments to such Participant pursuant to Sections 8.2 and 8.3 above shall be reduced to the largest extent or amount as, in the sole judgment of the Committee, will result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code.

ARTICLE 9.  
RIGHT TO WITHHOLD; PAYMENT OF WITHHOLDING TAXES

The Company is entitled to (a) withhold and deduct from future wages of the Participant (or from other amounts which may be due and owing to the Participant from the Company) or make other arrangements for the collection of, all legally required amounts necessary to satisfy any and all federal, state, and local withholding and employment-related tax requirements (i) attributable to the grant or exercise of an Option or to a disqualifying disposition of stock received upon exercise of an Incentive Stock Option, or (ii) otherwise incurred with respect to an Option, or (b) require the Participant promptly to remit the amount of such withholding to the Company before taking any action with respect to the exercise of an Option or the issuance of any stock certificate either to the Participant or any transferee. The Committee, in its sole discretion, may permit a Participant to pay all or a portion of such withholding liability either by surrendering Previously Acquired Shares already owned by the Participant or by electing to have the Company retain shares subject to the Option, provided that the Committee determines that the fair market value of the surrendered Previously Acquired Shares or the retained shares is equal to such withholding liability.

ARTICLE 10.  
RIGHTS OF ELIGIBLE RECIPIENTS AND PARTICIPANTS;  
TRANSFERABILITY

10.1 EMPLOYMENT OR SERVICE. Nothing in the Plan shall interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of any Eligible Recipient or Participant at any time, or confer upon any Eligible Recipient or Participant any right to continue in the employ or service of the Company or any Subsidiary.

10.2 RESTRICTIONS ON TRANSFER. Other than pursuant to a qualified domestic relations order (as defined by the Code), no right or interest of any Participant in an Option prior to the exercise of such Options shall be assignable or transferrable, or subjected to any lien, during the lifetime of the Participant, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise, including execution, levy, garnishment, attachment, pledge, divorce, or bankruptcy. In the event of a Participant's death, such Participant's rights and interest in Options shall be transferrable by testamentary will or the laws of descent and distribution, and payment of any amounts due under the Plan shall be made to, and exercise of any Options (to the extent permitted pursuant to Article 7 of the Plan) may be made by, the Participant's legal representatives, heirs, or

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legatees. If, in the opinion of the Committee, a Participant holding an Option is disabled from caring for his or her affairs because of mental condition, physical condition, or age, any payments due the Participant may be made to, and any rights of the Participant under the Plan shall be exercised by, such Participant's guardian, conservator, or other legal personal representative upon furnishing the Committee with evidence satisfactory to the Committee of such status.

10.3 NON-EXCLUSIVITY OF THE PLAN. Nothing contained in the Plan is intended to amend, modify, or rescind any previously approved compensation plans or programs entered into by the Company. The Plan will be construed to be in addition to any and all such other plans or programs. Neither the adoption of the Plan nor the submission of the Plan to the shareholders of the Company for approval will be construed as creating any limitations on the power or authority of the Board to adopt such additional or other compensation arrangements as the Board may deem necessary or desirable.

ARTICLE 11.  
SECURITIES LAW RESTRICTIONS

11.1 SHARE ISSUANCES. Notwithstanding any other provision of the Plan or any agreements entered into pursuant hereto, the Company shall not be required to issue or deliver any certificate for shares of Common Stock under this Plan, and an Option shall not be considered to be exercised notwithstanding the tender by the Participant of any consideration therefor, unless and until each of the following conditions has been fulfilled:

(a) (i) There shall be in effect with respect to such shares a registration statement under the Securities Act and any applicable state securities laws if the Committee, in its sole discretion, shall have determined to file, cause to become effective, and maintain the effectiveness of such registration statement; or (ii) if the Committee has determined not to so register the shares of Common Stock to be issued under the Plan, (A) exemptions from registration under the Securities Act and applicable state securities laws shall be available for such issuance (as determined by counsel to the Company) and (B) there shall have been received from the Participant (or, in the event of death or disability, the Participant's heir(s) or legal representative(s)), any representations or agreements requested by the Company in order to permit such issuance to be made pursuant to such exemptions; and

(b) There shall have been obtained any other consent, approval, or permit from any state or federal governmental agency which the Committee shall, in its sole discretion upon the advice of counsel, deem necessary or advisable.

11.2 SHARE TRANSFERS. Shares of Common Stock issued pursuant to Options granted under the Plan may not be sold, assigned, transferred, pledged, encumbered, or otherwise disposed of, whether voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise, except pursuant to registration under the Securities Act and applicable state securities laws or pursuant to exemptions from such registrations. The Company may condition the sale, assignment, transfer, pledge, encumbrance, or other disposition of such shares not issued pursuant to an effective and current registration statement under the Securities Act and all applicable state securities laws on the receipt from the party to whom the shares of Common Stock are to be so transferred of any representations or agreements requested by the Company in order to permit such transfer to be made pursuant to exemptions from registration under the Securities Act and applicable state securities laws.

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11.3 HOLDING PERIOD REQUIREMENTS. Any Options granted and any Common Stock acquired pursuant to the exercise of Options under this Plan may be subject to a six-month holding requirement from the grant date in order for the transaction to be exempt from the short-swing trading profits provision of Section 16(b) of the Exchange Act.

11.4 LEGENDS.

(a) Unless a registration statement under the Securities Act and applicable state securities laws is in effect with respect to the issuance or transfer of shares of Common Stock under the Plan, each certificate representing any such shares shall be endorsed with a legend in substantially the following form, unless counsel for the Company is of the opinion as to any such certificate that such legend is unnecessary:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("THE ACT"), OR UNDER APPLICABLE STATE SECURITIES LAWS. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE OFFERED FOR SALE, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED, OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND SUCH STATE LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT AND SUCH STATE LAWS, THE AVAILABILITY OF WHICH IS TO BE ESTABLISHED TO THE SATISFACTION OF THE COMPANY.

(b) The Committee, in its sole discretion, may endorse certificates representing shares issued pursuant to the exercise of Incentive Stock Options with a legend in substantially the following form:

THE SALE, EXCHANGE, PLEDGE, ASSIGNMENT, OR OTHER DISPOSITION OF THE SHARES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TRANSFER RESTRICTIONS CONTAINED IN SECTION 7.8 OF THE BYLAWS OF THIS CORPORATION, AND REFERENCE SHOULD BE MADE THERETO FOR THE TERMS OF SUCH RESTRICTIONS.

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ARTICLE 12.  
PLAN AMENDMENT; MODIFICATION AND TERMINATION

12.1 AMENDMENT; MODIFICATION; TERMINATION. The Board may suspend or terminate the Plan or any portion thereof at any time, and may amend the Plan from time to time in such respects as the Board may deem advisable in order that Options under the Plan shall conform to any change in applicable laws or regulations or in any other respect the Board may deem to be in the best interests of the Company; provided, however, that no such amendment shall be effective, without approval of the shareholders of the Company, if shareholder approval of the amendment is then required to comply with or obtain exemptive relief under any tax or regulatory requirement the Board deems desirable to comply with or obtain exemptive relief under, including without limitation, Rule 16b-3 under the Exchange Act or any successor rule or Section 422 of the Code or under the applicable rules or regulations of any securities exchange or the NASD. No termination, suspension, or amendment of the Plan shall alter or impair any outstanding Option without the consent of the Participant affected thereby; provided, however, that this sentence shall not impair the right of the Committee to take whatever action it deems appropriate under Section 4.3 or Article 8 of the Plan.

ARTICLE 13.  
EFFECTIVE DATE OF THE PLAN

13.1 EFFECTIVE DATE. The Plan is effective as of January 1, 1999, the date adopted by the Board; provided, however, that no Incentive Stock Options may be exercised until January 1, 1999, the date the Plan was adopted by the shareholders of the Company in accordance with the requirements of the Code.

13.2 DURATION OF THE PLAN. The Plan shall terminate at midnight on December 31, 2000, and may be terminated prior thereto by Board action, and no Option shall be granted after such termination. Options outstanding upon termination of the Plan may continue to be exercised in accordance with their terms.

ARTICLE 14.  
MISCELLANEOUS

14.1 CONSTRUCTION AND HEADINGS. The use of the masculine gender shall also include within its meaning the feminine and the singular may include the plural and the plural may include the singular, unless the context clearly indicates to the contrary. The headings of the Articles, Sections, and subparts of the Plan are for convenience of reading only and are not meant to be of substantive significance and shall not add or detract from the meaning of such Article, Section, or subpart.

14.2 GOVERNING LAW. The place of administration of the Plan shall be conclusively deemed to be within the State of Arizona, and the rights and obligations of any and all persons having or claiming to have had an interest under the Plan or under any agreements evidencing Options shall be governed by and construed exclusively and solely in accordance with the laws of the State of Arizona without regard to the conflict of laws provisions of any jurisdictions. All parties agree to submit to the jurisdiction of the state and federal courts of Arizona with respect to matters relating to the Plan and agree not to raise or assert the defense that such forum is not convenient for such party.

14.3 SUCCESSORS AND ASSIGNS. This Plan shall be binding upon and inure to the benefit of the successors and permitted assigns of the Company, including, without limitation, whether by way of merger,

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consolidation, operation of law, assignment, purchase, or other acquisition of substantially all of the assets or business of the Company, and any and all such successors and assigns shall absolutely and unconditionally assume all of the Company's obligations under the Plan.

14.4 SURVIVAL OF PROVISIONS. The rights, remedies, agreements, obligations, and covenants contained in or made pursuant to the Plan, any agreement evidencing an Option and any other notices or agreements in connection therewith, including, without limitation, any notice of exercise of an Option, shall survive the execution and delivery of such notices and agreements and the delivery and receipt of shares of Common Stock and shall remain in full force and effect.

IN WITNESS WHEREOF, and as evidence of the adoption of this Plan by the Company, the Company has caused this Plan to be signed by the undersigned officer, thereunto duly authorized pursuant to the resolutions of the Board of Directors adopted on January 14, 1999.

TASER INTERNATIONAL, INCORPORATED

By: /s/ Patrick W. Smith

-----  
Patrick W. Smith

Its: Chief Executive Officer

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NAME

ELECTION OF STOCK OPTION PLAN

Dear Name,

Pursuant to the meeting of the Board of Directors of TASER International on January 14, 1999, the company has elected to terminate its former 1998-1999 stock option plan and to implement a new 1999 stock option plan.

You will have the elective to either retain your options from the previous plan (the 1998-1999 plan) or to agree to have those options cancelled and participate in the new 1999 stock option plan. You may not participate in both plans.

Currently, you hold the following number of options under previous plans:

at a strike price of per share.  
at a strike price of per share

Under the new plan, the company is prepared to offer you:

\_\_\_\_\_ shares at a strike price of \_\_\_\_\_ per share.

However, the vesting schedule for your new options will start effective Jan. 1, 1999.

Please indicate whether you would like to participate in the old plan or the new plan by initialing one of the options below:

\_\_\_\_\_ I would like to maintain my existing options and elect to pass on the opportunity to participate in the new plan.

\_\_\_\_\_ I would like to cancel my existing options from the previous plan and participate in the new 1999 plan with options for 100,000 share so stock at \$0.10 per share.

Sincerely,

Agreed,

Rick Smith  
President, TASER International

-----  
Phillips Smith

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INCENTIVE STOCK OPTION AGREEMENT

THIS OPTION AGREEMENT, made and entered into effective the 15th day of January, 1999, by and between TASER International, an Arizona corporation (hereinafter the "Company"), and \_\_\_\_\_, an employee of the Company, or one or more of its subsidiaries (hereinafter the "Employee").

WITNESSETH

The Company desires to carry out the purposes of its 1999 Stock Option Plan, approved by its shareholders and directors on January 14, 1999, by affording Employee an opportunity to acquire shares of its Common Stock (hereinafter called the "Shares"), as hereinafter provided.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth, and for other good and valuable consideration, the parties hereto agree as follows:

I.  
GRANT OF OPTION

The Company hereby grants to the Employee the right and option (hereinafter the "Option") to purchase all, or any part of an aggregate of \_\_\_\_\_ Shares (such number being subject to adjustment as provided in Paragraph VIII hereof) on the terms and conditions herein set forth and in accordance with the terms and restrictions contained in that Subscription Agreement attached hereto as EXHIBIT A. The Option is intended to qualify as an Incentive Stock Option as defined in Section 422A(b) of the Internal Revenue Code of 1986, as amended, and shall be interpreted in a manner consistent therewith.

II.  
PURCHASE PRICE

Subject to the provisions of Article VII hereof, the purchase price of the Common Stock covered by the Option shall be \_\_\_\_\_ per share, which has been determined to be the fair market value of the Common Stock of the Company at the date of grant of this Option; provided, however, that if, at the time this Option is granted, Employee owns stock of the Company representing more than ten percent (10%) of the voting power of all classes of stock of the Company (including stock taken into account under the attribution rules of Section 425(d) of the Internal Revenue Code), the purchase price shall be one hundred ten percent (110%) of the fair market value of the Shares on the date the Option is granted.

III.  
TERM, EXERCISE AND VESTING OF OPTION

This Option shall expire at the close of business on Dec. 31, 2008, subject to normal retirement or earlier termination as provided in Paragraphs VI and VII hereof. The expiration date shall be not more than ten (10) years from the date this Option is granted; provided, however, that at

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 the time this Option is granted, Employee owns stock of the Company representing more than ten percent (10%) of the voting power of all classes of stock of the Company (including stock taken into account under the attribution rules of Section 425(d) of the Internal Revenue Code), then the expiration date shall not be more than five (5) years from the date the Option is granted.

Employee shall be entitled to exercise this Option, and acquire the shares of Common Stock of the Corporation covered by this Option, as provided in the following vesting schedule:

<TABLE> <CAPTION>	Period of Time: -----	Shares Exercisable: -----
<S>	Grant through December 31, 1999	<C>
	January 1, 2000 through December 31, 2000	-----
	January 1, 2001 through December 31, 2001	-----
		-----

</TABLE>  
 Shares shall vest monthly at the end of each month. For example, on June 30, 2000 all shares for 1999 and for the pro-rata through the first half of 2000 shall be considered vested.

IV.  
 EXECUTION OF AGREEMENT

This offer by the Company to Employee of an Option to purchase capital stock of the Company shall be void if not agreed to by the Employee within thirty (30) days hereof, to-wit: on or before Feb. 15, 1999.

V.  
 NON-TRANSFERABILITY OF OPTION RIGHTS

The Option shall not be transferable, otherwise than by will or the laws of descent and distribution, and the Option may be exercised, during the lifetime of the Employee, only by Employee. More particularly (but without limiting the generality of the foregoing), the Option may not be assigned, transferred (except as provided above), pledged or hypothecated in any way, and shall not be subject to the execution, attachment, or similar process. Any attempted assignment, transfer, pledge, hypothecation, or other disposition to the Option contrary to the provisions hereof, or the levy of any execution, attachment, or similar process upon the Option, shall be null and void and without effect.

VI.  
 TERMINATION OF EMPLOYMENT

A. Termination. In the event an Optionee, during his life, ceases to be an Employee of the Company, or of any subsidiary of the Company, for any reason, except upon total and permanent disability or death, any Option or unexercised portion thereof granted to him which is otherwise exercisable shall terminate on the ninetieth (90th) day following the date the Employee ceases to be an Employee of the Company.

B. Total and Permanent Disability or Death of Employee. In the event of termination of employment because of total and permanent disability of Employee, or his death, while an Employee

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of the Company, or his death within three (3) months after his normal retirement, any Option or unexercised portion thereof granted to him, if otherwise exercisable by the optionee, may be exercised by him or by his personal representative at any time prior to the expiration of twelve (12) months from the date of death or termination of employment by reason of total and permanent disability, but not later than the expiration of the option period.

VII.  
CHANGES IN CAPITAL STRUCTURE

If all or any portion of the Option shall be exercised subsequent to any share dividend, recapitalization, merger, consolidation, exchange of share or reorganization as a result of which shares of any class shall be issued in respect to outstanding Common Stock, or if Common Stock shall be changed into same or a different number of shares of the same or another class or classes, the person or persons so exercising the Option shall receive, for the aggregate price paid upon such exercise, the aggregate number and class of shares to which they would have been entitled if Common Stock (as authorized at the date hereof) had been purchased at the date hereof for the same aggregate price (on the basis of the price per share set forth in Paragraph II hereof) and had not been disposed of. No fractional share shall be issued upon any such exercise and the aggregate price paid shall be appropriately reduced on account of any fractional share not issued. No adjustment shall be made in the minimum number of shares which may be purchased at any one time, as fixed by Paragraph III hereof.

VIII.  
ADJUSTMENT TO SHARES

In the event of a stock split, any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, extraordinary dividend or divestiture (including a spin-off), or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) shall make appropriate adjustment (which determination shall be conclusive) as to the number and kind of securities subject to and reserved under the Plan and, in order to prevent dilution or enlargement of the rights of Participants, the number, kind, and exercise price of securities subject to outstanding Options. Without limiting the generality of the foregoing, in the event that any of such transactions are effected in such a way that holders of Common Stock shall be entitled to receive stock, securities, or assets, including cash, with respect to or in exchange for such Common Stock, all Participants holding outstanding Options shall upon the exercise of such Options receive, in lieu of any shares of Common Stock they may be entitled to receive, such stock, securities, or assets, including cash, as would have been issued to such Participants if their Options had been exercised and such Participants had received Common Stock prior to such transaction.

Notwithstanding the foregoing paragraph, there shall be no adjustment to the shares authorized pursuant to this Plan for an event described in the foregoing paragraph which occurs before or simultaneously with the Effective Date of this Plan.

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IX.  
METHOD OF EXERCISING OPTION

Subject to the terms and conditions of this Option Agreement, the Option may be exercised by written notice of the Company at its principal place of business in the State of Arizona. Such notice shall state: Employee's, or Employee's representative's, election to exercise the Option; the number of shares in respect to which it is being exercised; and shall be signed by the person so exercising the Option. Such notice shall be accompanied by the payment of the full purchase price of such shares and the delivery of such payment to the Chief Financial Officer of the Company. The certificate for the shares as to which the Option shall have been so exercised shall be registered in the name of the person exercising the Option. If the Employee shall so request in the notice exercising the Option, the certificate shall be registered in the name of the Employee and another person jointly with right of survivorship, and shall be delivered as provided above to or upon written order of the person exercising the Option. In the event the Option shall be exercised pursuant to Paragraph VII hereof, by any person or persons other than the Employee, such notice shall be accompanied by appropriate proof of the right of such person to exercise the Option. This Option shall not be exercised in any manner that would disqualify the Option as an Incentive Stock Option, as defined in Section 422A(b) of the Internal Revenue Code 1986, as amended.

X.  
RESERVATION OF SHARES

The Company shall, at all times during the term of this Option, reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirement of this Option Agreement, and shall pay all original issue and transfer taxes with respect to the issue and transfer of shares pursuant hereto, and all other fees and expenses necessarily incurred by the Company in connection therewith.

XI.  
SUBSIDIARY

As used herein, the term "Subsidiary" shall mean any present or future corporation which would be a "Subsidiary Corporation" of the Company, as that term is defined in Section 425 of the Internal Revenue Code of 1986, as amended.

XII.  
INCENTIVE STOCK OPTION PLAN

This Incentive Stock Option Agreement is subject to all the terms and conditions of the Stock Option Plan adopted by the Board of Directors and Shareholders of the Company on the 14th day of January, 1999. All the terms and provisions said "Plan" are incorporated herein by reference, and made a part hereof.

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XIII.  
RIGHTS AS STOCKHOLDERS

The holder of the Option shall not have any of the rights of a stockholder with respect to the Shares covered by the Option, except to the extent that one or more certificates for such Shares shall be delivered to him upon the due exercise of the Option.

XIV.  
NO REGISTRATION REQUIREMENTS

The Company shall not be deemed by reason of issuance of any Common Stock under the Plan to have any obligation to register such shares under the Securities Act of 1933, as amended, or maintain in effect any registration of such shares. In addition, unless shares have been so registered, all options granted under the Plan shall be on the condition that the acquisition of share thereunder shall be for investment purposes only, and employees acquiring the shares must bear the economic risk of the investment for an indefinite period of time, since the shares so acquired cannot be sold unless they are subsequently registered or an exemption from such registration is available. Employee agrees that a legend shall be placed on the stock certificate acknowledging the restrictions on subsequent distribution of the shares.

XV.  
EMPLOYMENT

Nothing in the Plan, and no grant of an option hereunder, shall be deemed to grant any right of continued employment, or to limit or waive any rights or the Company to terminate Employee's employment at any time, with or without cause.

XVI.  
GOVERNING LAWS

This Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their respective heirs, successors, assigns and representatives and shall be governed by and construed under the laws of the State of Arizona.

IN WITNESS WHEREOF, the company has caused this Incentive Stock Option Agreement to be executed by its duly-authorized officer and the Employee has hereunto set his or her hand, all effective the date and year first above written.

TASER International,  
An Arizona corporation

By: \_\_\_\_\_  
Its: President

ATTEST: EMPLOYEE

\_\_\_\_\_  
Secretary Name

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FULL EXERCISE FORM

To Be Executed By The Registered Holder If Optionee  
Desires To Exercise The Attached Option in Full.

The undersigned hereby exercises the right to purchase the \_\_\_\_\_  
shares of Common Stock covered by the within Option at the date of this  
subscription and herewith makes payment of the sum of \$\_\_\_\_\_ representing  
the Purchase Price of \$\_\_\_\_\_ per share in effect at that date. Certificates  
for such shares shall be issued in the name of and delivered to the undersigned,  
unless otherwise specified by written instructions, signed by the undersigned  
and accompanying this subscription.

Dated: \_\_\_\_\_

Signature: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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PARTIAL EXERCISE FORM

To Be Executed By The Registered Holder If Optionee Desires To Exercise, In Part, The Attached Option.

The undersigned hereby exercises the right to purchase \_\_\_\_\_ shares of the total shares of Common Stock covered by the within Option at the date of this subscription and herewith makes payment of the sum of \$\_\_\_\_\_ representing the Purchase Price of \$\_\_\_\_\_ per share in effect at that date. Certificates for such shares and a new Option of like tenor and date for the balance of the shares not subscribed for shall be issued in the name of and delivered to the undersigned, unless otherwise specified by written instructions, signed by the undersigned and accompanying this subscription.

(The following paragraph need be completed only if the Purchase Price and number of shares of Common Stock specified in the within Option have been adjusted pursuant to Paragraph VIII.)

The shares hereby subscribed for constitute \_\_\_\_\_ shares of Common Stock (to the nearest whole share) resulting from adjustment of \_\_\_\_\_ shares of the total of \_\_\_\_\_ shares of Common Stock covered by the within Option, as said shares were constituted at the date of the Option.

Dated: \_\_\_\_\_

Signature: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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Exhibit 10.8

WARRANT NO. 04

TASER INTERNATIONAL, INCORPORATED

COMMON STOCK PURCHASE WARRANT

TASER International, Incorporated, an Arizona corporation, (the "Company"), hereby agrees that, for value received, Bruce R. Culver, or his assigns, is entitled, subject to the terms set forth below, to purchase from the Company at any time or from time to time after the effective date of July 31, 2000, and before 5:00 p.m., Scottsdale, Arizona, time, on July 31, 2005, One hundred thirty six thousand, three hundred sixty four (136,364) shares of the no par value Common Stock of the Company (the "Common Stock"), at an exercise price of \$.55 per share, subject to adjustment as provided herein.

1. Exercise of Warrant. The purchase rights granted by this Warrant shall be exercised (in minimum quantities of 100 shares) by the holder surrendering this Warrant with the form of exercise attached hereto duly executed by such holder, to the Company at its principal office, accompanied by payment, in cash or by cashier's check payable to the order of the Company, of the purchase price payable in respect of the Common Stock being purchased. If less than all of the Common Stock purchasable hereunder is purchased, the Company will, upon such exercise, execute and deliver to the holder hereof a new Warrant evidencing the number of shares of Common Stock not so purchased. As soon as practicable after the exercise of this Warrant and payment of the purchase price, the Company will cause to be issued in the name of and delivered to the holder hereof, or as such holder may direct, a certificate or certificates representing the shares purchased upon such exercise. The Company may require that such certificate or certificate contain on the fact thereof a legend substantially as follows:

"The transfer of the shares represented by this certificate is restricted pursuant to the terms of a Common Stock Purchase Warrant dated July 31, 2000, issued by TASER International, Incorporated, a copy of which is available for inspection at the offices of TASER International, Incorporated. Transfer may not be made except in accordance with the terms of the Common Stock Purchase Warrant. In addition, no sale, offer to sell or transfer of the shares represented by this certificate shall be made unless a registration statement under the Federal Securities Act of 1933, as amended, (the "Act"), with respect to such shares is then in effect or an exemption from the registration requirements of the Act is then in fact applicable to such shares."

2. Negotiability and Transfer. This Warrant is issued upon the following terms, to which the holder hereof consents and agrees:

(a) Until this Warrant is duly transferred on the books of the Company, the Company may treat the registered holder of this Warrant as absolute owner hereof for all purposes without being affected by any notice to the contrary.

(b) Each successive holder of this Warrant, or of any portion of the rights represented thereby, shall be bound by the terms and conditions set forth herein.



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3. Anti-dilution Adjustments. If the Company shall at any time hereafter subdivide or combine its outstanding shares of Common Stock, or declare a dividend payable in Common Stock, the exercise price in effect immediately prior to the subdivision, combination, or record date for such dividend payable in Common Stock shall forthwith be proportionately increased in the case of combination, or proportionately decreased, in the case of subdivision or declaration of a dividend payable in Common Stock, and each share of Common Stock purchasable upon exercise of this Warrant, immediately preceding such event, shall be changed to the number determined by dividing the then-current exercise price by the exercise price as adjusted after such subdivision, combination, or dividend payable in Common Stock.

No fractional shares of Common Stock are to be issued upon the exercise of the Warrant, but the Company shall pay a cash adjustment in respect of any fraction of a share which would otherwise be issuable in an amount equal to the same fraction of the market price per share of Common Stock on the day of exercise as determined in good faith by the Company.

In case of any capital reorganization or any reclassification of the shares of Common Stock of the Company, or in the case of any consolidation with or merger of the Company into or with another corporation, or the sale of all or substantially all of its assets to another corporation, which is effected in such a manner that the holders of Common Stock shall be entitled to receive stock, securities, or assets with respect to or in exchange for Common Stock, then, as a part of such reorganization, reclassification, consolidation, merger, or sale, as the case may be, lawful provision shall be made so that the holder of the Warrant shall have the right thereafter to receive, upon the exercise hereof, the kind and amount of shares of stock or other securities or property which the holder would have been entitled to receive if, immediately prior to such reorganization, reclassification, consolidation, merger, or sale, the holder had held the number of shares of Common Stock which were then purchasable upon the exercise of the Warrant. In any such case, appropriate adjustment (as determined in good faith by the Board of Directors of the Company) shall be made in the application of the provisions set forth herein with respect to the rights and interest thereafter of the holder of the Warrant, to the end that the provisions set forth herein (including provisions with respect to adjustments of the exercise price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the exercise of the Warrant.

When any adjustment is required to be made in the exercise price, initial or adjusted, the Company shall forthwith determine the new exercise price, and

(a) prepare and retain on file a statement describing in reasonable detail the method used in arriving at the new exercise price; and

(b) cause a copy of such statement to be mailed to the holder of the Warrant as of a date within ten (10) days after the date when the circumstances giving rise to the adjustment occurred.

4. Transferability; Registration Rights. Prior to making any disposition of the Warrant or of any Common Stock purchased upon exercise of the Warrant, the holder will give

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written notice to the Company describing briefly the manner of any such proposed disposition. The holder will not make any such disposition until (i) the Company has notified him that, in the opinion of its counsel, registration under the Act is not required with respect to such disposition, or (ii) a registration statement covering the proposed distribution has been filed by the Company and has become effective. The holder then will make any disposition only pursuant to the conditions of such opinion or registration. The Company agrees that, upon receipt of written notice from the holder hereof with respect to such proposed distribution, it will use its best efforts, in consultation with the holder's counsel, to ascertain as promptly as possible whether or not registration is required, and will advise the holder promptly with respect thereto, and the holder will cooperate in providing the Company with information necessary to make such determination.

If, at any time one (1) year after the date hereof and prior to the expiration of seven (7) years from the date hereof, the Company shall propose to file any registration statement under the Securities Act of 1933, as amended, covering a public offering of the Company's Common Stock and permitting the inclusion of shares of selling shareholders, it will notify the holder hereof at least thirty (30) days prior to each such filing and will include in the registration statement (to the extent permitted by applicable regulation) the Common Stock purchased by the holder or purchasable by the holder upon the exercise of the Warrant to the extent requested by the holder hereof. Notwithstanding the foregoing, the number of shares of the holders of the Warrants proposed to be registered hereby shall be reduced pro rata with an other selling shareholder (other than the Company) upon the request of the managing underwriter of such offering. If the registration statement or offering statement filed pursuant to such forty-five (45) day notice has not become effective within six (6) months following the date such notice is given to the holder hereof, the Company must again notify such holder in the manner provided above.

At any time one (1) year after the date hereof and prior to the expiration of five (5) years from the date hereof, and provided that a registration statement on Form S-3 (or its equivalent) is then available to the Company, and on a one-time basis only, if the holders of 51 % or more of the Warrants and the shares acquired upon exercise of the Warrants request the registration of the shares on Form S-3 (or its equivalent), the Company shall promptly thereafter use its best efforts to effect the registration under the Securities Act of 1933, as amended, of such shares which such holders request in writing to be so registered, and in a manner corresponding to the methods of distribution described in such holders' request.

All expenses of any such registrations referred to in this Section 4, except the fees of counsel to such holders and underwriting commissions or discounts, shall be borne by the Company.

The Company will mail to each record holder, at the last known post office address, written notice of any exercise of the rights granted under this Section 4, by certified or registered mail, return receipt requested, and each holder shall have thirty (30) days from the date of deposit of such notice in the U.S. Mail to notify the Company in writing whether such holder wishes to join in such exercise.

The Company will furnish the holder hereof with a reasonable number of copies of any prospectus included in such filings and will amend or supplement the same as required during the period of required use thereof. The Company will maintain the effectiveness of any registration



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statement or the offering statement filed by the Company, whether or not at the request of the holder hereof, for at least six (6) months following the effective date thereof.

In the case of the filing of any registration statement, and to the extent permissible under the Act and controlling precedent thereunder, the Company and the holder hereof shall provide cross indemnification agreements to each other in customary scope covering the accuracy and completeness of the information furnished by each.

The holder of the Warrant agrees to cooperate with the Company in the preparation and filing of any such registration statement or offering statement, and in the furnishing of information concerning the holder for inclusion therein, or in any efforts by the Company to establish that the proposed sale is exempt under the Act as to any proposed distribution.

5. Cashless Exercise Option.

(a) Provided the Company's Common Stock shall then be traded on an exchange or quoted by NASDAQ or otherwise traded as described in 5(d) hereof, the holder of this Warrant shall have the right to require the Company to convert this Warrant (the "Conversion Right"), at any time from July 31, 2000 and prior to its expiration, into shares of Common Stock as provided for in this Section 5. Upon exercise of the Conversion Right, the Company shall deliver to the holder (without payment by the holder of any exercise price) that number of shares of Common Stock equal to the quotient obtained by dividing (x), the value of the Warrant at the time the Conversion Right is exercised (determined by subtracting the aggregate exercise price for the Warrant Shares in effect immediately prior to the exercise of the Conversion Right from the aggregate Fair Market Value [as determined below] for the Warrant Shares immediately prior to the exercise of the Conversion Right), by (y), the Fair Market Value of one share of Common Stock immediately prior to the exercise of the Conversion Right.

(b) The Conversion Right may be exercised by the holder, at any time or from time to time, prior to its expiration, on any business day, by delivering a written notice (the "Conversion Notice") to the Company at the offices of the Company exercising the Conversion Right and specifying (i) the total number of shares of Stock the Warrant holder will purchase pursuant to such conversion and (ii) a place and a date, not less than five (5) nor more than twenty (20) business days from the date of the Conversion Notice, for the closing of such purchase.

(c) At any closing under Section 5(b) hereof, (i) the holder will surrender the Warrant, (ii) the Company will deliver to the holder a certificate or certificates for the number of shares of Common Stock issuable upon such conversion, together with cash, in lieu of any fraction of a share, and (iii) the Company will deliver to the holder a new Warrant representing the number of shares, if any, with respect to which the Warrant shall not have been exercised.

(d) "Fair Market Value" of a share of Common Stock as of a particular date (the "Determination Date") shall mean:

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(i) If the Company's Common Stock is traded on an exchange or is quoted on the National Association of Securities Dealers, Inc., Automated Quotation ("NASDAQ") National Market System, or the Small Cap Market, then the average closing or last sale prices, respectively, reported for the ten (10) business days immediately preceding the Determination Date.

(ii) If the Company's Common Stock is not traded on an exchange or on the NASDAQ National Market System, or the Small Cap Market, but is traded in the over-the-counter market, then the average of the closing bid and asked prices reported for the ten (10) business days immediately preceding the Determination Date.

6. Notices: The Company shall mail to the registered holder of the Warrant, at his last known post office address appearing on the books of the Company, not less than fifteen (15) days prior to the date on which (a) a record will be taken for the purpose of determining the holders of Common Stock entitled to dividends (other than cash dividends) or subscription rights or (b) a record will be taken (or in lieu thereof, the transfer books will be closed) for the purpose of determining the holders of Common Stock entitled to notice of and to vote at a meeting of stockholders at which any capital reorganization, reclassification of shares of Common Stock, consolidation, merger, dissolution, liquidation, winding up, or sale of substantially all of the Company's assets shall be considered and acted upon.

7. Reservation of Common Stock. A number of shares of Common Stock sufficient to provide for the exercise of the Warrant upon the basis herein set forth shall at all times be reserved for the exercise thereof.

8. Miscellaneous. Whenever reference is made herein to the issue or sale of shares of Common Stock, the term "Common Stock" shall include any stock of any class of the Company other than preferred stock with a fixed limit on dividends and a fixed amount payable in the event of any voluntary or involuntary liquidation, dissolution, or winding up of the Company.

The Company will not, by amendment of its Articles of Incorporation or through reorganization, consolidation, merger, dissolution, or sale of assets, or by any other voluntary act or deed, avoid or seek to avoid the observance or performance of any of the covenants, stipulations, or conditions to be observed or performed hereunder by the Company, but will, at all times in good faith, assist, insofar as it is able, in the carrying out of all provisions hereof and in the taking of all other action which may be necessary in order to protect the rights of the holder hereof against dilution.

Upon written request of the holder of this Warrant, the Company will promptly provide such holder with a then-current written list of the names and addresses of all holders of Warrants originally issued under the terms of, and concurrent with, this Warrant.

The representations, warranties, and agreements herein contained shall survive the exercise of this Warrant. References to the "holder of" include the immediate holder of shares purchased on the



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exercise of this Warrant, and the word "holder" shall include the plural thereof. This Common Stock Purchase Warrant shall be interpreted under the laws of the State of Arizona.

All shares of Common Stock or other securities issued upon the exercise of the Warrant shall be validly issued, fully paid, and non-assessable, and the Company will pay all taxes in respect of the issuer thereof.

Notwithstanding anything contained herein to the contrary, the holder of this Warrant shall not be deemed a stockholder (including no right to vote on any matters coming before the shareholders) of the Company for any purpose whatsoever until and unless this Warrant is duly exercised.

IN WITNESS WHEREOF, the Company has caused this Stock Purchase Warrant to be executed by its duly-authorized officer and the holder hereof has hereunto set his or her hand, all effective the date and year first above written.

TASER International, Incorporated

By: /s/ Patrick W. Smith

-----  
Patrick W. Smith  
It's: Chief Executive Officer

/s/ Bruce R. Culver

-----  
Bruce R. Culver

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WARRANT EXERCISE FORM

To be signed only upon exercise of Warrant.

The undersigned, the holder of the within Warrant, hereby irrevocably elects to exercise the purchase right represented by such Warrant for, and to purchase thereunder, \_\_\_\_\_ shares of Common Stock of Taser International, Incorporated, to which such Warrant relates and herewith makes payment of \$ \_\_\_\_\_ therefor in cash or by certified check, and requests that such shares be issued and be delivered to \_\_\_\_\_, the address for which is set forth below the signature of the undersigned.

Date: \_\_\_\_\_

\_\_\_\_\_  
(Taxpayer's I.D. Number)

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Address)

ASSIGNMENT FORM

To be signed only upon authorized transfer of Warrant.

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto \_\_\_\_\_ the right to purchase shares of Common Stock of Taser International, Incorporated, to which the within Warrant relates and appoints \_\_\_\_\_ attorney, to transfer said right on the books of Taser International, Incorporated, with full power of substitution in the premises.

Date: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Address)

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CASHLESS EXERCISE FORM

(To be executed upon exercise of Warrant pursuant to Section 5.)

The undersigned hereby irrevocably elects a cashless exercise of the right of purchase represented by the within Common Stock Purchase Warrant for, and to purchase thereunder, \_\_\_\_\_ shares of Common Stock, as provided for in Section 5 therein.

If said number of shares shall not be all the shares purchasable under the within Common Stock Purchase Warrant, a new Warrant is to be issued in the name of said undersigned for the balance remaining of the shares purchasable thereunder rounded up to the next higher number of shares.

Please issue a certificate or certificates for such Common Stock in the name of, and pay any cash for any fractional shares to:

NAME: \_\_\_\_\_  
(Please Print Name)

ADDRESS: \_\_\_\_\_  
\_\_\_\_\_

SOCIAL SECURITY NUMBER: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

NOTE: The above signature should correspond exactly with the name on the first page of this Common Stock Purchase Warrant or with the name of the assignee appearing in the assignment form on the preceding page.

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Exhibit 10.9

[ICER CORPORATION LOGO]

THIS AGREEMENT is made this 15th day of October, 1993 between Mr. John H. Cover (hereinafter called "Mr. Cover"), and ICER Corporation (hereinafter called ICER), an Arizona Corporation.

WITNESSETH:

WHEREAS, Mr. Cover has critical skills and industry knowledge material to the development and marketing of products relating to the business of ICER

NOW, THEREFORE, the parties agree as follows:

ARTICLE I: SCOPE OF THE AGREEMENT

1. Mr. Cover agrees to join the management team of ICER Corporation as an officer and director of the company for one (1) year full time employment. His position will encompass responsibility for technology and product development, but will not be limited to such areas.
2. In accordance with his position with ICER, Mr. Cover agrees not to engage in independent business relations with competitors of ICER wherein:
  - i) Competitors of ICER are defined as companies engaged in the manufacture and/or design of electronic weapons that are less than fourteen inches in length and are non lethal.



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ICER CORPORATION

COVER AGREEMENT

- ii) Independent business relations are defined as any fee for service arrangement, or any product development work with competitors as defined in i).
  - iii) Independent business relations do not include any work or relationships conducted within the framework of Mr. Cover's representation of ICER.
  - iv) Mr. Cover is free to leave unaltered the licensing arrangements already in existence with such competitors and to pursue compensation from such competitors for the use of his existing patents at his discretion.
  - v) The provisions of this section shall remain in full force and effect for the period of Mr. Cover's employment with ICER.
  - vi) Breach of this agreement wherein Mr. Cover engages in independent business relations with competitors of ICER during the period described in iv), will result in the forfeiture of Mr. Cover's remaining stock options and the immediate termination of his employment with ICER.
3. Mr. Cover agrees to license ICER Corporation: Rights to utilize the TASER trademark in conjunction with product marketing and other business functions. Further, Mr. Cover agrees not to license the use of the TASER trademark to any company not already licensed for such use (see addendum I).
  4. Mr. Cover will provide ICER with a comprehensive listing of his existing patents and trademarks to be attached as an addendum to this document (addendum I). Such listing will include the names and addresses of all licensed entities, and all renewal rights for such licensing for said patents and trademarks.
  5. All technical designs and intellectual property generated during Mr. Cover's work with ICER will be work-made-for-hire or assigned to ICER and will be the exclusive property of the Company.
  6. Mr. Cover affirms that he has complete authority over the patents and trademarks in the agreement and that he is free to enter into this agreement without any hindrance from or violation of prior commitments. Mr. Cover further affirms that he is not bound by non-disclosure or trade secret protection clauses which would inhibit him from fully applying his knowledge to his work at ICER. Accordingly, Mr. Cover indemnifies ICER from any damages

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ICER CORPORATION

COVER AGREEMENT

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resulting from litigation regarding prior commitments which would preclude him from having entered into this agreement.

7. Mr. Cover agrees not to disclose the confidential information of ICER Corporation without clear consent from the other members of management. Such information will include any information which is clearly designated as confidential, including trade secrets developed, marketing plans, manufacturing know how, financial or other data which is designated as confidential.

#### ARTICLE II: COMPENSATION

1. Mr. Cover will be paid a salary of \$2,500 per month during the time of his full time employment with the Company.
2. Mr. Cover will receive stock options for 10,000 shares of ICER Corporation representing ten (10) percent of the company with the following vesting schedule:  
  - 2,500 shares at initiation of this agreement
  - 2,500 shares upon completion of functional prototype
  - 2,500 shares at first shipment of product to market
  - 2,500 shares on Oct. 15, 1994 (1 year).
3. These options will have a strike price of \$0.36 (thirty six cents per share) and a time to expiration of 5 years during Mr. Cover's continued involvement with the company.
4. Further, Mr. Cover will receive a cash bonus in the amount of the exercise price of the stock options at the date and time of each stock option vesting that can be used only for exercising the above stock options.
5. Mr. Cover's equity position (via stock options) is guaranteed not to be diluted below ten (10) percent through the first \$250,000 of invested capital.



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ICER CORPORATION

COVER AGREEMENT

ARTICLE III: CONTINGENCIES

1. Patrick W. Smith and Phillips W. Smith may elect to discontinue the activities of the corporation upon 2 weeks' notice to Mr. Cover. Under such circumstances, Mr. Phillips W. Smith will have the right to reclaim the liquid assets of the company not to exceed the amount of his cumulative investment. Further, from date of such notice Mr. Cover will have the right to use his skills and trademarks for whatever purpose he desires.
2. Mr. Cover may elect not to continue his work with the Company with 2 weeks' notice. Mr. Cover would retain all vested options with right to exercise for 6 months from the date of departure from the company. Unvested options would be forfeited, and the corresponding shares would remain the property of the Company.
3. In the event that Mr. Cover should not be able to exercise power of attorney over the equity in his name while the company is privately held (i.e. the shares are not on the public market), the Corporation would have option to repurchase such shares within 6 months from Mr. Cover's estate or heirs for an amount equal to the greater of:
  - i) The book value of such shares calculated by standard accounting practices
  - ii) \$10 per share
  - iii) Amounts solicited from competitive bidders.

AGREED,

By: /s/ Patrick Smith  
-----  
Patrick Smith  
For ICER CORPORATION

By: /s/ John H. Cover  
-----  
John H. Cover

Dated: 10/15/93  
-----

[SEAL]

CORPORATE SEAL

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AMENDMENT TO LICENSING AGREEMENT

THIS AMENDMENT TO LICENSING AGREEMENT ("AMENDMENT") is made and entered into this 31st day of August, 1996, by and between John H. Cover, Jr. ["JACK COVER"] and Air Taser, Incorporated f/k/a/ ICER Corporation, an Arizona corporation ["AIR TASER"].

In consideration of the covenants and agreements hereinafter set forth, the amounts of money paid in accordance herewith, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, that certain Licensing Agreement dated October 15, 1993 ("LICENSE") is hereby amended as follows:

1. AIR TASER hereby agrees to pay to JACK COVER and JACK COVER hereby agrees to accept the sum of One Hundred Thousand Dollars (\$100,000) in full payment and satisfaction of any and all minimum royalties and earned royalties now due or hereinafter accruing to JACK COVER from AIR TASER pursuant to the terms of the LICENSE as originally executed or as subsequently modified or amended, in writing, prior to the date hereof. Said payment shall be made contemporaneously with the full execution and delivery of this AMENDMENT by each of the parties hereto.

2. JACK COVER, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, for: (i) himself, (ii) his heirs, (iii) his legal representatives, legatees, successors and assigns of all of the foregoing persons and entities, hereby releases and forever discharges AIR TASER, any past, present and future shareholders, successors, assigns, officers, directors, agents, attorneys and employees of AIR TASER, together with their respective heirs, legal representatives, legatees, successors, and assigns, of and from all actions, claims, demands, damages, debts, losses, liabilities, indebtedness, causes of action either at law or in equity and obligations of whatever kind or nature, whether known or unknown, direct or indirect, new or existing, by reason of any matter, cause or thing whatsoever from the beginning of the world to the date hereof concerning any minimum of earned royalties which are now due or which may hereafter accrue to JACK COVER pursuant to the terms of the LICENSE.

3. This AMENDMENT embodies the entire agreement between the parties and supersedes any prior agreements or understanding between them in connection with the subject matter hereof and the transactions contemplated hereby. There are no oral or parol agreements, representations, or inducements existing between the parties relating to this transaction which are not expressly set forth herein and covered hereby. All terms of this AMENDMENT are contractual and not mere recitals and shall be construed as if drafted by all parties hereto. The terms of this AMENDMENT are and shall be binding upon each of the parties hereto, their agents, employees successors and assigns, and upon all other persons

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claiming any interest in the subject matter hereof through any of the parties hereto.

4. To the extent that this AMENDMENT contradicts, is inconsistent or in conflict with any prior agreements between or among any or all of the parties, this AMENDMENT supersedes any conflicting or inconsistent provision of any prior agreement and is controlling to the extent necessary to resolve such conflict or inconsistency. Any and all provisions in a prior agreement not inconsistent with this AMENDMENT remain valid and binding.

5. It is acknowledged that the parties hereto have read this AMENDMENT and consulted counsel before executing same; that they have relied upon their own judgment and that of their respective counsel in executing this AMENDMENT and have not relied on or been induced by any representation, statement or act by any other party referred to in this instrument; that the parties hereto have entered into this AMENDMENT voluntarily, with full knowledge of its significance; and that this AMENDMENT is in all respects complete and final.

6. If any term or provision of this AMENDMENT or the application thereof to any person, entity or circumstance shall, to any extent, be held invalid and/or unenforceable by a court of competent jurisdiction, the remainder of this AMENDMENT, or the application of such term or provisions to persons, entities or circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby, and each term and provision of the AMENDMENT shall be valid and be enforced to the fullest extent permitted by law.

7. This AMENDMENT may not be amended, changed, or modified except by written instrument executed by all parties hereto.

8. This AMENDMENT shall be construed and enforced according to the laws of the State of Arizona.

9. This AMENDMENT may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute but one instrument.

IN WITNESS WHEREOF, the parties have caused this AMENDMENT to be duly executed as of the day and year first above written.

AIR TASER, INCORPORATED

By: /s/ Patrick Smith

/s/ John H. Cover, Jr.

John H. Cover, Jr.  
11 Half Moon Bend  
Coronado, CA 92118

Title: President

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2nd AMENDMENT TO THE AIR TASER LICENSING AGREEMENT

This 2nd Amendment to the AIR TASER licensing agreement (2nd Amendment) is made and entered into this 31st day of August, 1996, by and between John H. Cover, Jr. ["JACK COVER"] and AIR TASER, Incorporated f/k/a ICER Corporation, an Arizona Corporation ["AIR TASER"].

In consideration of the covenants and agreements hereinafter set forth, the amounts of money paid in accordance herewith, and other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, that certain Licensing Agreement dated October 15, 1993 ["LICENSE"] is hereby amended as follows:

1. AIR TASER hereby agrees to pay to Jack Cover, and Jack Cover hereby agrees to accept the sum of FIFTEEN THOUSAND DOLLARS (\$15,000) in full payment for a limited exclusivity for rights to technology embodied in U.S. patent #5,078,117 ["The '117 Patent"]. In accordance with this limited exclusivity, Jack Cover agrees that he shall license no other company, person, or entity of any type to utilize the technology described in the '117 patent for use in electronic weapon system other than the companies licensed for such use prior to this 31st day of August, 1996. These pre-existing licenses are non transferable and shall not be transferred to any entity other than the original license holder as enumerated below. Further, Mr. Cover shall not expand or modify the rights of the existing licensees, as listed below, without written approval from AIR TASER, Inc. A comprehensive listing of such licensed companies is given below:

a) EESTI, Engineering, LLC, a company in Poway, CA. (Copy of license attached as Exhibit A.)

b) Yong Suk Park, d.b.a. Bestex, Co. (Copy of license addendum regarding '117 patent rights attached as Exhibit B.)

2. This agreement in no way binds Mr. Cover from licensing rights to utilize the '117 technology in applications which are not electronic weapons. Mr. Cover is free to license any person, company, association, agency, or entity of any type to utilize the '117 technology so long as the license contains the specific language below:

"The licensee may not use the technology embodied in U.S. Patent #5,078,117 in conjunction with any electronic weapon system. The violation of this restriction shall cause immediate cancellation of this license without notice, and may cause damages payable to John H. Cover and/or AIR TASER, Inc."

3. If any term or provision of this 2nd Amendment or the application thereof to any person entity, or circumstance shall, to any extent, be held invalid and or unenforceable by a court of competent jurisdiction, the remainder of this 2nd Amendment, or the application of such term or provisions to persons, entities, or



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circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby, and each term and provision of the 2nd Amendment shall be valid and be enforced to the fullest extent permitted by law.

- 4. This 2nd Amendment may not be amended, changed, or modified except by written instrument executed by all parties hereto.
- 5. This 2nd Amendment shall be construed and enforced according to the laws of the state of Arizona.

IN WITNESS WHEREOF, the parties have caused this 2nd Amendment to be duly executed as of the day and year first above written.

AIR TASER, INCORPORATED,

By: /s/ Patrick Smith  
\_\_\_\_\_  
President

/s/ John H. Cover, Jr.  
\_\_\_\_\_  
John H. Cover, Jr.  
11 Half Moon Bend  
Coronado, CA 92118

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EXHIBIT A.



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ELECTROARMS, INC.  
John H. Cover, Pres. 602/529-2344  
5833 No. Kolb Rd. #10212  
Tucson, AZ 85730

December 15, 1995

LICENSE AGREEMENT BETWEEN ANTON SIMSON, EESTI Engrg, LLC, POWAY, CA, LICENSEE & JOHN H. COVER, LICENSOR - under Pat. No. 5,078,117 (generally covering the use of compressed gas capsules that are easily discharged & the gas will propell projectiles, weights, contactors, nets, etc., in a non-firearm mode of operation).

This Agreement specifically pertains to EESTI's manufacture of Taser-type cassettes designed to snap onto stun guns giving the stun gun owner the Taser stand-off range & effectiveness in stopping power over dangerous criminals.

More specifically this License relates to J.H. Cover's License with Eastex Co., Yong Park, who imports & sells the Thunder Power - and other stun guns - which will be used in conjunction with the EESTI SGA Cassettes containing the SPOGC's.

In return for this Exclusive License to EESTI, J.H. Cover will receive an Earned Royalty from Anton Simson, EESTI, of \$0.25 - or 25(cents) @ for each SGA Cassette they Make & Sell.

In summary, the Licensor, John H. Cover, hereby grants an Exclusive License under Patent #5,078,117 to Anton Simson, d.b.a. EESTI Engineering, LLC, to manufacture and sell the Stun Gun/SGA Taser Cassettes as the Exclusive Licensee.

Signatures below constitute the legal acceptance by the two Parties of the above Terms & Conditions.

/s/ Anton Simson            2-19-96  
-----  
Anton Simson, Licensee - Date

/s/ John H. Cover            12/15/95  
-----  
John H. Cover, Licensor - Date

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EXHIBIT B.

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ELECTROARMS, INC. 619/423-0689  
11 Half Moon Bend, Coronado, CA 92118

December 1, 1998

Yong S Park, Pres. Subject: License Addendum covering  
Bestex Co., Unit B Bestex Sale of a Stun Gun  
3421 San Fernando Rd. Adaptor/SGA designed for the Thunder  
Los Angeles, CA 90065 Power Stun Gun.

ADDENDUM TO THE LICENSE AGREEMENT signed by Yong Suk Park, d.b.a. Bestex Co.,  
3/7/90 & John H. Cover, Licensor, on 2/19/90.

Licensor hereby grants an Exclusive License to distribute and sell the SGA  
Taser Cassettes designed to "snap" onto the front of the Bestex Thunder Power  
Stun Gun modified to function with the SGA -- which projects the high voltage  
electric contactors at an attacker -- such that the user does not receive a  
shock to this hand (insulation)

This License is under J.H. Cover's Patent #5,078,117 covering the  
Self-Puncturing Compressed Gas Capsule. This technology permits the use of  
compressed air to propell the contactors & is therefore not classified as a  
Firearm. EESTI, Anton Simson, Poway, CA will make the SGA under my Patent  
License & supply them to Bestex.

The Terms for Bestex's Exclusivity are: 1)\$20,000 upfront (\$10,000 upon  
execution of the License -- 1st week of March, 1996 -- and \$10,000 April 1,  
1996), 2) Bestex's Minimum Royalty will be \$2500/mos starting 4/2/96, and 3)  
Bestex will pay J.H. Cover \$2 Earned Royalty for each Thunder Power Stun Gun  
sold(or any modification or substitution thereof that fits the SGA) and  
25(cents) for each SGA Cassette sold.

It is important that Yong Park, Anton Simson & Jack Cover work as a team on  
this program. There are decisions to be made such as the Packaging of the  
Product -- the Thunder Power & (2) SGA cassettes in a box -- sales and  
advertising strategies including the name of the Product. "Public Defender" and  
ElectroStorm(stop rape & murder) are possibilities. An early meeting such as  
the first week in December is suggested. Jack Cover will consult as needed  
without compensation.

The signatures below constitute the legal acceptance of the two parties of the  
above terms & conditions.

/s/ Yong Suk Park, 12/18/95

/s/ John H. Cover 12/15/95

-----  
Yong Suk Park, Licensee - Date

-----  
John H. Cover, Licensor

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8/31/96

AIR TASER INCORPORATED

Rec'd \$15,000 for 2nd Amendment Compensation

/s/ J.H. Cover

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J.H. Cover



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[SPECIMEN STOCK CERTIFICATE]

[AIR TASER LOGO]  
INTELLIGENT SELF DEFENSE

Number  
00004

Shares  
50,000

AIR TASER INCORPORATED  
Share Issue Authorized by /s/ illegible /s/ illegible  
-----  
President Secretary

THIS CERTIFIES THAT John H. Cover is the registered holder of Fifty Thousand (50,000) Shares transferrable only on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this Certificate properly endorsed.

IN WITNESS WHEREOF, the said Corporation has caused this Certificate to be signed by its duly authorized officers and its Corporate Seal to be Hereunto affixed

this Seventeenth day of June A.D. 1994



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[SPECIMEN STOCK CERTIFICATE]

[SEAL]

FOR VALUE RECEIVED, I hereby sell, assign and transfer unto AIR TASER, INC.  
\_\_\_\_\_ Shares represented by the within Certificate, and do hereby  
irrevocably constitute and appoint PATRICK SMITH Attorney to transfer the said  
Shares on the books of the within named Corporation with full power of  
substitution in the premises.

Dated AUGUST 31, 1994

In presence of

/s/ illegible  
-----

/s/ John H. Cover  
-----  
John H. Cover  
11 Half Moon Bend  
Coronado, CA 92118

NOTICE: THE SIGNATURE OF THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS  
WRITTEN UPON THE FACE OF THE CERTIFICATE, IN EVERY PARTICULAR, WITHOUT  
ALTERATION OR ENLARGEMENT, OR ANY CHANGE WHATEVER.

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SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT ["Settlement Agreement"] is made and entered into this 8/30/96 day of August, 1996, by and between John H. Cover, Jr. ["JACK COVER"] and Virginia A. Cover ["VIRGINIA COVER"] and Air Taser, Incorporated f/k/a ICER Corporation, an Arizona corporation ["AIR TASER"].

RECITALS

A. WHEREAS, AIR TASER, is an Arizona corporation engaged in the business of manufacturing and selling certain goods and products, including a non-lethal electronic self-defense device used to temporarily immobilize an attacker ["AIR TASER DEVICE"].

B. WHEREAS, JACK COVER, was and is the sole owner and licensor of certain U.S. patents, including:

- a. Patent #4,253,132 [the "132 Patent"] which covers generally the circuitry by which current from a battery is transformed so that an electrical charge with which a potential attacker is struck operates to temporarily immobilize a potential attacker; and
- b. Patent #5,078,117 [the "117 Patent"] which covers generally the non-explosive means of projecting electrically charged darts to deliver an immobilizing electrical charge to a potential attacker.

C. WHEREAS, VIRGINIA COVER is the spouse of JACK COVER and may have or claim certain marital property rights in and to the 132 Patent, the 117 Patent and other assets which are the subject of this Settlement Agreement.

D. WHEREAS, on or about October 15, 1993, JACK COVER, as licensor, and AIR TASER, as licensee, executed a certain written Licensing Agreement ["AIR TASER LICENSE"].

A true and correct copy of the AIR TASER LICENSE executed by and between AIR TASER and JACK COVER is attached hereto as Exhibit "A" and by reference made a part hereof.

E. WHEREAS, by written agreement executed on or about October 15, 1993, by and between AIR TASER and JACK COVER ["EMPLOYMENT AGREEMENT"], JACK COVER accepted a position of employment with AIR TASER for a period of one (1) year upon the terms and conditions set forth therein. JACK COVER asserts that on or about October 15, 1993, in accordance with Article 1, paragraph 4, of the EMPLOYMENT AGREEMENT, he tendered to AIR TASER a copy of a certain patent license with Electronic Medical Research Laboratories, Inc. d/b/a Tasertron ["TASERTRON"] covering the 132 Patent and granting certain exclusive rights relative to the U.S. law enforcement market. In or about June, 1994, JACK COVER resigned as a full time employee of AIR TASER.

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A true and correct copy of the EMPLOYMENT AGREEMENT executed by and between AIR TASER and JACK COVER is attached hereto as Exhibit "B" and by reference made a part hereof.

F. WHEREAS, pursuant to Article I, paragraph 7, of the EMPLOYMENT AGREEMENT, JACK COVER agreed not to disclose the confidential information of AIR TASER, including trade secrets, marketing plans, manufacturing know-how, and financial or other data designated as confidential.

G. WHEREAS, pursuant to Article I, paragraph 3, of the EMPLOYMENT AGREEMENT, JACK COVER agreed to license AIR TASER to utilize the "Taser" trademark in conjunction with product marketing and other business functions and further agreed not to license the use of the "Taser" trademark to any company not licensed for such use prior to October 15, 1993.

H. WHEREAS, pursuant to Article I, paragraph 5, of the EMPLOYMENT AGREEMENT, JACK COVER agreed that all technical designs and intellectual property generated during his employment with AIR TASER would be work-made-for-hire, would be assigned to AIR TASER and would be the exclusive property of AIR TASER.

I. WHEREAS, in April, 1995, after receiving a letter dated March 29, 1995 from AIR TASER's attorneys, Brown & Bain, alleging certain violations of the AIR TASER LICENSE and threatening legal action, JACK COVER and VIRGINIA COVER filed suit in the Superior Court of the State of Arizona in and for the County of Maricopa, captioned Cover, et al. v. Icer Corporation n/k/a Air Taser, Incorporated, case number CV95-06851 [the "ARIZONA LITIGATION"], seeking a declaratory judgment holding that the AIR TASER LICENSE does not include the right to sell the AIR TASER DEVICE to law enforcement agencies together with an injunctive Order prohibiting AIR TASER from selling or attempting to sell the AIR TASER DEVICE to law enforcement agencies.

J. WHEREAS, AIR TASER vigorously denies any and all liability with respect to the allegations of fact and the claims asserted in the complaint filed by JACK COVER and VIRGINIA COVER in the ARIZONA LITIGATION.

K. WHEREAS, in October, 1995, AIR TASER filed its Answer and Counterclaim in the ARIZONA LITIGATION wherein its denied, inter alia, that the AIR TASER LICENSE restricts the sale of the AIR TASER DEVICE to any particular market or user and further alleged, by way of counterclaim, various causes of action including breach of contract, breach of fiduciary duty and fraud for which it requested both money damages and injunctive and other equitable relief.  
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L. WHEREAS, JACK COVER and VIRGINIA COVER vigorously deny any and all liability with respect to the allegations and the claims asserted in the counterclaim filed by AIR TASER in the ARIZONA LITIGATION. JACK COVER affirmatively asserts that on or prior to October 15, 1993, he disclosed the terms of the TASERTRON license to AIR TASER, including the terms purporting to grant exclusivity as to the use of the 132 Patent within certain markets and geographical boundaries.

M. WHEREAS, in February, 1995, TASERTRON filed an action against AIR TASER in the Federal District Court for the Central District of California captioned Electronic Medical Research Laboratories, Inc. d/b/a/ Tasertron v. Air Taser, Inc., case number ED CV 95-53 RT (JRX) ["CALIFORNIA LITIGATION"] asserting an exclusive right to market devices utilizing the technology covered by the 132 Patent within certain markets and geographical boundaries. In September, 1995 the CALIFORNIA LITIGATION was settled and AIR TASER agreed, inter alia, to refrain from selling the AIR TASER DEVICE to U.S. law enforcement agencies for a specified period of time.

N. WHEREAS, all parties hereto desire to fully settle and compromise all matters in controversy heretofore existing between them.

O. WHEREAS, all parties have examined the benefits to be obtained under this Settlement Agreement and have considered the costs, risks and delays associated with the continued prosecution of the claims asserted in the ARIZONA LITIGATION. Each of the parties, having full knowledge of the contents hereof and after obtaining the advice of counsel, believes that, in consideration of all the circumstances and after significant investigation and settlement negotiations between and among the parties, the settlement embodied in this Settlement Agreement is fair, reasonable and in the best interests of all parties concerned.

NOW THEREFORE, in consideration of the foregoing Recitals, the representations, warranties, covenants and agreements contained in this Settlement Agreement, the sum of One Dollar (\$1.00) each to the other in hand paid and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto represent, warrant, covenant and agree as follows:

1. The foregoing Recitals and all Exhibits referred to herein and attached hereto, are incorporated in this Settlement Agreement as if set forth in full in the body hereof.

2. It is hereby stipulated and agreed that, subject only to the terms of that certain Stipulation of Settlement ("STIPULATION") executed by and between AIR TASER and Electronic Medical Research Laboratories, Inc. d/b/a/ Tasertron in the CALIFORNIA LITIGATION, in its present form or as it may hereafter be amended, the AIR TASER  
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LICENSE authorizing the manufacture, use and sale of devices covered by the 132 Patent and the 117 Patent is unrestricted as to any particular market, user, geographical area, dimension or design. However, the AIR TASER LICENSE shall not encompass applications of the technology covered by the 117 Patent other than in conjunction with electronic devices. A copy of the STIPULATION is attached hereto as Exhibit "C".

3. It is hereby stipulated and agreed that paragraph 6.2 of the AIR TASER LICENSE is modified so that if, in any month, the minimum royalty exceeds the earned royalty, that excess shall be applicable as a credit to AIR TASER in the next calendar month in the following manner: if the earned royalty for the next month exceeds the minimum royalty for that month, then the excess shall apply to reduce the earned royalty dollar for dollar until that excess for the previous month is used up. However, if all the excess is not used up in that next month, then it shall no longer operate as a credit in the future. In no event shall AIR TASER be thereby relieved of the obligation to pay the agreed minimum royalty in any month.

4. AIR TASER agrees that the negative balance in JACK COVER's cumulative royalty account existing as of the date of execution of this Settlement Agreement, which negative balance constitutes a credit to AIR TASER against future earned royalties, is hereby eliminated.

5. It is hereby stipulated and agreed that the period of exclusivity relative to devices utilizing the technology covered by the 117 Patent and meeting certain specified characteristics as provided in paragraph 4.2 of the AIR TASER LICENSE has expired and that, subject to the provisions of paragraph 6 of this Settlement Agreement, JACK COVER is free to license others to utilize the technology covered by the 117 Patent on a non-exclusive basis.

6. JACK COVER hereby agrees that he shall not on his own account, nor shall he authorize in any future patent licenses he may grant to other individuals or other entities, manufacture, use or sell or license for manufacture, use or sale (a) any launchers which are compatible with the AIR TASER cartridge model number 34200 or (b) cartridges which are compatible with the AIR TASER power handle model number 34100. "Compatible" for these purposes means a device which, without modification by the user, will operate with the AIR TASER components [model numbers 34100 and 34200] to deliver an electric shock to a target. AIR TASER will not knowingly and intentionally manufacture or sell any devices [excluding model numbers 34100 and 34200] which are compatible with any launchers or cartridges manufactured by other existing patent licenses of JACK COVER. In any future patent licenses which JACK COVER may grant, and in any amendments to any existing licenses which he may in the future enter into, he shall include the following language:

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"This license does not allow the licensee to manufacture, use or sell (a) any launchers which are compatible with the AIR TASER cartridge model number 34200 or (b) any cartridges which are compatible with the AIR TASER power handle model number 34100. "Compatible for these purposes means a device which, without modification by the user, will operate with the AIR TASER components [model numbers 34100 and 34200] to deliver an electric shock to a target. Furthermore, licensee hereby acknowledges that it has had an opportunity to inspect or is otherwise familiar with the AIR TASER air cartridge and the AIR TASER power handle prior to execution of the license.

In order to facilitate JACK COVER's compliance with this paragraph, AIR TASER shall within ten (10) days following execution and delivery of this Settlement Agreement, deliver three (3) inoperative power handles [model 34100] and three (3) inoperative cartridges [model 34200] to JACK COVER.

7. It is hereby stipulated and agreed that the last sentence of paragraph 6.3 of the AIR TASER LICENSE shall be deleted and stricken from the AIR TASER LICENSE, and the following sentence shall be inserted in its place:

"If the DEFAULT is not cured by payment of this MINIMUM ROYALTY by cashier's check or money order on or before 5:00 P.M. local Arizona time of the tenth (10th) day following written notice by Licensor to Licensee of the facts constituting the alleged default, this licensing agreement shall terminate automatically without further notice."

8. It is hereby stipulated and agreed that the last sentence of paragraph 6.4 of the AIR TASER LICENSE shall be deleted and stricken from the AIR TASER LICENSE, and the following sentence shall be inserted in its place:

"If the DEFAULT is not cured by payment of this EARNED ROYALTY by cashier's check or money order on or before 5:00 P.M. local Arizona time of the tenth (10th) day following written notice by Licensor to Licensee of the facts constituting the alleged default, this licensing agreement shall terminate automatically without further notice."

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9. AIR TASER does not know of any reason why the 132 Patent or the 117 Patent should not continue in existence until the dates set forth in the AIR TASER LICENSE. AIR TASER will not take, nor will it cause anyone else to take, any action which would impair the validity of either patent and, if AIR TASER shall in the future have any concern as to the early termination of either patent, it will notify JACK COVER of the basis for its concern so that he might take such action as he deems necessary to avoid such early termination.

10. It is hereby stipulated and agreed that upon expiration of the 132 Patent, AIR TASER's obligation to pay JACK COVER a \$2.00 per unit earned royalty for each unit which utilizes the power generation device and electric wave form described in the 132 Patent shall be terminated, notwithstanding AIR TASER's continued use of the technology covered by the 132 Patent.

11. It is hereby stipulated and agreed that upon expiration of the 117 Patent, AIR TASER's obligation to pay JACK COVER a \$0.25 per unit earned royalty for each device which utilizes compressed gasses to launch electrical contactors from the power generator shall be terminated, notwithstanding AIR TASER's continued use of the technology covered by the 117 Patent.

12. It is hereby stipulated and agreed that upon expiration of the 117 Patent, AIR TASER's obligation to make any further minimum royalty payments or earned royalty payments, as those terms are used in paragraphs 6.1 and 6.2 of the AIR TASER LICENSE, to JACK COVER shall be terminated, notwithstanding AIR TASER's continued use of the technology covered by either or both the 117 Patent and/or the 132 Patent.

13. JACK COVER hereby represents and warrants that he is the sole owner of the "Taser" registered trademark, Registration No. 1,235,685, and that of those licensees of the "Taser" trademark whose licenses came into existence on or prior to October 15, 1993, AIR TASER and Electronic Medical Research Laboratories, Inc. d/b/a Tasertron are the only licensees currently using or authorized to use the "Taser" trademark. JACK COVER hereby reaffirms his prior agreement, as originally set forth in Article I, paragraph 3, of the EMPLOYMENT AGREEMENT, that AIR TASER, as licensee, is authorized to utilize the "Taser" trademark in conjunction with product marketing and other business functions and that JACK COVER shall not license the use of the "Taser" trademark to any individual or entity not licensed for such use prior to October 15, 1993. In order to prevent abandonment of the "Taser" trademark, JACK COVER hereby agrees that AIR TASER shall have the right, jointly with JACK COVER, to police and protect the use of the "Taser" trademark by others, in his name or in the name of AIR TASER, in a reasonable manner to maintain the quality of the mark and to prevent the unauthorized use of the mark by third parties. However, other patent licensees of JACK COVER may, with his prior  
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written consent, refer to the "Taser" device for comparative purposes only [patent licensees not expressly licensed to use the "Taser" trademark on or prior to October 15, 1993 may not claim that their device is a "Taser" or incorporate the "Taser" trademark in their product name], provided that the word "Taser" is designated as a registered trademark, that the patent licensee includes a disclaimer that said patent licensee is not licensee of the "Taser" trademark and that said disclaimer appears in the same context as the word "Taser" in the same size typeface as the word "Taser", but in no event may the word "Taser" appear in a typeface larger than 12 points. JACK COVER further represents and warrants that attached hereto as Group Exhibit "D" is a full and complete list of the names and current addresses of all licensees of the "Taser" trademark together with the copies of the subject licenses and all amendments thereto.

14. JACK COVER does hereby sell, transfer and assign to AIR TASER all shares of AIR TASER stock acquired by him at any time [i.e., 50,000 shares] free and clear of all liens, claims and encumbrances. JACK COVER agrees that contemporaneously with the execution and delivery of this Settlement Agreement he shall surrender said stock, properly endorsed, to AIR TASER.

15. JACK COVER hereby represents and warrants that Exhibit "E" attached hereto is a full and complete list of the names and current addresses of all past or present licensees of the 117 Patent and the 132 Patent together with copies of the subject licenses and any and all amendments thereto.

16. JACK COVER hereby represents and warrants that, except for the ARIZONA LITIGATION, there are no law suits pending or threatened and there are no existing or potential causes of action involving the 117 Patent, the 132 Patent and/or the "Taser" trademark.

17. JACK COVER hereby reaffirms his prior agreement, as originally set forth in Article I, paragraph 5, of the EMPLOYMENT AGREEMENT that all technical designs and intellectual property generated by JACK COVER during his work with AIR TASER was work-made-for-hire, was, or upon request, will be assigned to AIR TASER and is the exclusive property of AIR TASER. JACK COVER further agrees to execute all documents and perform all acts necessary to enable AIR TASER to acquire or perfect any and all rights, titles, patents, copyrights, interests and other protection which may be available with regard to such technical designs and intellectual properties. JACK COVER agrees that contemporaneously with the execution and delivery of this Settlement Agreement he shall execute and deliver to AIR TASER the Declaration for Patent Application with Power of Attorney and the Assignment attached hereto as Exhibits "F" and "G", respectively. AIR TASER warrants and agrees that the Declaration for Patent, Exhibit "F", covers both a method of manufacturing compressed fluid containers and a  
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double walled compressed gas cylinder, and that patent, should it be granted, would not, to the best of its knowledge, replace or conflict with the 117 Patent, and even if the patent should be granted, it would not allow AIR TASER to utilize the technology covered by the 117 patent without paying JACK COVER the royalties required by the AIR TASER LICENSE. Attached hereto as Exhibit "H" is a schedule of intellectual property generated by JACK COVER during his work with AIR TASER which the parties agree was either work-made-for-hire or assigned to AIR TASER and which is the exclusive property of AIR TASER.

18. JACK COVER hereby reaffirms his continuing contractual obligation not to disclose confidential information of AIR TASER, as originally set forth in Article I, paragraph 7, of the EMPLOYMENT AGREEMENT. The term "confidential information" shall mean any information or material which is proprietary to AIR TASER, whether owned or developed by AIR TASER, which is not generally known other than by AIR TASER, and which JACK COVER may have obtained through any direct or indirect contact with AIR TASER. Confidential information includes, without limitation, business records and plans, financial statements and projections, marketing plans, manufacturing know-how, pricing structure, costs, appraisals, customer lists, the identity of suppliers of AIR TASER whose identities became known to JACK COVER as a result of his employment by AIR TASER and other proprietary information which is designated as confidential.

The parties hereto acknowledge and agree that damages at law may not be a measurable or adequate remedy for a breach of JACK COVER's continuing obligation not to disclose the confidential information of AIR TASER, and, accordingly, consent to the entry by any court of competent jurisdiction in Arizona, or, if jurisdiction is not appropriate in Arizona, such other court of competent jurisdiction, of an order enjoining the violation of such agreement should the requirements for an injunction be met and further agree that the entry of such order would be an appropriate remedy for the breach of this obligation.

19. JACK COVER and AIR TASER agree that contemporaneously with the execution and delivery of this Settlement Agreement, they shall execute and exchange Releases in the form attached hereto as Exhibits "I" and "J".

20. Except as otherwise provided herein and notwithstanding the execution of the Releases executed and exchanged pursuant to paragraph 19 hereof, the terms of the AIR TASER LICENSE, as modified by this Settlement Agreement, including without limitation the terms governing the duration of the AIR TASER LICENSE, the specified minimum royalty and the per unit earned royalties applicable to both the 117 Patent and the 132 Patent, shall hereafter remain in full force and effect.

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21. Within five (5) business days following the execution of this Settlement Agreement by all parties hereto, JACK COVER and VIRGINIA COVER, by and through their attorney of record, shall prepare and file with the Court wherein the ARIZONA LITIGATION is now pending an appropriate Motion and Agreed Order providing for the dismissal of the ARIZONA LITIGATION on its merits, with prejudice and without costs or attorneys' fees, all matters in controversy having been fully settled, compromised and adjourned.

22. VIRGINIA COVER hereby consents to each and every term and provision of the Settlement Agreement as set forth herein and hereby sells, transfers and assigns to AIR TASER any right, title and interest she may have in or to the property hereby transferred by JACK COVER to AIR TASER.

23. The parties hereto acknowledge that it is their intent to consummate this Settlement Agreement and agree to execute all documents and to perform all acts reasonably necessary to effectuate and implement all terms and conditions of this Settlement Agreement.

24. This Settlement Agreement shall be preserved as confidential by the parties hereto. The parties hereto, and each of them, agree (i) to take all precautions necessary to safeguard the information contained in this Settlement Agreement and any and all information furnished in connection herewith from disclosure to any person or entity other than employees, officers, directors and agents (including legal counsel and financial advisors) and, in addition, those individuals who otherwise normally have access to information of such nature under the parties' established confidentiality procedures; (ii) not to use this Settlement Agreement or any information contained herein or furnished in connection herewith for any purpose other than to resolve the issues and controversies as may exist between the parties. The parties hereto, and each of them, further agree that if any of them are requested or required by law to disclose the contents of this Settlement Agreement or any information contained herein or furnished in connection herewith, the party so requested will provide all other parties with prompt written notice of the request so that any party may seek an appropriate protective order or consent to the waiver of compliance with this confidentiality provision of the Settlement Agreement. If in the absence of a protective order or such waiver, any party is, nonetheless, compelled to disclose any or the contents of this Settlement Agreement to a Court or other tribunal under circumstances where such party would be liable for contempt or other penalty if disclosure is not made, said party shall disclose to such Court or other tribunal only that limited portion of the information which is legally required to be disclosed.  
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25. Unless expressly provided otherwise in this Settlement Agreement, any notice, request, demand or other communication required to be given under this Settlement Agreement or any document or instrument executed and delivered pursuant to this Settlement Agreement shall be in writing, shall be deemed to be given or delivered (a) on the date of personal or facsimile delivery of the notice, request, demand or other communication at or before 2:00 p.m. local Arizona time, (b) on the second business day after the day of mailing of such notice, request, demand or other communication by United States Registered Mail or United States Certified Mail, postage prepaid, or (c) on the next business day after mailing of such notice, request, demand or other communication by express next-day courier, freight charges prepaid, to the parties (including any person or entity designated for receipt of a photocopy thereof) at the following addresses or at such other address as any of the parties may hereafter specify in the aforementioned manner:

if to JACK COVER: John H. Cover, Jr.  
5855 North Kolb Road  
Apt. 10212  
Tucson, AZ 85750  
  
(Facsimile: )

with a copy to: Gary F. Howard, Esq.  
Howard & Rouse, P.C.  
3800 North Central Avenue  
Suite 280  
Phoenix, AZ 85012  
  
(Facsimile: 602-263-6005)

if to VIRGINIA COVER: Virginia A. Cover  
11 Half Moon Bend  
Coronado, CA 92118  
  
(Facsimile: )

with a copy to: Gary F. Howard, Esq.  
Howard & Rouse, P.C.  
3800 North Central Avenue  
Suite 280  
Phoenix, AZ 85012  
  
(Facsimile: 602-263-6005)

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if to AIR TASER:

Patrick W. Smith  
Air Taser, Inc.  
7339 E. Evans Road, Suite 1  
Scottsdale, AZ 85260

(Facsimile: 602-991-0791)

with a copy to:

Joel H. Shapiro, Esq.  
Kamenear, Kadison & Anderson  
20 North Wacker Drive  
Suite 4100  
Chicago, IL 60606

(Facsimile: 312-332-6163)

26. This Settlement Agreement embodies the entire agreement between the parties and supersedes any prior agreements or understanding between them in connection with the subject matter hereof and the transactions contemplated hereby. There are no oral or parol agreements, representations, or inducements existing between the parties relating to this transaction which are not expressly set forth herein and covered hereby. All terms of this Settlement Agreement are contractual and not mere recitals and shall be construed as if drafted by all parties hereto. The terms of this Settlement Agreement are and shall be binding upon each of the parties hereto, their agents, employees successors and assigns, and upon all other persons claiming any interest in the subject matter hereof through any of the parties hereto.

27. To the extent that this Settlement Agreement contradicts, is inconsistent or in conflict with any prior agreements between or among any or all of the parties, this Settlement Agreement supersedes any conflicting or inconsistent provision of any prior agreement and is controlling to the extent necessary to resolve such conflict or inconsistency. Any and all provisions in a prior agreement not inconsistent with this Settlement Agreement remain valid and binding.

28. This Settlement Agreement may not be amended, changed, or modified except by written instrument executed by all parties to this Settlement Agreement.

29. The place of business of AIR TASER, the place of negotiation, execution and delivery of this Settlement Agreement and the other documents and instruments to be executed and delivered pursuant to this Settlement Agreement, and the place of performance under this Settlement Agreement being the State of Arizona, this Settlement Agreement shall be construed and enforced according to the laws of the State of Arizona.

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30. This Settlement Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute but one instrument.

IN WITNESS WHEREOF, the parties have caused this Settlement Agreement to be duly executed as of the day and year first above written.

AIR TASER, INCORPORATED

By: /s/ Patrick Smith  
-----

Title: President  
-----

/s/ John H. Cover, Jr.  
-----

John H. Cover, Jr.

/s/ Virginia A. Cover  
-----

Virginia A. Cover

</R>

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LICENSING AGREEMENT

1. CONSIDERATION; EFFECTIVE DATE

1.1 The effective date of this agreement shall be Oct. 15, 1993.

2. PARTIES

2.1 John H. Cover is an individual with business located at Box 404, 4725 Sunrise Drive, Tucson, Arizona 85718 (LICENSOR)

2.2 ICER Corporation is an Arizona Corporation engaged in the development of non lethal electronic weapons for sale to the general consumer market (LICENSEE).

3. BACKGROUND

3.1 Licensor represents and warrants that he owns several patent rights, both domestic and foreign as listed on Exhibit "A" though not in every country of the world, and specifically U.S. Patent Number 4,254,132 and 5,078,117, (the Licensed Patents) concerning a power supply and ballistics launching mechanism for weapons or other devices utilizing electricity for immobilization purposes.

3.2 Licensor is not aware of any ownership of another of inventions or patent rights or trade secret or know-how rights in conflict with his own; and Licensor believes that he possesses such right, title and interest in and to the electronic immobilization devices and equipment useful therein as is necessary and appropriate to the terms of this agreement.

3.3 Licensee is a company seeking to develop such technology for manufacture and marketing an alternative non lethal self defense device to firearms.

3.4 Any other concepts, advanced technologies or other patents Licensor now possesses or might obtain in the future are specifically excluded from this agreement. HOWEVER, SUCH TECHNOLOGIES MAY BE COVERED IN SEPARATE ARRANGEMENTS SPECIFYING CONTRACT AND SALARIED WORK.

4. LICENSE



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ICER CORPORATION

COVER AGREEMENT

4.1 Licensor hereby grants Licensee a non exclusive license for use of patent number 4,254,132 and the electric wave form and power generator described therein. Under said licensed patent to manufacture, use and sell devices, with and without launching mechanisms covered by patent number 4,254,132.

4.2. LICENSOR HEREBY GRANTS LICENSEE LICENSE FOR PATENT 5,078,117. LICENSOR IS LICENSED UNDER SAID PATENT TO MANUFACTURE, USE AND SELL DEVICES COVERED BY PATENT 5,078,117. THIS LICENSE WILL BE EXCLUSIVE FOR DEVICES WHICH MEET ALL OF THE FOLLOWING CHARACTERISTICS:

- i) ELECTRONIC WEAPONRY DESIGNED TO IMMOBILIZE
- ii) WEAPON AS IN i) WHEREIN THE GREATEST DIMENSION OF THE WEAPON IS OF LESS THAN FOURTEEN INCHES.
- iii) A WEAPON WHICH IS DESIGNED TO BE NON LETHAL
- iv) A WEAPON DESIGNED FOR USE AGAINST HUMANS

THIS EXCLUSIVITY BINDS LICENSEE TO ENSURE THAT ANY FURTHER LICENSING OF PATENT 5,078,117 DESCRIBES CLEARLY THAT THE LICENSING OF PATENT 5,078,117 DESCRIBES CLEARLY THAT THE LICENSE MAY NOT BE USED FOR MANUFACTURE OF DEVICES WHICH MEET THOSE FOUR CHARACTERISTICS. THIS EXCLUSIVITY WILL BE BINDING FOR TWENTY FOUR MONTHS (24). AFTER TWENTY FOUR MONTHS, THIS EXCLUSIVITY CLAUSE WILL REMAIN IN EFFECT IF THE TOTAL EARNED ROYALTIES PAID BY LICENSEE TO LICENSOR EXCEEDS \$100,000 PER YEAR, USING MONTHS 12-24 AS THE FIRST YEAR FOR SUCH CALCULATION. SHOULD THE EARNED ROYALTIES FALL BELOW \$100,000 PER YEAR, LICENSOR WILL BE FREE TO LICENSE PATENT 5,078,117 FOR SIMILAR USE.

4.3. No party shall enter into any contracts or make any warranties on behalf of the other party.

4.4. Licensee shall not negotiate sub license or assign this license unless specifically authorized in writing by Licensor. Bona fide sales by Licensee to bona fide third parties for resale are not sub licensing so long as these sales are not in violation of Paragraph 6.12 below.

5. TERM OF LICENSE

5.1. The license will be for the period of validity of patent 4,254,132 on devices utilizing the technology described therein

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ICER CORPORATION

COVER AGREEMENT

and for the PERIOD OF VALIDITY of patent 5,078,117 for mechanisms utilizing the technology described therein.

5.2 Licensee's obligation to pay royalties, as set forth in Paragraph 6, runs in favor of Licensor's heirs, successors and assigns.

6. ROYALTIES

6.1 From Oct. 15, 1993 until the expiration of the above described patents, unless Licensee ceases to make, use, or sell devices covered by the Licensed Patents, Licensee agrees to pay Licensor a MINIMUM ROYALTY of Two thousand five hundred and no/100 Dollars (\$2,500) per month payable on the 15th and on the 15th of each and every month thereafter during the term of this license. Payment of the MINIMUM ROYALTY shall be delinquent if not paid within 5 days after the due date.

6.2 LICENSEE ALSO AGREES TO PAY AN EARNED ROYALTY TO BE COMPUTED MONTHLY AND, AFTER REDUCTION BY THE AMOUNT PAID IN CUMULATIVE MINIMUM ROYALTIES ABOVE CUMULATIVE EARNED ROYALTIES, SAID EARNED ROYALTIES SHALL BE EQUAL TO TWO DOLLARS PER UNIT (\$2.00) FOR EACH UNIT WHICH UTILIZES THE POWER GENERATION DEVICE AND ELECTRIC WAVE FORM DESCRIBED IN PATENT 4,254,132 AND \$0.25 PER UNIT FOR EACH DEVICE WHICH UTILIZES COMPRESSED GASSES TO LAUNCH ELECTRICAL CONTACTORS FROM THE POWER GENERATOR. THIS \$0.25 EARNED ROYALTY SHALL REMAIN IN EFFECT FOR THE LIFE OF PATENT 4,254,132 IF IT DOES NOT UTILIZE THE TECHNOLOGY DESCRIBED IN PATENT NUMBER 5,078,117. IF IT DOES UTILIZE THE TECHNOLOGY DESCRIBED IN PATENT NUMBER 5,078,117, THEN THE EARNED ROYALTY SHALL REMAIN IN EFFECT FOR THE LIFE OF SAID PATENT 5,078,117. AN EARNED ROYALTY OF \$0.10 WILL BE PAID FOR "PRACTICE CASSETTES" WHICH UTILIZE THE TECHNOLOGY IN PATENT 5,078,117, WHEREIN "PRACTICE CASSETTES" ARE DEFINED AS DEVICES WHICH SIMULATE THE ACTION OF PROPELLING ELECTRICAL CONTACTORS TO A TARGET BUT WHICH ARE NON-FUNCTIONAL--I.E. ARE NOT RELIABLE CONTACTORS FOR USE IN COMBAT SITUATIONS.

6.3 Licensee's MINIMUM ROYALTY payment is due on the 15th of each month. MINIMUM ROYALTY payments are past due five days thereafter. If MINIMUM ROYALTY payments are not made within five days of the due date, then a DEFAULT of this agreement occurs automatically and without notice. Licensee has

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ICER CORPORATION

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payment with a cashier's check or money order for the full amount of the MINIMUM ROYALTY due. If the DEFAULT is not cured by payment of this MINIMUM ROYALTY by cashier's check or money order by 5:00 P.M. on the tenth day after which it is due, this licensing agreement is automatically terminated without notice.

6.4. Licensee's EARNED ROYALTY payment is due on the fifteenth day of the month following the month in which the REVENUES FROM SALES WERE RECEIVED. EARNED ROYALTY payments are past due and delinquent if not paid by 5:00 P.M. on the twentieth day of SAID MONTH. If EARNED ROYALTY payments are not made by the twentieth of the month, then a DEFAULT of this agreement occurs automatically and without notice. Licensee has until the thirtieth of the month to cure the DEFAULT by payment with a cashier's check or money order for the full amount of the EARNED ROYALTY due. If the DEFAULT is not cured by payment of this EARNED ROYALTY by cashier's check or money order by 5:00 P.M. on the thirtieth day of the month in which it is due, this licensing agreement is automatically terminated without notice.

6.5. Royalties are payable by Licensee to Licensor at the address of the Licensor.

6.6. Royalties are payable in U.S. Dollars

6.7. Accompanying each EARNED ROYALTY payment, Licensee will provide to Licensor the accounting data on the sales of the licensed devices, including any daily summaries and the monthly summary from which the gross sales figures for the month are determined.

6.8. Licensee will keep books, accounts, and records that reflect all revenues and expenditures incurred in connection with the operation of its business. The books, accounts, and records shall be maintained at the regular place of business of Licensee. Licensee, during regular business hours, shall make the books, accounts, and records required to be maintained herein available to Licensor and/or his designated legal representative for examination and audit by appointment upon reasonable request and during normal business hours. Licensor agrees to pay for said examination and audit, however, if said examination and audit reveals a discrepancy of more than 5% of reported figures, Licensee shall pay for an examination and audit



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ICR CORPORATION

COVER AGREEMENT

6.9. Within sixty days after the end of each calendar year, Licensee shall prepare and deliver to Licensor a detailed statement of sales during the calendar year that result from the operations of Licensee's business.

6.10. Licensor agrees that all such information shall be held by its legal representatives, agents, trustees, attorneys, and accountants in confidence.

6.11. Licensee will mark each of the subject devices with the following notice: "Licensed under U.S. Patent No. 4,253,132" Or: "Licensed under U.S. Patent No. 5,078,117" Or both.

6.12. DELETED.

7. INFRINGEMENT OF LICENSOR'S PATENTS

7.1. In the event that any party shall become aware of any perceived infringement or any appropriation of Licensor's patents, trade secrets, or know how rights in the electronic immobilization devices or equipment, products or materials useful therein, the party shall give notice thereof to the other party hereto.

7.2. Licensee agrees to cooperate with any lawful efforts that Licensor may undertake to seek legal remedies for any such infringements or misappropriations.

8. INDEMNITIES FOR MALFEANCE, LIABILITY FOR PERSONAL INJURY OR PROPERTY DAMAGE

8.1. The License herein granted to Licensee is primarily in the nature of a sharing of information and a covenant not to sue for infringements of the Licensor's rights and is not in the nature of a specification of activities required of the Licensee or of equipment or process of details required to be used by the Licensee.

8.2. The manufacture, use, and sale of Licensee's products shall be the sole responsibility of Licensee and/or its agents.

8.3. Accordingly, Licensor shall not be liable for any personal injury or property damage resulting from the design, construction, or use of the licensed technology or of the equipment or products used in connection with the technology, if such injury or damage arises from the activities of Licensee.



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8.4 In no event shall Licensor be liable for any direct, special, incidental, or consequential damages, or any damages whatsoever, whether in an action for contract, negligence, or other tortious action arising out of, or in connection with, the use of any of the products covered by this license.

8.5 Licensee shall protect, save, indemnify, and hold Licensor harmless from all claims, demands, charges, or litigation arising out of the making, using, or selling of the merchandise and devices produced and sold by Licensee and arising, directly or indirectly, out of, or by reason of, any business activities of Licensee. Licensee shall reimburse Licensor for all loss, damage, or expense, including reasonable attorney's fees (should such a creature exist), which he may suffer or incur, directly or indirectly, by reason of any such claims, demands, charges, or litigation. This indemnity shall extend to and include any claims for personal injuries or damage caused to persons using the merchandise or devices made or sold by Licensee.

9. CONTROLLING LAWS

9.1 All questions relating to the validity, interpretation, performance, or enforcement of this agreement, whether by arbitration or otherwise, shall be determined in a court with the laws applicable to the State of Arizona, U.S.A.

10. BINDING EFFECT

10.1 Each and every provision on this license shall bind and shall inure to the benefit of the parties hereto and their legal representatives.

10.2 The term "legal representatives" means in addition to executors and administrators, every person, partnership, corporation, or association succeeding to the interest or to any part of the interest in or to this license or in the subject matter of this license, of either Licensor or Licensee, whether such succession results from the act of a party interest, occurs by operation of law, or is the effect of the operation of the law together with the act of such a party. Each and every covenant, agreement, and condition of this agreement to be performed by the Licensee shall be binding upon all successors in the interest to Licensee.

11. NOTICES



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ICER CORPORATION

COVER AGREEMENT

11.1. All notices required herein shall be in writing.

11.2. Written notices may be delivered personally to the president of the subject party or to the officer or person specified below.

11.3. Written notices shall be deemed to have been effective three days following the date of mailing by certified mail, postage prepaid, return receipt requested, addressed to John H. Cover, Licensor, as follows:

BOX 404  
4725 Sunrise Dr.  
Tucson, Arizona 85718

Licensee addressed to:

4601 East Indian Bend Road  
Scottsdale, Arizona 85253

11.4 Each party shall have the right to change the effective address for a notice by a notice in writing directed to the other party above.

12. ENTIRE AGREEMENT; AMENDMENTS; HEADINGS

12.1 This agreement together with its appendices constitutes the entire agreement between the parties REGARDING LICENSING OF TECHNOLOGY, and SUPERSEDES any prior communications ON THE SUBJECT whether written or oral.

12.2 This agreement may be amended or modified only by an instrument in writing, signed by duly constituted officers of both parties.

12.3 No waiver, no matter how long continuing or how many times extended, shall be construed as a permanent waiver or as an amendment to this instrument.

12.4 The marginal headings herein are for purposes of convenient reference only and shall not be used to construe or modify the terms written in the text of this instrument.

13. FAILURE TO PERFORM



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ICER CORPORATION

COVER AGREEMENT

13.1. Licensee, as well as its successors in interest and or assigns, agrees that failure to perform in accordance with the terms of this license, terminates this license and any manufactures, use, or sale of devices covered by the Licensed Patents, with or without launching mechanisms, thereafter is without license.

AGREED,

By: /s/ Patrick Smith  
-----  
Patrick Smith  
For ICER CORPORATION

By: /s/ John H. Cover  
-----  
John H. Cover

Dated: 10/15/93  
-----

CORPORATE SEAL

[SEAL]

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Exhibit 10.10

[Taser (R) Logo]

[TASER INTERNATIONAL LETTERHEAD]

PROMISSORY NOTE

\$500,000.00

January 23, 2001  
Scottsdale, Arizona

FOR VALUE RECEIVED, the undersigned TASER International, Inc., a Delaware corporation ("Maker"), promises to pay to Phil Purer or his order ("Payee") the sum of FIVE HUNDRED THOUSAND AND NO/100 DOLLARS (\$500,000.00), together with interest at the rate of one and one-half percent (1.50%) per month from the date hereof through the earlier of (a) the closing of an underwritten initial public offering of Maker's common stock or (b) July 1, 2002 (the applicable date being the "Maturity Date").

Payments: On or before the Maturity Date, Maker shall pay the sum of all interest and principal due under this Note from the date of this Note through the date of such payment. Maker shall not be required to make any payment of interest or principal pursuant to this Note prior to the Maturity Date.

Type and Place of Payments: Payments of principal and interest pursuant to this Note shall be made in lawful money of the United States of America to Payee at 1610 Loma Vista Drive, Beverly Hills, California 90210, or at such other address as Payee shall direct.

Advance Payment: Maker may prepay all or any portion of the amounts due under this Note at any time without penalty or premium.

Warrant Right: In consideration of the loan from Payee to Maker evidenced by this Note, Maker shall issue to Payee on the date of this Note a warrant to purchase up to 5,000 shares of Maker's common stock, which warrants shall be exercisable at a price per share of \$10.00 and which warrant shall be substantially in the form of EXHIBIT A attached hereto.

Default: Maker shall be in default under this note if it shall fail to fully pay this Note within ten (10) business days after the Maturity Date.

Successors and Assigns: This Note shall be binding upon Maker and upon its successors and assigns, and shall inure to the benefit of Payee and his heirs, devisees, personal representatives, successors and assigns. This Note shall be fully assignable by Payee without Maker's consent.

PAGE 1 - PROMISSORY NOTE

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[Taser (R) LOGO]

[TASER INTERNATIONAL LETTERHEAD]

Maximum Interest: Nothing contained in this Note shall be deemed to establish or require the payment of a rate of interest in excess of the maximum rate permitted by law. If the rate of interest required to be paid under this Note at any time exceeds the maximum rate permitted by law, the rate of interest required to be paid pursuant to this Note shall be automatically reduced to the maximum rate permitted by law.

Address Changes: Each party agrees to notify the other by registered or certified mail of any change in the party's address.

Arizona Law: This Note shall be governed by and construed under the laws of the state of Arizona without regard to the conflicts of laws provisions thereof.

MAKER:

TASER International, Inc.

By: /s/ Thomas P. Smith

Its: President

Accepted as of the above date:

/s/ Phil Purer

Phil Purer

PAGE 2 - PROMISSORY NOTE

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[TASER (R) LOGO]

[TASER INTERNATIONAL INCORPORATED LETTERHEAD]

THE SECURITIES EVIDENCED BY THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED OR ASSIGNED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, THE SALE IS MADE IN ACCORDANCE WITH RULE 144 UNDER THE ACT OR THE COMPANY RECEIVES AN OPINION OF COUNSEL FOR THE HOLDER OF SUCH SECURITIES REASONABLY SATISFACTORY TO THE COMPANY STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION AND PROSPECTUS DELIVERY REQUIREMENTS OF SUCH ACT.

WARRANT TO PURCHASE COMMON STOCK  
OF TASER INTERNATIONAL, INC.

(void after January 23, 2006)

This certifies that Phil Purer or assigns (the "Holder"), for value received and subject to the provisions hereinafter set forth, is entitled to purchase from TASER International, Inc., a Delaware corporation (the "Company"), Five Thousand (5,000) fully paid and nonassessable shares of the Company's Common Stock, \$0.00001 par value per share (such stock being hereinafter referred to as the "Common Stock" and such Common Stock as may be acquired upon exercise hereof being hereinafter referred to as the "Warrant Stock"), at the price of Ten Dollars (\$10.00) per share.

This Warrant is subject to the following provisions, terms and conditions:

1. Exercise and Issuance. This Warrant may be exercised in whole or in part (but not as to any fractional share of Common Stock) at any time commencing on the date hereof (the "Issue Date") until the fifth anniversary of the Issue Date. The rights represented by this Warrant may be exercised by the Holder by written notice of exercise substantially in the form attached hereto as Exhibit A delivered to the Secretary of the Company at the principal office of the Company accompanied by this Warrant (properly endorsed, if required) and payment to the Company, by cash, certified check or bank draft, of the purchase price of the shares of Warrant Stock being purchased. The Company agrees that the Warrant Stock so purchased shall be and is deemed to be issued as of the close of business on the date on which this Warrant shall have been surrendered and payment made for such Warrant Stock. Certificates for the shares of Warrant Stock so purchased shall be delivered to the Holder within a reasonable time, not exceeding forty-five (45) days after the rights represented by this Warrant shall have been so exercised, and, unless this Warrant has expired, a new Warrant representing the number of shares of Warrant Stock, if any, with respect to which this Warrant has not been exercised shall also be delivered to the Holder within such time.

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[TASER (R) LOGO]

[TASER INTERNATIONAL INCORPORATED LETTERHEAD]

2. Covenants of Company. The Company covenants and agrees that all shares of Warrant Stock that may be issued upon the exercise of the rights represented by this Warrant will, upon issuance, be duly authorized and issued, fully paid and nonassessable and free from all liens and charge with respect to the issuance thereof. The Company further covenants and agrees that until expiration of this Warrant, the Company will at all times have authorized and reserved for the purpose of issuance or transfer upon exercise of the rights evidenced by this Warrant, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant.

3. Exercise Price and Share Adjustments. The initial number of shares of Common Stock purchasable upon exercise of this Warrant and the exercise price payable therefore shall be subject to adjustment from time to time, as provided below:

(a) In case the Company shall at any time hereafter subdivide or combine the outstanding shares of Common Stock or declare a dividend payable in Common Stock, the total number of shares of Common Stock purchasable upon the exercise of this Warrant shall be adjusted so that the Holder shall be entitled to receive the number of shares of Common Stock which the Holder would have owned or have been entitled to receive immediately following any of the events described above had this Warrant been exercised in full immediately prior to any such event. An adjustment made pursuant to this Section 3(a) shall, in the case of a subdivision or combination, be made as of the effective date thereof, and in the case of a stock dividend, become effective as of the record date therefore. In the event of any such adjustment of the total number of shares of Common Stock purchasable upon the exercise of this Warrant, the exercise price shall be adjusted to be the amount resulting from dividing the number of shares of Common Stock covered by this Warrant immediately after such adjustment into the total amount payable upon exercise of this Warrant in full immediately prior to such adjustment.

(b) If any capital reorganization or reclassification of the capital stock of the Company (other than a subdivision or combination referred to in Section 3(a) hereof), or consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for such Common Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, the Holder shall have the right to purchase and receive upon the basis and upon the terms and conditions specified in this Warrant and in lieu of the Common Stock immediately theretofore purchasable and receivable upon the exercise of the rights represented hereby, such shares of stock, securities or assets as would have been issued or delivered to the Holder if he had exercised this Warrant and had received upon exercise of this Warrant the Common Stock prior to such reorganization, reclassification, consolidation, merger or sale, unless prior to the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger or the corporation purchasing such assets shall assume by written instrument executed and mailed to the Holder at the last address of the

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[TASER (R) LOGO]

[TASER INTERNATIONAL INCORPORATED LETTERHEAD]

Holder appearing on the books of the Company, the obligation to deliver to the Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, the Holder may be entitled to purchase.

(c) If the Company takes any other action, or if any other event occurs which does not come within the scope of the provisions of Paragraphs 3(a) or 3(b) hereof, but which should result in an adjustment in the exercise price and/or the number of the shares subject to the Warrant in order to fairly protect the purchase rights of the Holder, an appropriate adjustment in such purchase rights shall be made by the Company.

(d) No fractional shares of Common Stock are to be issued upon the exercise of this Warrant, but the Company shall pay a cash adjustment in respect of any fraction of a share which would otherwise be issuable in an amount equal to the same fraction of the market price per share of Common Stock on the date of exercise.

(e) Upon any adjustment of the exercise price or number of shares purchasable hereunder, the Company shall give written notice thereof, by first class mail, postage prepaid, addressed to the Holder at the address of the Holder as shown on the books of the Company, which notice shall state the Warrant exercise price resulting from such adjustment and the increase or decrease, if any, in the number of shares purchasable at such price upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

4. Holder Not Deemed a Stockholder. The Holder shall not be entitled to vote on or be deemed the holder of Common Stock or any other securities which may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon the Holder any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof, or give or withhold consent to any corporate action (whether upon any recapitalization, issue of stock, reclassification of stock, change of par value or change of stock to no par value, consolidation, merger, conveyance or otherwise) or to receive notice of meetings or other actions affecting stockholders, or to receive dividends or subscription rights or otherwise, until the rights to purchase Warrant Stock hereunder shall have been exercised.

5. Transferability. Prior to making any disposition of the Warrant or of any Warrant Stock, the Holder will give written notice to the Company describing briefly the manner of such proposed disposition. The Holder will not make any such disposition unless or until: (i) a registration statement under the Securities Act of 1933, as amended (the "Securities Act") covering the proposed distribution has been filed by the Company and has become effective, (ii) the disposition is made in accordance with Rule 144 under the Securities Act or (iii) the Company has received an opinion of counsel for the Holder reasonably satisfactory to the

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[TASER (R) LOGO]

[TASER INTERNATIONAL INCORPORATED LETTERHEAD]

Company stating that registration under the Securities Act is not required with respect to such disposition.

6. Investment Representations. The Holder acknowledges and agrees that: (i) this Warrant and any shares of Warrant Stock which may be acquired upon exercise hereof are being or will be acquired for investment purposes and not with a view toward the distribution or sale thereof, (ii) this Warrant and the Warrant Stock will not be registered under either federal or applicable state securities laws and must be held indefinitely unless subsequently registered under the Securities Act or an exemption from such registration is available, (iii) investment in the Company is highly speculative, (iv) he has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of his investment and has the ability to bear the economic risks (including the risk of a total loss) of his investment, (v) he has had the opportunity to ask questions of the Company concerning the Company's business and assets and to obtain any additional information which he considered necessary to verify the accuracy or to amplify the Company's disclosures with respect to his investment and has had all such questions answered to his satisfaction and (vi) the Company will be relying upon the foregoing investment representations in agreeing to issue this Warrant and the Warrant Stock to the Holder. The Holder acknowledges that the transferability of the Warrant and of any Warrant Stock will be subject to restrictions imposed by all applicable federal and state securities laws and agrees that the certificates evidencing the Warrant Stock may be imprinted with an appropriate legend setting forth these restrictions on transferability.

7. Amendment. This Warrant and any term hereof may be changed, waived, discharged or terminated only by means of an instrument in writing signed by the party against which enforcement of the charge, waiver, discharge or termination is sought.

8. Termination. This Warrant shall terminate and no longer be exercisable at 5:00 p.m., Arizona time on January 23, 2006.

Dated: January 23, 2001

TASER INTERNATIONAL, INC.

By: /s/ [Illegible]

Its: President

Accepted as of the above date:

/s/ PHIL PURER

Phil Purer



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EXHIBIT A  
WARRANT EXERCISE

(To be signed only upon exercise of Warrant)

TO: TASER International, Inc., 7339 E. Evans Road, Scottsdale, AZ 85260

The undersigned, the holder of the foregoing Warrant, hereby irrevocably elects to exercise the purchase right represented by such Warrant for, and to purchase thereunder, \_\_\_\_\_ shares of Common Stock of TASER International, Inc., and herewith encloses \$ \_\_\_\_\_ in full payment therefore. Please issue a certificate for such shares in the name of the undersigned and deliver it to the undersigned at the address stated below. If such number of shares shall not be all of the share purchasable under the Warrant, unless the Warrant has expired, please issue a new Warrant Certificate of like tenor for the balance of the shares purchasable thereunder to be delivered to the undersigned at the address stated below.

Name \_\_\_\_\_  
(Please Print)

Address \_\_\_\_\_  
\_\_\_\_\_

Dated \_\_\_\_\_

Signature \_\_\_\_\_

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PERSONAL GUARANTEE OF LOAN

Reference is hereby made to a loan between, Phil Purer (Payee), and Taser International, an Arizona Corporation (Debtor) dated January 23, 2001 in the amount of \$500,000.00 plus interest.

In consideration of Payee's having executed said Loan at the request of the undersigned, the undersigned (Guarantors) hereby jointly and severally unconditionally guarantee to Payee and Payee's successors and assigns, the payment of the principal, interest and other sums provided for in said Loan and the performance and observance of all agreements and conditions contained in said Loan on the part of Debtor to be performed or observed.

Guarantors hereby waive presentment for payment, demand for payment, notice of nonpayment or dishonor, protest and notice of protest, diligence in collection, and any and all formalities that may be legally required to charge them or either or any of them with liability; and the Guarantors, and each of them, for further agree that their liability as Guarantors shall in no way be impaired or affected by any renewals, waivers, or extensions that may be made from time to time, with or without the knowledge and consent of any one or more of them, of any default or the time of payment or performance required under said Loan, or by any forbearance or delay in enforcing any obligation thereof, or by assignment of said Loan, or by any modifications of the terms or provisions of the Loan.

The Guarantors further jointly and severally covenant and agree to pay all expenses and fees, including attorney fees that may be incurred by the Payee or its successors or assigns enforcing any of the terms or provisions of this Guarantee.

This Guarantee shall be binding upon the heirs, legal representatives, successors, and assigns of the Guarantors, and each of them, shall not be discharged or affected, in whole or in part by the death, bankruptcy, insolvency of the Guarantors, or anyone or more of them.

This Guarantee is absolute, unconditional, and continuing, and payment of the sums for which the undersigned becomes liable shall be made at the office of Payee or its successors or assigns from time to time on demand as the same become or are declared due.

Guarantors hereby waives any and all benefits under Arizona Revised Statutes ("A.R.S.") Sections 12-1641 -12.1646 and Rule 17(f) of the Arizona Rules of Civil Procedure.

IN WITNESS THEREOF, Guarantor has hereunto set his hands and seal this Agreement the 25th day of January, 2001.

Guarantor: Patrick W. Smith

Thomas P. Smith

By: /s/ Patrick W. Smith  
-----

By: /s/ Thomas P. Smith  
-----

Date: January 25, 2001

Date: January 25, 2001

Deanna M. Smith

By: /s/ Deanna M. Smith  
-----

Date: January 25, 2001

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Exhibit 10.11

PROMISSORY NOTE

\$189,980

Date: December 31, 1998  
Tempe, Arizona

For value received, the undersigned TASER INTERNATIONAL, INC., an Arizona corporation ("Promisor") promises to pay to the order of B&M DISTRIBUTING, INC. or assigns ("Payee"), at 1912 W. 4th St., Tempe, Arizona 85281 (or at such other place as Payee may designate), the sum of ONE HUNDRED EIGHTY-NINE THOUSAND, NINE HUNDRED AND EIGHTY DOLLARS AND NO/100 DOLLARS (\$189,980) plus interest as defined below calculated on a daily basis (based on a 365-day year) from the date hereof on the principal balance from time to time outstanding. Principal, interest and all other sums payable hereunder shall be paid in lawful money of the United States of America as follows:

- A. Interest shall accrue on the principal at the base rate of ten percent (10.0%) per annum. Interest shall be simple interest calculated on the outstanding daily principal balance. Principal and interest shall be completely due and payable as a balloon payment on March 31, 2000.
- B. If a payment of principal or interest to be made pursuant to this Note becomes past due for a period in excess of ten (10) business day ("Default"), Promisor shall pay to Payee default interest ("Default Interest") that shall accrue, in addition to the stated rate of interest, at the rate of five percent of the amount of such overdue payment until the overdue payment is paid. Further, in event of Default, all remaining unpaid principal and accrued interest, and all installments, shall become due and payable immediately without demand or notice. All payments on this Note shall be applied first in payment of any costs or charges, then to Default Interest accrued, then to the base interest accrued, and then to reduce principal.

Promisor may prepay this Note in whole or in part at any time without penalty.

Time is of the essence.

In any event of default under this Note occurs and remains in effect for ten (10) business days, Promisor promises to pay all costs of collection, including reasonable attorneys' fees, whether or not a lawsuit is commenced as part of the collection process, and whether or not taxable as costs by a court. Promisor waives trial by jury and consents to the personal jurisdiction of the Arizona courts located in the State of Arizona, County of Maricopa.

If any event of default under this Note occurs and remains in effect for ten (10) business days, or upon bankruptcy, insolvency, dissolution or fraudulent conveyance of Promisor, or upon default under any other obligations of Promisor to Payee or its affiliates, then this Note shall become due immediately, all without presentment, demand, protest or notice, all of which hereby are waived.

This Note shall be subordinate to obligations due from Promisor to Silicon Valley Bank or any such other institution that Payee agrees to in writing. Promisor shall be in default immediately if there is a sale, transfer, assignment or any other disposition not in the normal course of business of any assets pledged as security for Silicon Valley Bank. Promisor warrants that any obligations owed from it to either Patrick Smith or Thomas Smith are subordinated to this Note with the exception of reasonable day to day operating expenses including payroll. Promisor further assures that it will take all steps requested by Payee to affirm such subordination, including causing said parties to execute a subordination agreement.

If any one or more of the provisions of this Note are determined to be unenforceable, in whole or in part, for any reason, the remaining provisions shall remain fully operative.

Promisor waives presentment for payment, protest, and notice of protest and nonpayment of this Note.

No renewal or extension of this Note, delay in enforcing any right of Payee under this Note or assignment by Payee of this Note shall affect the liability of Promisor. All rights of Payee under this Note are cumulative and may be exercised concurrently or consecutively at Payee's option.

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This Note shall be construed in accordance with the laws of the State of Arizona, irrespective of its choice of law principles.

Signed this 17th day of March, 1999.

PROMISOR

TASER INTERNATIONAL, INC.  
an Arizona corporation

By: /s/ Patrick Smith

\_\_\_\_\_  
Patrick Smith  
President

Attest: /s/ Thomas Smith

\_\_\_\_\_  
Thomas Smith

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PERSONAL GUARANTY

THIS GUARANTY, dated as of March 17, 1999, is made and given by the undersigned guarantors, jointly and severally, (collectively, "Guarantor"), in favor of B&M Distributing, Inc. ("BMD").

A. BMD is prepared to extend additional credit to Taser International, Inc., an Arizona corporation ("Debtor") in the amount of \$189,980 (the "Principal Amount") pursuant to a separate agreement with Taser International, Inc. (the "Credit Agreement").

B. It is a condition precedent, among others, to BMD's inducement to extend credit accommodations to Debtor that this Guaranty be executed and delivered by Guarantor.

C. Guarantor expects to derive benefits from the extension of credit accommodations to Debtor by BMD and finds it advantageous, desirable and in Guarantor's best interest to execute and deliver this Guaranty to BMD. Guarantor is providing this Guaranty at the request of Debtor to induce BMD to extend or continue financial accommodations to Debtor.

NOW, THEREFORE, in consideration of the foregoing and credit accommodations to be extended to Debtor and for other good and valuable consideration, Guarantor covenants and agrees with BMD as follows:

Section a. The Guaranty. Undersigned Guarantor (if more than one, jointly and severally), absolutely, irrevocably and unconditionally guarantees and promises to pay to BMD, upon demand: (i) the Principal Amount and for all sums payable or to become payable in the Credit Agreement, or at the election of BMD any one or more installments thereof, if Debtor fails to pay punctually any one or more amounts when due under the Credit Agreement (principal, interest and/or other charges) at the time and in the manner provided therein; and (ii) all other obligations of Debtor to BMD arising under or in connection with the purchase or distribution of goods or services, any agreement between Debtor and BMD executed and delivered in connection with the purchase or distribution of goods or services, and all other documents and instruments evidencing, securing, or executed or delivered in connection with the Credit Agreement and all other agreements between Debtor and BMD.

The word "obligations" is used in its most comprehensive sense and includes any and all advances, debts, charges, obligations and liabilities of Debtor previously, now or hereafter made, incurred or created, with or without notice to Guarantor, whether voluntary or involuntary, and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, and whether recovery upon such indebtedness may be or hereafter become barred by any statute of limitations, and whether such indebtedness may be or hereafter become otherwise unenforceable (collectively, the Principal Amount together with all other obligations specified above, the "Obligations").

Section b. Continuing Guaranty. The liability and obligation of Guarantor hereunder shall survive and absolutely, unconditionally and completely continue in full force and effect until

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indefeasible payment and performance in full of the Obligations, notwithstanding any termination of Debtor's liability by operation of law, and notwithstanding that the Obligations or any part thereof is deemed to have been paid or discharged by operation of law or by some act or agreement of BMD. For purposes of this Guaranty, the Obligations shall be deemed to be paid only to the extent that BMD actually receives immediately available funds. Guarantor shall remain liable for any deficiency remaining if BMD elects to enforce the Credit Agreement or foreclose any security agreement securing all or any part of the Obligations, whether or not the liability of Debtor for such deficiency is discharged pursuant to statute, judicial decision or otherwise; and agrees not to assert the benefits of any statutory provision limiting the right of BMD to recover a deficiency judgment, or to proceed otherwise against any person or entity obligated for payment of the Obligations, after any foreclosure or sale of any security for the Obligations.

Section c. Actions Not Required. Guarantor waives any and all right to cause a marshalling of the assets of Debtor or any other action by any court or other government body with respect thereto or to cause BMD to proceed against any security for the Obligations or any other recourse which BMD may have with respect thereto and further waives and agrees not to assert: (1) any right to require BMD to pursue any other remedy available to BMD, or to pursue any remedy in any particular order or manner; (ii) the benefit of any statute of limitations affecting Guarantor's liability hereunder or the enforcement hereof; (iii) demand, diligence, presentment for payment, protest and demand, and notice of extension, dishonor, protest, demand, nonpayment and acceptance of this Guaranty; (iv) notice of the existence, creation or incurring of new or additional indebtedness of Debtor to BMD; (v) the benefits of any statutory provision limiting the liability of a surety, including without limitation the provisions of A.R.S. Sections 12-1641 et seq.; and (vi) any defense arising by reason of any disability or other defense of Debtor or by reason of the cessation from any cause whatsoever (other than payment in full) of the liability of Debtor for the Obligations. Guarantor further acknowledges that time is of the essence with respect to its obligations under this Guaranty.

Section d. Remedies. All remedies afforded to BMD by this Guaranty are separate and cumulative remedies and Guarantor agrees that no one of such remedies, whether or not exercised by BMD, shall be deemed to be in exclusion of any of the other remedies available to BMD and shall in no way limit or prejudice any other legal or equitable remedy which BMD may have hereunder and with respect to the Obligations. Mere delay or failure to act shall not preclude the exercise or enforcement of any rights and remedies available to BMD. The obligations of Guarantor hereunder are separate and independent of the Obligations of Debtor and of any other guarantor, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against any other guarantor, or whether any other guarantor is joined in any action or actions.

Section e. Authorizations. Guarantor authorizes BMD, without notice or demand and without affecting Guarantor's liability hereunder, from time to time, to: (1) renew, modify, compromise, extend, accelerate or otherwise change the time for payment of, or otherwise change the terms of the Obligations or any part thereof; and (ii) apply any and all payments from Debtor, Guarantor or any other guarantor, in such order or manner as BMD in its discretion may determine.

Section f. Costs and Expenses. Guarantor agrees to pay or reimburse BMD on demand for all out-of-pocket expenses (including reasonable attorneys' fees) incurred by BMD in enforcing this

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Guaranty against Guarantor, or arising out of or in connection with any failure of Guarantor to fully and timely perform the obligations of Guarantor hereunder, whether or not a suit is filed.

Section h. Governing Law. This Guaranty shall be governed by and construed according to the laws of the State of Arizona, irrespective of its choice of law principles.

Section i. Consent to Jurisdiction. BMD may bring any action or proceeding to enforce or arising out of this Guaranty in any court of competent jurisdiction. ANY ACTION OR PROCEEDING BROUGHT BY GUARANTOR ARISING OUT OF THIS GUARANTY SHALL BE BROUGHT SOLELY IN A COURT OF COMPETENT JURISDICTION LOCATED IN THE COUNTY OF MARICOPA, STATE OF ARIZONA, OR IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF ARIZONA.

Section j. Waivers and Amendments. This Guaranty sets forth the entire agreement of Guarantor and BMD with respect to the subject matter hereof and supersedes all prior oral and written agreements and representations by BMD to Guarantor. No modification or waiver of any provision of this Guaranty or any right of BMD hereunder and no release of Guarantor from any obligation hereunder shall be effective unless in a writing executed by an authorized officer of BMD. A waiver so signed shall be effective only in the specific instance and for the specific purpose given.

Section k. Representations. Guarantor represents and warrants to BMD as follows: (i) Guarantor is and will continue to be fully informed about all aspects of the financial condition and business affairs of Debtor that Guarantor deems relevant to the obligations of Guarantor hereunder, and waives and fully discharges BMD from any and all obligations to communicate to Guarantor any information whatsoever regarding Debtor or Debtor's financial condition or business affairs, including without limitation any notice of any default by Debtor; (ii) Guarantor has all requisite power to enter into this Guaranty, to execute, to carry out and perform its obligations under the terms of this Guaranty; (iii) this Guaranty is a valid and binding legal obligation of Guarantor, and is enforceable in accordance with its terms; and (iv) all action on the part of Guarantor necessary for or appropriate to or in connection with the execution, delivery and performance by Guarantor of this Guaranty has been taken.

Section l. Reliance. If Debtor is a corporation, limited liability company or partnership, it is not necessary for BMD to inquire into the powers of Debtor or the officers, directors, partners or agents acting or purporting to act on its behalf, and any of the Obligations made or created in reliance upon the professed exercise of such powers shall be guaranteed hereunder.

Section m. Successors and Assigns. This Guaranty shall inure to the benefit of BMD and its successors and assigns and shall be binding upon Guarantor and its successors and assigns. BMD may assign this Guaranty in whole or in part without notice.

Section n. Guarantor Acknowledgements. Guarantor acknowledges that (i) it has been advised by counsel in the negotiation, execution and delivery of this Guaranty, (ii) BMD has no fiduciary relationship to Guarantor, the relationship being solely that of debtor and creditor, and (iii) no joint venture exists between Guarantor and BMD.

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IN WITNESS WHEREOF, Guarantor has executed this Guaranty as of the date first above written.

UNDERSIGNED:

Signature: /s/ Thomas Smith  
-----

Name: Thomas Smith

Signature: /s/ Patrick Smith  
-----

Name: Patrick Smith

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Exhibit 10.12

[BANK OF AMERICA LOGO]

PROMISSORY NOTE

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Principal Loan <S>	Loan Date <C>	Maturity <C>	Loan No <C>	Call <C>	Collateral <C>	Account <C>	Officer <C>	Initials <C>
\$60,000.00	10-24-2000	01-24-2001	New			15380	Z0315	

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References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

BORROWER: Taser International Incorporated  
 7339 E. Evans Rd Ste 1  
 Scottsdale, AZ 85260

LENDER: Bank of America, N.A.  
 101 North First Avenue  
 Phoenix, AZ 85003

PRINCIPAL  
 AMOUNT: \$60,000.00

INITIAL  
 RATE: 11.500%

DATE OF NOTE:  
 OCTOBER 24, 2000

PROMISE TO PAY. Taser International Incorporated ("Borrower") promises to pay to Bank of America, N.A. ("Lender"), or order, in lawful money of the United States of America, the principal amount of Sixty Thousand & 00/100 Dollars (\$60,000.00) or so much as may be outstanding, together with interest on the unpaid outstanding principal balance of each advance. Interest shall be calculated from the date of each advance until repayment of each advance.

PAYMENT. Borrower will pay this loan in one payment of all outstanding principal plus all accrued unpaid interest on January 24, 2001. In addition, Borrower will pay regular monthly payments of accrued unpaid interest beginning November 24, 2000, and all subsequent interest payments are due on the same day of each month after that. The annual interest rate for this Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to any unpaid collection costs and any late charges, then to any unpaid interest, and any remaining amount to principal.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an Index which is the fluctuating rate of interest established by Lender from time to time as its "Prime Rate" whether or not such rate shall otherwise be published (the "Index"). The Index is not necessarily the lowest rate charged by lender on its loans and is set by lender in its sole discretion. If the Index becomes unavailable during the term of this loan, Lender may designate a substitute Index after notifying Borrower. Lender will tell Borrower the current Index rate upon Borrower's request. Borrower understands that Lender may make loans based on other rates as well. The interest rate change will not occur more often than each date of such change in the Index. The Index currently is 9.500% per annum. The interest rate to be applied to the unpaid principal balance of this Note will be at a rate of 2.000 percentage points over the Index, resulting in an initial rate of 11.500% per annum. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law.

PREPAYMENT. Borrower may pay all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest. Rather, they will reduce the principal balance due.

LATE CHARGE. If a payment is 15 days or more late, Borrower will be charged 4.000% of the unpaid portion of the regularly scheduled payment.

DEFAULT. Borrower will be in default if any of the following happens: (a) Borrower fails to make any payment when due. (b) Borrower breaks any promise Borrower has made to Lender, or Borrower fails to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan Borrower has with Lender. (c) Any representation or statement made or furnished to Lender

subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law. THIS NOTE HAS BEEN DELIVERED TO LENDER AND ACCEPTED BY LENDER IN THE STATE OF ARIZONA. IF THERE IS A LAWSUIT, BORROWER AGREES UPON LENDER'S REQUEST TO SUBMIT TO THE JURISDICTION OF THE COURTS OF ANY COUNTY, THE STATE OF ARIZONA. THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ARIZONA.

RIGHT OF SETOFF. Borrower grants to Lender a contractual security interest in, and hereby assigns, conveys, delivers, pledges, and transfers to Lender all Borrower's right, title and interest in and to, Borrower's accounts with Lender (whether checking, savings, or some other account), including without limitation all accounts held jointly with someone else and all accounts Borrower may open in the future, excluding however all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on this Note against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided on this paragraph.

LINE OF CREDIT. This Note evidences a straight line of credit. Once the total amount of principal has been advanced, Borrower is not entitled to further loan advances. Advances under this Note, as well as directions for payment from Borrower's accounts, may be requested orally or in writing by Borrower or by an authorized person. Lender may, but need not, require that all oral requests be confirmed in writing. The following party or parties are authorized to request advances under the line of credit until Lender receives from Borrower at Lender's address shown above written notice of revocation of their authority: Patrick W. Smith, President; and Thomas P. Smith, Vice President, Borrower agrees to be liable for all sums either: (a) advanced in accordance with the instructions of an authorized person or (b) credited to any of Borrower's accounts with Lender. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (a) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; (d) Borrower has applied funds pursuant to this Note for purposes other than those authorized by Lender; or (e) Lender in good faith deems itself insecure under this Note or any other agreement between Lender and Borrower.

ARBITRATION. Any claim or controversy ("Claim") between the parties, whether arising in contract or tort or by statute including, but not limited to, Claims resulting from or relating to this Agreement shall, upon the request of either party, be resolved by arbitration in accordance with the Federal Arbitration Act (Title 9, US Code). Arbitration proceedings will be conducted in accordance with the rules for arbitration of financial services disputes of J.A.M.S./Endispute. The arbitration shall be conducted in any state where real or personal property collateral for the credit is located or if there is no collateral, in the state of any Borrower's domicile at the time of the execution of this Agreement or at the commencement of any arbitration proceeding. The arbitration hearing shall commence within 90 days of the demand for arbitration and close within 90 days of commencement, and any award, which may include legal fees, shall be issued (with a brief written statement of the reasons therefore) within 30 days of the close of hearing. Any dispute concerning whether a claim is arbitrable or barred by the statute of limitations shall be determined by the arbitrator. This arbitration provision is not intended to limit the right of any party to exercise self-help remedies, to seek and obtain interim or provisional relief of any kind or to initiate judicial or non-judicial foreclosure against any real or personal property collateral.

NOTICE OF FINAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

<PAGE> 2  
10-24-2000

PROMISSORY NOTE  
(CONTINUED)

PAGE 2

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GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made.

EFFECTIVE RATE. Borrower agrees to an effective rate of interest that is the rate specified in this Note plus any additional rate resulting from any other charges in the nature of interest paid or to be paid in connection with this Note.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:

TASER INTERNATIONAL INCORPORATED

BY: \_\_\_\_\_

PATRICK W. SMITH, PRESIDENT

=====



<PAGE> 3

COMMERCIAL GUARANTY

<Table>

<Caption>

PRINCIPAL	LOAN DATE	MATURITY	LOAN NO.	CALL	COLLATERAL	ACCOUNT	OFFICER	INITIALS
<C>	<C>	<C>	<C>	<C>	<C>	15380	Z0315	<C>

References in the shaded area are for Lenders use only and do not limit the applicability of this document to any particular loan or item.

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Borrower: Taser International Incorporated Lender: Bank of America, N.A.  
7339 E. Evans Rd Ste 1 101 North First Avenue  
Scottsdale, AZ 85260 Phoenix, AZ 85003

Guarantor: Patrick W. Smith  
27404 N. 45th Way  
Cave Creek, AZ 85331

AMOUNT OF GUARANTY. The amount of this Guaranty is Unlimited.

CONTINUING UNLIMITED GUARANTY. For good and valuable consideration, Patrick W. Smith ("Guarantor") absolutely and unconditionally guarantees and promises to pay to Bank of America, N.A. ("Lender") or its order, in legal tender of the United States of America, the Indebtedness (as that term is defined below) of Taser International Incorporated ("Borrower") to Lender on the terms and conditions set forth in this Guaranty. Under this Guaranty, the liability of Guarantor is unlimited and the obligations of Guarantor are continuing.

DEFINITIONS. The following words shall have the following meanings when used in this Guaranty:

BORROWER. The word "Borrower" means Taser International Incorporated.

GUARANTOR. The word "Guarantor" means Patrick W. Smith.

GUARANTY. The word "Guaranty" means this Guaranty made by Guarantor for the benefit of Lender dated October 24, 2000.

INDEBTEDNESS. The word "Indebtedness" is used in its most comprehensive sense and means and includes any and all of Borrower's liabilities, obligations, debts, and indebtedness to Lender, now existing or hereinafter incurred or created, including, without limitation, all loans, advances, interest, costs, debts, overdraft indebtedness, credit card indebtedness, lease obligations, other obligations, and liabilities of Borrower, or any of them, and any present or future judgments against Borrower, or any of them; and whether any such Indebtedness is voluntarily or involuntarily incurred, due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined; whether Borrower may be liable individually or jointly with others, or primarily or secondarily, or as guarantor or surety; whether recovery on the Indebtedness may be or may become barred or unenforceable against Borrower for any reason whatsoever; and whether the Indebtedness arises from transactions which may be voidable on account of infancy, insanity, ultra vires, or otherwise.

LENDER. The word "Lender" means Bank of America, N.A., its successors and assigns.

RELATED DOCUMENTS. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

NATURE OF GUARANTY. Guarantor's liability under this Guaranty shall be open and continuous for so long as this Guaranty remains in force. Guarantor intends to guarantee at all times the performance and prompt payment when due, whether at maturity or earlier by reason of acceleration or otherwise, of all Indebtedness. Accordingly, no payments made upon the Indebtedness will discharge or diminish the continuing liability of Guarantor in connection with any remaining portions of the Indebtedness or any of the Indebtedness which subsequently arises or is thereafter incurred or contracted. Any married person who signs this Guaranty hereby expressly agrees that recourse under this agreement may be had against both his or her separate property and community property, whether now owned or hereafter acquired.

Indebtedness created both before and after the death or incapacity of Guarantor, regardless of Lender's actual notice of Guarantor's death. Subject to the foregoing, Guarantor's executor or administrator or other legal representative may terminate this Guaranty in the same manner in which Guarantor might have terminated it and with the same effect. Release of any other guarantor or termination of any other guaranty of the Indebtedness shall not affect the liability of Guarantor under this Guaranty. A revocation received by Lender from any one or more Guarantors shall not affect the liability of any remaining Guarantors under this Guaranty. It is anticipated that fluctuations may occur in the aggregate amount of Indebtedness covered by this Guaranty, and it is specifically acknowledged and agreed by Guarantor that reductions in the amount of Indebtedness, even to zero dollars (\$0.00), prior to written revocation of this Guaranty by Guarantor shall not constitute a termination of this Guaranty. This Guaranty is binding upon Guarantor and Guarantor's heirs, successors and assigns so long as any of the guaranteed Indebtedness remains unpaid and even though the Indebtedness guaranteed may from time to time be zero dollars (\$0.00).

GUARANTOR'S AUTHORIZATION TO LENDER. Guarantor authorizes Lender, either before or after any revocation hereof, without notice or demand and without lessening Guarantor's liability under this Guaranty, from time to time: (a) prior to revocation as set forth above, to make one or more additional secured or unsecured loans to Borrower, to lease equipment or other goods to Borrower, or otherwise extend additional credit to Borrower; (b) to alter, compromise, renew, extend, accelerate, or otherwise change one or more times the time for payment or other terms of the Indebtedness or any part of Indebtedness, including increases and decreases of the rate of interest on the Indebtedness; extensions may be repeated and may be for longer than the original loan term; (c) to take and hold security for the payment of this Guaranty or the Indebtedness, and exchange, enforce, waive, subordinate, fail or decide not to perfect, and release any such security, with or without the substitution of new collateral; (d) to release, substitute, agree not to sue, or deal with any one or more of Borrower's sureties, endorsers, or other guarantors on any terms or in any manner Lender may choose; (e) to determine how, when and what application of payments and credits shall be made on the Indebtedness; (f) to apply such security and direct the order or manner of sale thereof, including without limitation, any nonjudicial sale permitted by the terms of the controlling security agreement or deed of trust, as Lender in its discretion may determine; (g) to sell, transfer, assign, or grant participations in all or any part of the Indebtedness; and (h) to assign or transfer this Guaranty in whole or in part.

GUARANTOR'S REPRESENTATIONS AND WARRANTIES. Guarantor represents and warrants to Lender that (a) no representations or agreements of any kind have been made to Guarantor which would limit or qualify in any way the terms of this Guaranty; (b) this Guaranty is executed at Borrower's request and not at the request of the Lender; (c) Guarantor has full power, right and authority to enter into this Guaranty; (d) the provisions of this Guaranty do not conflict with or result in a default under any agreement or other instrument binding upon Guarantor and do not result in a violation of any law, regulation, court decree or order applicable to Guarantor; (e) Guarantor has not and will not, without the prior written consent of Lender, sell, lease, assign, encumber, hypothecate, transfer, or otherwise dispose of all or substantially all of Guarantor's assets, or any interest therein; (f) upon Lender's request, Guarantor will provide to Lender financial and credit information in form acceptable to Lender, and all such financial information which currently has been, and all future financial information which will be provided to Lender is and will be true and correct in all material respects and fairly present the financial condition of Guarantor as of the dates the financial information is provided; (g) no material adverse change has occurred in Guarantor's financial condition since the date of the most recent financial statements provided to Lender and no event has occurred which may materially adversely affect Guarantor's financial condition; (h) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Guarantor is pending or threatened; (i) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (j) Guarantor has established adequate means of obtaining from Borrower on a continuing basis information regarding Borrower's financial condition. Guarantor agrees to keep adequately informed from such means of any facts, events, or circumstances which might in any way affect Guarantor's risks under this Guaranty, and Guarantor further agrees that, absent a request for information, Lender shall have no obligation to disclose to Guarantor any information or documents acquired by Lender in the course of its relationship with Borrower.

GUARANTOR'S WAIVERS. Except as prohibited by applicable law, Guarantor waives any right to require Lender (a) to continue lending money or to extend other credit to Borrower; (b) to make any presentment, protest, demand, or notice of

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Code; (f) to pursue any other remedy within Lender's power; or (g) to commit any act or omission of any kind, or at any time, with respect to any matter whatsoever.

If now or hereafter (a) Borrower shall be or become insolvent, and (b) the Indebtedness shall not at all times until paid be fully secured by collateral pledged by Borrower, Guarantor hereby forever waives and relinquishes in favor of Lender and Borrower, and their respective successors, any claim or right to payment Guarantor may now have or hereafter have or acquire against Borrower, by subrogation or otherwise, so that at no time shall Guarantor be or become a "creditor" of Borrower within the meaning of 11 U.S.C. section 547(b), or any successor provision of the Federal bankruptcy laws.

Guarantor also waives any and all rights or defenses arising by reason of (a) any "one action" or "anti-deficiency" law or any other law which may prevent Lender from bringing any action, including a claim for deficiency, against Guarantor, before or after Lender's commencement or completion of any foreclosure action, either judicially or by exercise of a power of sale; (b) any election of remedies by Lender which destroys or otherwise adversely affects Guarantor's subrogation rights or Guarantor's rights to proceed against Borrower for reimbursement, including without limitation, any loss of rights Guarantor may suffer by reason of any law limiting, qualifying, or discharging the Indebtedness; (c) any disability or other defense of Borrower, of any other guarantor, or of any other person, or by reason of the cessation of Borrower's liability from any cause whatsoever, other than payment in full in legal tender, of the Indebtedness; (d) any right to claim discharge of the Indebtedness on the basis of unjustified impairment of any collateral for the Indebtedness; (e) any statute of limitations, if at any time any action or suit brought by Lender against Guarantor is commenced there is outstanding Indebtedness of Borrower to Lender which is not barred by any applicable statute of limitations; or (f) any defenses given to guarantors at law or in equity other than actual payment and performance of the Indebtedness. If payment is made by Borrower, whether voluntarily or otherwise, or by any third party, on the Indebtedness and thereafter Lender is forced to remit the amount of that payment to Borrower's trustee in bankruptcy or to any similar person under any federal or state bankruptcy law or law for the relief of debtors, the Indebtedness shall be considered unpaid for the purpose of enforcement of this Guaranty.

In addition to the waivers set forth above, Guarantor expressly waives, to the extent permitted by Arizona law, all of Guarantor's rights under sections 12-1641, 12-1642, 12-1643, 12-1644, 44-142, and 47-3605 of the Arizona Revised Statutes, and Rule 17f of the Arizona Revised Statutes Rules of Civil Procedure, as now enacted or hereafter modified, amended or replaced.

Guarantor further waives and agrees not to assert or claim at any time any deductions to the amount guaranteed under this Guaranty for any claim of setoff, counterclaim, counter demand, recoupment or similar right, whether such claim, demand or right may be asserted by the Borrower, the Guarantor, or both.

GUARANTOR'S UNDERSTANDING WITH RESPECT TO WAIVERS. Guarantor warrants and agrees that each of the waivers set forth above is made with Guarantor's full knowledge of its significance and consequences and that, under the circumstances, the waivers are reasonable and not contrary to public policy or law. If any such waiver is determined to be contrary to any applicable law or public policy, such waiver shall be effective only to the extent permitted by law or public policy.

LENDER'S RIGHT OF SETOFF. In addition to all liens upon and rights of setoff against the moneys, securities or other property of Guarantor given to Lender by law, Lender shall have, with respect to Guarantor's obligations to Lender under this Guaranty and to the extent permitted by law, a contractual security interest in and a right of setoff against, and Guarantor hereby assigns, conveys, delivers, pledges, and transfers to Lender all of Guarantor's right, title and interest in and to, all deposits, moneys, securities and other property of Guarantor now or hereafter in the possession of or on deposit with Lender, whether held in a general or special account or deposit, whether held jointly with someone else, or whether held for safekeeping or otherwise, excluding however all IRA, Keogh, and trust accounts. Every such security interest and right of setoff may be exercised without demand upon or notice to Guarantor. No security interest or right of setoff shall be deemed to have been waived by any act or conduct on the part of Lender or by any neglect to exercise such right of setoff or to enforce such security interest or by any delay in so doing. Every right of setoff and security interest shall continue in full force

Guarantor agrees, and Lender hereby is authorized, in the name of Guarantor, from time to time to execute and file financing statements and continuation statements and to execute such other documents and to take such other actions as Lender deems necessary or appropriate to perfect, preserve and enforce its rights under this Guaranty.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Guaranty:

AMENDMENTS. This Guaranty, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Guaranty. No alteration or amendment to this Guaranty shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

APPLICABLE LAW. This Guaranty has been delivered to Lender and accepted by Lender in the State of Arizona. If there is a lawsuit, Guarantor agrees upon Lender's request to submit to the jurisdiction of the courts of any County, State of Arizona. This Guaranty shall be governed by and construed in accordance with the laws of the State of Arizona.

ATTORNEYS' FEES; EXPENSES. Guarantor agrees to pay upon demand all of Lender's costs and expenses, including attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Guaranty. Lender may pay someone else to help enforce this Guaranty, and Guarantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Guarantor also shall pay all court costs and such additional fees as may be directed by the court.

NOTICES. All notices required to be given by either party to the other under this Guaranty shall be in writing, may be sent by telefacsimile (unless otherwise required by law), and, except for revocation notices by Guarantor, shall be effective when actually delivered or when deposited with a nationally recognized overnight courier, or when deposited in the United States mail, first class postage prepaid, addressed to the party to whom the notice is to be given at the address shown above or to such other addressee as either party may designate to the other in writing. All revocation notices by Guarantor shall be in writing and shall be effective only upon delivery to Lender as provided above in the section titled "DURATION OF GUARANTY." If there is more than one Guarantor, notice to any Guarantor will constitute notice to all Guarantors. For notice purposes, Guarantor agrees to keep Lender informed at all times of Guarantor's current address.

INTERPRETATION. In all cases where there is more than one Borrower or Guarantor, then all words used in this Guaranty in the singular shall be deemed to have been used in the plural where the context and construction so require; and where there is more than one Borrower named in this Guaranty or when this Guaranty is executed by more than one Guarantor, the words "Borrower" and "Guarantor" respectively shall mean all and any one or more of them. The words "Guarantor," "Borrower," and "Lender" include the heirs, successors, assigns, and transferees of each of them. Caption headings in this Guaranty are for convenience purposes only and are not to be used to interpret or define the provisions of this Guaranty. If a court of competent jurisdiction finds any provision of this Guaranty to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances, and all provisions of this Guaranty in all other respects shall remain valid and enforceable. If any one or more of Borrower or Guarantor are corporations or partnerships, it is not necessary for Lender to inquire into the powers of Borrower or Guarantor or of the officers, directors, partners, or agents acting or purporting to act on their behalf, and any Indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed under this Guaranty.

WAIVER. Lender shall not be deemed to have waived any rights under this Guaranty unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Guaranty shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Guaranty. No prior waiver by Lender, nor any course of dealing between Lender and Guarantor, shall constitute a waiver

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(CONTINUED)

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collateral, in the state of any Borrower's domicile at the time of the execution of this Agreement or at the commencement of any arbitration proceeding. The arbitration hearing shall commence within 90 days of the demand for arbitration and close within 90 days of commencement, and any award, which may include legal fees, shall be issued (with a brief written statement of the reasons therefore) within 30 days of the close of hearing. Any dispute concerning whether a claim is arbitrable or barred by the statute of limitations shall be determined by the arbitrator. This arbitration provision is not intended to limit the right of any party to exercise self-help remedies, to seek and obtain interim or provisional relief of any kind or to initiate judicial or non-judicial foreclosure against any real or personal property collateral.

NOTICE OF FINAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

EACH UNDERSIGNED GUARANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS GUARANTY AND AGREES TO ITS TERMS. IN ADDITION, EACH GUARANTOR UNDERSTANDS THAT THIS GUARANTY IS EFFECTIVE UPON GUARANTOR'S EXECUTION AND DELIVERY OF THIS GUARANTY TO LENDER AND THAT THE GUARANTY WILL CONTINUE UNTIL TERMINATED IN THE MANNER SET FORTH IN THE SECTION TITLED "DURATION OF GUARANTY." NO FORMAL ACCEPTANCE BY LENDER IS NECESSARY TO MAKE THIS GUARANTY EFFECTIVE. THIS GUARANTY IS DATED OCTOBER 24, 2000.

GUARANTOR:

X \_\_\_\_\_  
Patrick W. Smith

INDIVIDUAL ACKNOWLEDGMENT

STATE OF \_\_\_\_\_ )

) ss

COUNTY OF \_\_\_\_\_ )

On this day before me, the undersigned Notary Public, personally appeared Patrick W. Smith, to me known to be the individual described in and who executed the Commercial Guaranty, and acknowledged that he or she signed the Guaranty as his or her free and voluntary act and deed, for the uses and purposes therein mentioned.

Given under my hand and official seal this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

By \_\_\_\_\_ Residing at \_\_\_\_\_

Notary Public in and for the State of \_\_\_\_\_ My commission expires \_\_\_\_\_

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<Table>  
 <Caption>

PRINCIPAL	LOAN DATE	MATURITY	LOAN NO	CALL	COLLATERAL	ACCOUNT	OFFICER	INITIALS
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						15380	Z0315	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

</Table>

BORROWER: Taser International Incorporated LENDER: Bank of America, N.A.  
 7339 E. Evans Rd Ste 1 101 North First Avenue  
 Scottsdale, AZ 85260 Phoenix, AZ 85003

GUARANTOR: Thomas P. Smith  
 7500 E. Deer Valley Rd Unit 15  
 Scottsdale, AZ 85255

AMOUNT OF GUARANTY. The amount of this Guaranty is Unlimited.

CONTINUING UNLIMITED GUARANTY. For good and valuable consideration, Thomas P. Smith ("Guarantor") absolutely and unconditionally guarantees and promises to pay to Bank of America, N.A. ("Lender") or its order, in legal tender of the United States of America, the Indebtedness (as that term is defined below) of Taser International Incorporated ("Borrower") to Lender on the terms and conditions set forth in this Guaranty. Under this Guaranty, the liability of Guarantor is unlimited and the obligations of Guarantor are continuing.

DEFINITIONS. The following words shall have the following meanings when used in the Guaranty:

BORROWER. The word "Borrower" means Taser International Incorporated.

GUARANTOR. The word "Guarantor" means Thomas P. Smith.

GUARANTY. The word "Guaranty" means this Guaranty made by Guarantor for the benefit of Lender dated October 24, 2000.

INDEBTEDNESS. The word "Indebtedness" is used in its most comprehensive sense and means and includes any and all of Borrower's liabilities, obligations, debts, and indebtedness to Lender, now existing or hereinafter incurred or created, including, without limitation, all loans, advances, interest, costs, debts, overdraft indebtedness, credit card indebtedness, lease obligations, other obligations, and liabilities of Borrower, or any of them, and any present or future judgments against Borrower, or any of them; and whether any such indebtedness is voluntarily or involuntarily incurred, due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined; whether Borrower may be liable individually or jointly with others, or primarily or secondarily, or as guarantor or surety; whether recovery on the indebtedness may be or may become barred or unenforceable against Borrower for any reason whatsoever; and whether the indebtedness arises from transactions which may be voidable on account of infancy, insanity, ultra vires, or otherwise.

LENDER. The word "Lender" means Bank of America, N.A., its successors and assigns.

RELATED DOCUMENTS. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

NATURE OF GUARANTY. Guarantor's liability under this Guaranty shall be open and continuous for so long as this Guaranty remains in force. Guarantor intends to guarantee at all times the performance and prompt payment when due, whether at maturity or earlier by reason of acceleration or otherwise, of all Indebtedness. Accordingly, no payments made upon the Indebtedness will discharge or diminish the continuing liability of Guarantor in connection with any remaining portions of the Indebtedness or any of the Indebtedness which subsequently arises or is thereafter incurred or contracted. Any married person who signs this Guaranty hereby expressly agrees that recourse under this agreement may be had against both his or her separate property and community property, whether now owned or

granted after Guarantor's revocation, are contemplated under this Guaranty and, specifically will not be considered to be new Indebtedness. This Guaranty shall bind the estate of Guarantor as to Indebtedness created both before and after the death or incapacity of Guarantor, regardless of Lender's actual notice of Guarantor's death. Subject to the foregoing, Guarantor's executor or administrator or other legal representative may terminate this Guaranty in the same manner in which Guarantor might have terminated it and with the same effect. Release of any other guarantor or termination of any other guaranty of the Indebtedness shall not affect the liability of Guarantor under this Guaranty. A revocation received by Lender from any one or more Guarantors shall not affect the liability of any remaining Guarantors under this Guaranty. It is anticipated that fluctuations may occur in the aggregate amount of Indebtedness covered by this Guaranty, and it is specifically acknowledged and agreed by Guarantor that reductions in the amount of Indebtedness, even to zero dollars (\$0.00), prior to written revocation of this Guaranty by Guarantor shall not constitute a termination of this Guaranty. This Guaranty is binding upon Guarantor and Guarantor's heirs, successors and assigns so long as any of the guaranteed Indebtedness remains unpaid and even though the Indebtedness guaranteed may from time to time be zero dollars (\$0.00).

**GUARANTOR'S AUTHORIZATION TO LENDER.** Guarantor authorizes Lender, either before or after any revocation hereof, without notice or demand and without lessening Guarantor's liability under this Guaranty, from time to time: (a) prior to revocation as set forth above, to make one or more additional secured or unsecured loans to Borrower, to lease equipment or other goods to Borrower, or otherwise to extend additional credit to Borrower; (b) to alter, compromise, renew, extend, accelerate, or otherwise change one or more times the time for payment or other terms of the Indebtedness or any part of the Indebtedness, including increases and decreases of the rate of interest on the Indebtedness; extensions may be repeated and may be for longer than the original loan term; (c) to take and hold security for the payment of this Guaranty or the Indebtedness, and exchange, enforce, waive, subordinate, fall or decide not to perfect, and release any such security, with or without the substitution of new collateral; (d) to release, substitute, agree not to sue, or deal with any one or more of Borrower's sureties, endorsers, or other guarantors on any terms or in any manner Lender may choose; (e) to determine how, when and what application of payments and credits shall be made on the Indebtedness; (f) to apply such security and direct the order or manner of sale thereof, including without limitation, any nonjudicial sale permitted by the terms of the controlling security agreement or deed of trust, as Lender in its discretion may determine; (g) to sell, transfer, assign, or grant participations in all or any part of the Indebtedness; and (h) to assign or transfer this Guaranty in whole or in part.

**GUARANTOR'S REPRESENTATIONS AND WARRANTIES.** Guarantor represents and warrants to Lender that (a) no representations or agreements of any kind have been made to Guarantor which would limit or qualify in any way the terms of this Guaranty; (b) this Guaranty is executed at Borrower's request and not at the request of Lender; (c) Guarantor has full power, right and authority to enter into this Guaranty; (d) the provisions of the Guaranty do not conflict with or result in a default under any agreement or other instrument binding upon Guarantor and do not result in a violation of any law, regulation, court decree or order applicable to Guarantor; (e) Guarantor has not and will not, without the prior written consent of Lender, sell, lease, assign, encumber, hypothecate, transfer, or otherwise dispose of all or substantially all of Guarantor's assets, or any interest therein; (f) upon Lender's request, Guarantor will provide to Lender financial and credit information in form acceptable to Lender, and all such financial information which currently has been, and all future financial information which will be provided to Lender is and will be true and correct in all material respects and fairly present the financial condition of Guarantor as of the dates the financial information is provided; (g) no material adverse change has occurred in Guarantor's financial condition since the date of the most recent financial statements provided to Lender and no event has occurred which may materially adversely affect Guarantor's financial condition; (h) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Guarantor is pending or threatened; (i) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (j) Guarantor has established adequate means of obtaining from Borrower on a continuing basis information regarding Borrower's financial condition. Guarantor agrees to keep adequately informed from such means of any facts, events, or circumstances which might in any way affect Guarantor's risks under this Guaranty, and Guarantor further agrees that, absent a request for information, Lender shall have no obligation to disclose to Guarantor any information or documents acquired by Lender in the course of its relationship with Borrower.

**GUARANTOR'S WAIVERS.** Except as prohibited by applicable law, Guarantor waives any right to require Lender (a) to continue lending money or to extend other

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Code; (f) to pursue any other remedy within Lender's power; or (g) to commit any act or omission of any kind, or at any time, with respect to any matter whatsoever.

If now or hereafter (a) Borrower shall be or become insolvent, and (b) the indebtedness shall not at all times until paid be fully secured by collateral pledged by Borrower, Guarantor hereby forever waives and relinquishes in favor of Lender and Borrower, and their respective successors, any claim or right to payment Guarantor may now have or hereafter have or acquire against Borrower, by subrogation or otherwise, so that at no time shall Guarantor be or become a "creditor" of Borrower within the meaning of 11 U.S.C. section 547(b), or any successor provision of the Federal bankruptcy laws.

Guarantor also waives any and all rights or defenses arising by reason of (a) any "one action" or "anti-deficiency" law or any other law which may prevent Lender from bringing any action, including a claim for deficiency, against Guarantor, before or after Lender's commencement or completion of any foreclosure action, either judicially or by exercise of a power of sale; (b) any election of remedies by Lender which destroys or otherwise adversely affects Guarantor's subrogation rights or Guarantor's rights to proceed against Borrower for reimbursement, including without limitation, any loss of rights Guarantor may suffer by reason of any law limiting, qualifying, or discharging the Indebtedness; (c) any disability or other defense of Borrower, of any other guarantor, or of any other person, or by reason of the cessation of Borrower's liability from any cause whatsoever, other than payment in full in legal tender, of the Indebtedness; (d) any right to claim discharge of the Indebtedness on the basis of unjustified impairment of any collateral for the Indebtedness; (e) any statute of limitations, if at any time any action or suit brought by Lender against Guarantor is commenced there is outstanding Indebtedness of Borrower to Lender which is not barred by any applicable statute of limitations; or (f) any defenses given to guarantors at law or in equity other than actual payment and performance of the Indebtedness. If payment is made by Borrower, whether voluntarily or otherwise, or by any third party, on the Indebtedness and thereafter Lender is forced to remit the amount of that payment to Borrower's trustee in bankruptcy or to any similar person under any federal or state bankruptcy law or law for the relief of debtors, the Indebtedness shall be considered unpaid for the purpose of enforcement of this Guaranty.

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any debts or obligations of Borrower to Guarantor shall be marked with a legend that the same are subject to this Guaranty and shall be delivered to Lender. Guarantor agrees, and Lender hereby is authorized, in the name of Guarantor, from time to time to execute and file financing statements and continuation statements and to execute such other documents and to take such other actions as Lender deems necessary or appropriate to perfect, preserve and enforce its rights under this Guaranty.

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ATTORNEYS' FEES; EXPENSES. Guarantor agrees to pay upon demand all of Lender's costs and expenses, including attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Guaranty. Lender may pay someone else to help enforce this Guaranty, and Guarantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Guarantor also shall pay all court costs and such additional fees as may be directed by the court.

NOTICES. All notices required to be given by either party to the other under this Guaranty shall be in writing, may be sent by telefacsimile (unless otherwise required by law), and, except for revocation notices by Guarantor, shall be effective when actually delivered or when deposited with a nationally recognized overnight courier, or when deposited in the United States mail, first class postage prepaid, addressed to the party to whom the notice is to be given at the address shown above or to such other addresses as either party may designate to the other in writing. All revocation notices by Guarantor shall be in writing and shall be effective only upon delivery to Lender as provided above in the section titled "DURATION OF GUARANTY." If there is more than one Guarantor, notice to any Guarantor will constitute notice to all Guarantors. For notice purposes, Guarantor agrees to keep Lender informed at all times of Guarantor's current address.

INTERPRETATION. In all cases where there is more than one Borrower or Guarantor, then all words used in this Guaranty in the singular shall be deemed to have been used in the plural where the context and construction so require; and where there is more than one Borrower named in this Guaranty or when this Guaranty is executed by more than one Guarantor, the words "Borrower" and "Guarantor" respectively shall mean all and any one or more of them. The words "Guarantor," "Borrower," and "Lender" include the heirs, successors, assigns, and transferees of each of them. Caption headings in this Guaranty are for convenience purposes only and are not to be used to interpret or define the provisions of this Guaranty. If a court of competent jurisdiction finds any provision of this Guaranty to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances, and all provisions of this Guaranty in all other respects shall remain valid and enforceable. If any one or more of Borrower or Guarantor are corporations or partnerships, it is not necessary for Lender to inquire into the powers of Borrower or Guarantor or of the officers, directors, partners, or agents acting or purporting to act on their behalf, and any Indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed under this Guaranty.

WAIVER. Lender shall not be deemed to have waived any rights under this Guaranty unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Guaranty shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or

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COMMERCIAL GUARANTY  
(CONTINUED)

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collateral, in the state of any Borrower's domicile at the time of the execution of this Agreement or at the commencement of any arbitration proceeding. The arbitration hearing shall commence within 90 days of the demand for arbitration and close within 90 days of commencement, and any award, which may include legal fees, shall be issued (with a brief written statement of the reasons therefore) within 30 days of the close of hearing. Any dispute concerning whether a claim is arbitrable or barred by the statute of limitations shall be determined by the arbitrator. This arbitration provision is not intended to limit the right of any party to exercise self-help remedies, to seek and obtain interim or provisional relief of any kind or to initiate judicial or non-judicial foreclosure against any real or personal property collateral.

NOTICE OF FINAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

EACH UNDERSIGNED GUARANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS GUARANTY AND AGREES TO ITS TERMS. IN ADDITION, EACH GUARANTOR UNDERSTANDS THAT THIS GUARANTY IS EFFECTIVE UPON GUARANTOR'S EXECUTION AND DELIVERY OF THIS GUARANTY TO LENDER AND THAT THE GUARANTY WILL CONTINUE UNTIL TERMINATED IN THE MANNER SET FORTH IN THE SECTION TITLED "DURATION OF GUARANTY." NO FORMAL ACCEPTANCE BY LENDER IS NECESSARY TO MAKE THIS GUARANTY EFFECTIVE. THIS GUARANTY IS DATED OCTOBER 24, 2000.

GUARANTOR:

X \_\_\_\_\_  
THOMAS P. SMITH

INDIVIDUAL ACKNOWLEDGEMENT

STATE OF \_\_\_\_\_ )

) SS

COUNTY OF \_\_\_\_\_ )

On this day before me, the undersigned Notary Public, personally appeared Thomas P. Smith, to me known to be the individual described in and who executed the Commercial Guaranty, and acknowledged that he or she signed the Guaranty as his or her free and voluntary act and deed, for the uses and purposes therein mentioned.

GIVEN UNDER MY HAND AND OFFICIAL SEAL THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 20\_\_\_\_\_.

BY \_\_\_\_\_ RESIDING AT \_\_\_\_\_

NOTARY PUBLIC IN AND FOR THE STATE OF \_\_\_\_\_

MY COMMISSION EXPIRES \_\_\_\_\_



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[Bank of America Logo]

COMMERCIAL SECURITY AGREEMENT

<Table>  
<Caption>  
PRINCIPAL LOAN DATE MATURITY LOAN NO CALL COLLATERAL ACCOUNT OFFICER INITIALS  
<S> <C> <C> <C> <C> <C> <C> <C> <C>  
\$60,000.00 10-24-2000 01-24-2001 NEW <C> <C> 15380 Z0315  
</Table>

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

Borrower: Taser International Incorporated Lender: Bank of America, N.A.  
7339 E. Evans Rd Ste 1 101 North First Avenue  
Scottsdale, AZ 85260 Phoenix, AZ 85003

THIS COMMERCIAL SECURITY AGREEMENT IS ENTERED INTO BETWEEN TASER INTERNATIONAL INCORPORATED (REFERRED TO BELOW AS "GRANTOR"); AND BANK OF AMERICA, N.A. (REFERRED TO BELOW AS "LENDER"). FOR VALUABLE CONSIDERATION, GRANTOR GRANTS TO LENDER A SECURITY INTEREST IN THE COLLATERAL TO SECURE THE INDEBTEDNESS AND AGREES THAT LENDER SHALL HAVE THE RIGHTS STATED IN THIS AGREEMENT WITH RESPECT TO THE COLLATERAL, IN ADDITION TO ALL OTHER RIGHTS WHICH LENDER MAY HAVE BY LAW.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

AGREEMENT. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

COLLATERAL. The word "Collateral" means the following described property of Grantor, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

ALL EQUIPMENT

In addition, the word "Collateral" includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

- (a) All attachments, accessions, accessories, tools, parts, supplies, increases, and additions to and all replacements of and substitutions for any property described above.
- (b) All products and produce of any of the property described in this Collateral section.
- (c) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, or other disposition of any of the property described in this Collateral section.
- (d) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section.
- (e) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

EVENT OF DEFAULT. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "Events of Default."

unenforceable.

LENDER. The word "Lender" means Bank of America, N.A., its successors and assigns.

NOTE. The word "Note" means the note or credit agreement dated October 24, 2000, in the principal amount of \$60,000.00 from Taser International Incorporated to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of and substitutions for the note or credit agreement.

RELATED DOCUMENTS. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

RIGHT OF SETOFF. Grantor hereby grants Lender a contractual security interest in and hereby assigns, conveys, delivers, pledges, and transfers all of Grantor's right, title and interest in and to Grantor's accounts with Lender (whether checking, savings, or some other account), including all accounts held jointly with someone else and all accounts Grantor may open in the future, excluding, however, all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all indebtedness against any and all such accounts.

OBLIGATIONS OF GRANTOR. Grantor warrants and covenants to Lender as follows:

ORGANIZATION. Grantor is a corporation which is duly organized, validly existing, and in good standing under the laws of the State of Arizona.

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COMMERCIAL SECURITY AGREEMENT  
(CONTINUED)

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AUTHORIZATION. The execution, delivery, and performance of this Agreement by Grantor have been duly authorized by all necessary action by Grantor and do not conflict with, result in a violation of, or constitute a default under (a) any provision of its articles of incorporation or organization, or bylaws, or any agreement or other instrument binding upon Grantor or (b) any law, governmental regulation, court decree, or order applicable to Grantor.

PERFECTION OF SECURITY INTEREST. Grantor agrees to execute such financing statements and to take whatever other actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper if not delivered to Lender for possession by Lender. Grantor hereby appoints Lender as its irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect or to continue the security interest granted in this Agreement. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral. Grantor promptly will notify Lender before any change in Grantor's name including any change to the assumed business names of Grantor. THIS IS A CONTINUING SECURITY AGREEMENT AND WILL CONTINUE IN EFFECT EVEN THOUGH ALL OR ANY PART OF THE INDEBTEDNESS IS PAID IN FULL AND EVEN THOUGH FOR A PERIOD OF TIME GRANTOR MAY NOT BE INDEBTED TO LENDER.

NO VIOLATION. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its certificate or articles of incorporation and bylaws do not prohibit any term or condition or this Agreement.

ENFORCEABILITY OF COLLATERAL. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, the Collateral is enforceable in accordance with its terms, is genuine, and complies with applicable laws concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral.

REMOVAL OF COLLATERAL. Grantor shall keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts, the records concerning the Collateral) at Grantor's address shown above, or at such other locations as are acceptable to Lender. Except in the ordinary course of its business, including the sales of inventory, Grantor shall not remove the Collateral from its existing locations without the prior written consent of Lender. To the extent that the Collateral consists of vehicles, or other titled property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the State of Arizona, without the prior written consent of Lender.

TRANSACTIONS INVOLVING COLLATERAL. Except for inventory sold or accounts collected in the ordinary course of Grantor's business, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

TITLE. Grantor represents and warrants to Lender that it holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

COLLATERAL SCHEDULES AND LOCATIONS. Insofar as the Collateral consists of

contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings.

COMPLIANCE WITH GOVERNMENTAL REQUIREMENTS. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

HAZARDOUS SUBSTANCES. Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any hazardous waste or substance, as those terms are defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or Federal laws, rules, or regulations adopted pursuant to any of the foregoing. The terms "hazardous waste" and "hazardous substance" shall also include, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for hazardous wastes and substances. Grantor hereby (a) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify shall survive the payment of the Indebtedness and the satisfaction of this Agreement.

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COMMERCIAL SECURITY AGREEMENT  
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MAINTENANCE OF CASUALTY INSURANCE. Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least thirty (30) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. In no event shall the insurance be in an amount less than the amount agreed upon in the Agreement to Provide Insurance. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if it so chooses "single interest insurance," which will cover only Lender's interest in the Collateral.

APPLICATION OF INSURANCE PROCEEDS. Grantor shall promptly notify Lender of any loss or damage to the Collateral. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the Indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the Indebtedness.

INSURANCE RESERVES. Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums, to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

INSURANCE REPORTS. Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the property insured; (e) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (f) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

GRANTOR'S RIGHT TO POSSESSION. Until default, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in

during either (i) the term of any applicable insurance policy or (ii) the remaining term of the Note, or (c) be treated as a balloon payment which will be due and payable at the Note's maturity. This Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon the occurrence of an Event of Default.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

DEFAULT ON INDEBTEDNESS. Failure of Grantor to make any payment when due on the Indebtedness.

OTHER DEFAULTS. Failure of Grantor to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or in any other agreement between Lender and Grantor.

FALSE STATEMENTS. Any warranty, representation or statement made or furnished to Lender by or on behalf of Grantor under this Agreement, the Note or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished.

DEFECTIVE COLLATERALIZATION. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien) at any time and for any reason.

INSOLVENCY. The dissolution or termination of Grantor's existence as a going business, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

CREDITOR OR FORFEITURE PROCEEDINGS. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against the Collateral or any other collateral securing the Indebtedness. This includes a garnishment of any of Grantor's deposit accounts with Lender.

EVENTS AFFECTING GUARANTOR. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or such Guarantor dies or becomes incompetent.

ADVERSE CHANGE. A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

INSECURITY. Lender, in good faith, deems itself insecure.

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COMMERCIAL SECURITY AGREEMENT  
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RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the Arizona Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

ACCELERATE INDEBTEDNESS. Lender may declare the entire Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice.

ASSEMBLE COLLATERAL. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

SELL THE COLLATERAL. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in its own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor reasonable notice of the time after which any private sale or any other intended disposition of the Collateral is to be made. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

APPOINT RECEIVER. To the extent permitted by applicable law, Lender shall have the following rights and remedies regarding the appointment of a receiver: (a) Lender may have a receiver appointed as a matter of right, (b) the receiver may be an employee of Lender and may serve without bond, and (c) all fees of the receiver and his or her attorney shall become part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

COLLECT REVENUES, APPLY ACCOUNTS. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in its discretion transfer any Collateral into its own name or that of its nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

OBTAIN DEFICIENCY. If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

OTHER RIGHTS AND REMEDIES. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code,

amendment.

APPLICABLE LAW. This Agreement has been delivered to Lender and accepted by Lender in the State of Arizona. If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of any County, the State of Arizona. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona.

ATTORNEYS' FEES; EXPENSES. Grantor agrees to pay upon demand all of Lender's costs and expenses, including attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

CAPTION HEADINGS. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

MULTIPLE PARTIES; CORPORATE AUTHORITY. All obligations of Grantor under this Agreement shall be joint and several, and all references to Grantor shall mean each and every Grantor. This means that each of the persons signing below is responsible for all obligations in this Agreement.

NOTICES. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile (unless otherwise required by law), and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. To the extent permitted by applicable law, if there is more than one Grantor, notice to any Grantor will constitute notice to all Grantors. For notice purposes, Grantor will keep Lender informed at all times of Grantor's current address(es).

POWER OF ATTORNEY. Grantor hereby appoints Lender as its true and lawful attorney-in-fact, irrevocably, with full power of substitution to do the following: (a) to demand, collect, receive, receipt for, sue and recover all sums of money or other property which may now or hereafter become due, owing or payable from the Collateral; (b) to execute, sign and endorse any and all claims, instruments, receipts, checks, drafts or warrants issued in payment for the Collateral; (c) to settle or compromise any and all claims arising under the

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COMMERCIAL SECURITY AGREEMENT  
(CONTINUED)

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Collateral, and, in the place and stead of Grantor, to execute and deliver its release and settlement for the claim; and (d) to file any claim or claims or to take any action or institute or take part in any proceedings, either in its own name or in the name of Grantor, or otherwise, which in the discretion of Lender may seem to be necessary or advisable. This power is given as security for the Indebtedness, and the authority hereby conferred is and shall be irrevocable and shall remain in full force and effect until renounced by Lender.

SEVERABILITY. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

SUCCESSOR INTERESTS. Subject to the limitations set forth above on transfer of the Collateral, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

TIME IS OF THE ESSENCE. Time is of the essence in the performance of this Agreement.

WAIVER. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

ARBITRATION. Any claim or controversy ("Claim") between the parties, whether arising in contract or tort or by statute including, but not limited to, Claims resulting from or relating to this Agreement shall, upon the request of either party, be resolved by arbitration in accordance with the Federal Arbitration Act (Title 9, US Code). Arbitration proceedings will be conducted in accordance with the rules for arbitration of financial services disputes of J.A.M.S./Endispute. The arbitration shall be conducted in any state where real or personal property collateral for the credit is located or if there is no collateral, in the state of any Borrower's domicile at the time of the execution of this Agreement or at the commencement of any arbitration proceeding. The arbitration hearing shall commence within 90 days of the demand for arbitration and close within 90 days of commencement, and any award, which may include legal fees, shall be issued (with a brief written statement of the reasons therefore) within 30 days of the close of hearing. Any dispute concerning whether a claim is arbitrable or barred by the statute of limitations shall be determined by the arbitrator. This arbitration provision is not intended to limit the right of any party to exercise self-help remedies, to seek and obtain interim or provisional relief of any kind or to initiate judicial or non-judicial foreclosure against any real or personal property collateral.

NOTICE OF FINAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

GRANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT, AND GRANTOR AGREES TO ITS TERMS. THIS AGREEMENT IS DATED OCTOBER 24, 2000.

GRANTOR:

TASER INTERNATIONAL INCORPORATED



<PAGE> 14  
 <Table>  
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THIS SPACE FOR USE OF FILING OFFICER <C>

FINANCING STATEMENT - FOLLOW INSTRUCTIONS CAREFULLY  
 This Financing Statement is presented for filing pursuant to the Uniform Commercial Code and will remain effective, with certain exceptions, for 5 years from date of filing.

A. NAME & TEL. # OF CONTACT AT FILER (optional) B. FILING OFFICE ACCT.# (optional)

C. RETURN COPY TO: (Name and Mailing Address)

[ BANK OF AMERICA, N.A.  
 P.O. BOX 830632  
 DALLAS, TX 75283-0632 ]

D. OPTIONAL DESIGNATION (if applicable): / / LESSOR/LESSEE / / CONSIGNOR/CONSIGNEE / / NON-UCC FILING

1. DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (1a or 1b)

1a. ENTITY'S NAME  
 TASER INTERNATIONAL INCORPORATED

OR 1b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

1c. MAILING ADDRESS CITY STATE COUNTRY POSTAL CODE  
 7339 E. EVANS RD STE 1 SCOTTSDALE AZ 85260

1d. S.S. OR TAX I.D.# 860741227 1e. TYPE OF ENTITY OPTIONAL ADD'NL INFO RE ENTITY DEBTOR 1f. ENTITY'S STATE OR COUNTRY OF ORGANIZATION 1g. ENTITY'S ORGANIZATIONAL I.D.#, if any / / NONE

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (2a or 2b)

2a. ENTITY'S NAME

OR 2b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

2c. MAILING ADDRESS CITY STATE COUNTRY POSTAL CODE

2d. S.S. OR TAX I.D.# 2e. TYPE OF ENTITY OPTIONAL ADD'NL INFO RE ENTITY DEBTOR 2f. ENTITY'S STATE OR COUNTRY OF ORGANIZATION 2g. ENTITY'S ORGANIZATIONAL I.D.#, if any / / NONE

3. SECURED PARTY'S (ORIGINAL S/P or ITS TOTAL ASSIGNEE) EXACT FULL LEGAL NAME - Insert only one secured party name (3a or 3b)

3a. ENTITY'S NAME  
 BANK OF AMERICA, N.A.

OR 3b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

3c. MAILING ADDRESS CITY STATE COUNTRY POSTAL CODE  
 101 NORTH FIRST AVENUE PHOENIX AZ 85003

4. This FINANCING STATEMENT covers the following types or items of property:  
 ALL EQUIPMENT; WHETHER ANY OF THE FOREGOING IS OWNED NOW OR ACQUIRED LATER; ALL ACCESSIONS, ADDITIONS, REPLACEMENTS, AND SUBSTITUTIONS RELATING TO ANY OF THE FOREGOING; ALL RECORDS OF ANY KIND RELATING TO ANY OF THE FOREGOING; ALL PROCEEDS RELATING TO ANY OF THE FOREGOING (INCLUDING INSURANCE, GENERAL INTANGIBLES AND ACCOUNTS PROCEEDS).

5. CHECK / / This FINANCING STATEMENT is signed by the Secured Party instead of the Debtor to perfect a security interest 7. If filed in Florida (check one) Documentary stamp / / stamp tax /X/ tax not applicable (if applicable) (a) in collateral already subject to a security interest in another jurisdiction when it was brought into this state, or when the debtor's location was changed to this state, or (b) in accordance with other statutory provisions [additional data may be required]

6. REQUIRED SIGNATURE(S) 8. / / This FINANCING STATEMENT is to be filed [for record] (or recorded) in the REAL ESTATE RECORDS Attach Addendum [if applicable]

PATRICK W. SMITH, PRESIDENT 9. Check to REQUEST SEARCH CERTIFICATE(S) on Debtor(s) [ADDITIONAL FEE] (optional) / / All Debtors / / Debtor 1 / / Debtor 2

THOMAS P. SMITH, VICE PRESIDENT CFI PROSERVICES, INC. 400 S.W. 6TH AVENUE, PORTLAND, OREGON 97204 (1) FILING OFFICER COPY - NATIONAL FINANCING STATEMENT (FORM UCC1) (TRANS) (REV. 12/18/95)

</Table>



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FINANCING STATEMENT - FOLLOW INSTRUCTIONS CAREFULLY  
 This Financing Statement is presented for filing pursuant to the Uniform Commercial Code and will remain effective, with certain exceptions, for 5 years from date of filing.

A. NAME & TEL. # OF CONTACT AT FILER (optional) B. FILING OFFICE ACCT.# (optional)

C. RETURN COPY TO: (Name and Mailing Address)

[ BANK OF AMERICA, N.A.  
 P.O. BOX 830632  
 DALLAS, TX 75283-0632 ]

D. OPTIONAL DESIGNATION (if applicable): / / LESSOR/LESSEE / / CONSIGNOR/CONSIGNEE / / NON-UCC FILING

1. DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (1a or 1b)

1a. ENTITY'S NAME  
 TASER INTERNATIONAL INCORPORATED

OR 1b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

1c. MAILING ADDRESS CITY STATE COUNTRY POSTAL CODE  
 7339 E. EVANS RD STE 1 SCOTTSDALE AZ 85260

1d. S.S. OR TAX I.D.# 860741227 1e. TYPE OF ENTITY OPTIONAL ADD'NL INFO RE ENTITY DEBTOR 1f. ENTITY'S STATE OR COUNTRY OF ORGANIZATION 1g. ENTITY'S ORGANIZATIONAL I.D.#, if any / / NONE

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - Insert only one debtor name (2a or 2b)

2a. ENTITY'S NAME

OR 2b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

2c. MAILING ADDRESS CITY STATE COUNTRY POSTAL CODE

2d. S.S. OR TAX I.D.# 2e. TYPE OF ENTITY OPTIONAL ADD'NL INFO RE ENTITY DEBTOR 2f. ENTITY'S STATE OR COUNTRY OF ORGANIZATION 2g. ENTITY'S ORGANIZATIONAL I.D.#, if any / / NONE

3. SECURED PARTY'S (ORIGINAL S/P or ITS TOTAL ASSIGNEE) EXACT FULL LEGAL NAME - Insert only one secured party name (3a or 3b)

3a. ENTITY'S NAME  
 BANK OF AMERICA, N.A.

OR 3b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

3c. MAILING ADDRESS CITY STATE COUNTRY POSTAL CODE  
 101 NORTH FIRST AVENUE PHOENIX AZ 85003

4. This FINANCING STATEMENT covers the following types or items of property:  
 ALL EQUIPMENT; WHETHER ANY OF THE FOREGOING IS OWNED NOW OR ACQUIRED LATER; ALL ACCESSIONS, ADDITIONS, REPLACEMENTS, AND SUBSTITUTIONS RELATING TO ANY OF THE FOREGOING; ALL RECORDS OF ANY KIND RELATING TO ANY OF THE FOREGOING; ALL PROCEEDS RELATING TO ANY OF THE FOREGOING (INCLUDING INSURANCE, GENERAL INTANGIBLES AND ACCOUNTS PROCEEDS).

5. CHECK / / This FINANCING STATEMENT is signed by the Secured Party instead of the Debtor to perfect a security interest (if applicable) (a) in collateral already subject to a security interest in another jurisdiction when it was brought into this state, or when the debtor's location was changed to this state, or (b) in accordance with other statutory provisions [additional data may be required] 7. If filed in Florida (check one) Documentary stamp / / stamp tax /X/ tax not applicable paid

6. REQUIRED SIGNATURE(S) PATRICK W. SMITH, PRESIDENT 8. / / This FINANCING STATEMENT is to be filed [for record] (or recorded) in the REAL ESTATE RECORDS Attach Addendum [if applicable]

9. Check to REQUEST SEARCH CERTIFICATE(S) on Debtor(s) [ADDITIONAL FEE] (optional) / / All Debtors / / Debtor 1 / / Debtor 2

THOMAS P. SMITH, VICE PRESIDENT CFI PROSERVICES, INC. 400 S.W. 6TH AVENUE, PORTLAND, OREGON 97204 (5) SECURED PARTY COPY - NATIONAL FINANCING STATEMENT (FORM UCC1) (TRANS) (REV. 12/18/95)

</Table>

GENERAL INSTRUCTIONS FOR NATIONAL FINANCING STATEMENT (FORM UCC1) (TRANS)

Please type or laser-print this form. Be sure it is completely legible. Read all

- 1a. Entity Debtor. "Entity" means an organization having a legal identity separate from its owner. A partnership is an entity; a sole proprietorship is not an entity, even if it does business under a trade name. If Debtor is a partnership, enter exact full legal name of partnership; you need not enter names of partners as additional Debtors. If Debtor is a registered entity (e.g., corporation, limited partnership, limited liability company), it is advisable to examine Debtor's current filed charter documents to determine correct name, entity type, and state of organization.
- 1b. Individual Debtor. "Individual" means a natural person and a sole proprietorship, whether or not operating under a trade name. Don't use prefixes (Mr., Mrs., Ms.). Use suffix box only for titles for lineage (Jr., Sr., III) and not for other suffixes or titles (e.g., M.D.). Use married woman's personal name (Mary Smith, not Mrs. John Smith). Enter individual Debtor's family name (surname) in Last Name box, first given name in First Name box,

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and all additional given names in Middle Name box.

For both entity and individual Debtors: Don't use Debtor's trade name, D/B/A, A/K/A, F/K/A, etc. in place of Debtor's legal name; you may add such other names as additional Debtors if you wish.

- 1c. An address is always required for the Debtor named in 1a or 1b.
- 1d. Debtor's social security or tax identification number is required in some states. Enter social security number of a sole proprietor, not tax identification number of the sole proprietor.
- 1e, f, g. "Additional information re entity Debtor" is optional. It helps searchers to distinguish this Debtor from others with the same or a similar name. Type of entity and state of organization can be determined from Debtor's current filed charter documents. Organizational I.D. number, if any, is assigned by the agency where the charter document was filed; this is different from taxpayer I.D. number; this should be entered preceded by the 2-character U.S. Postal identification of state of organization (e.g., CA12345, for a California corporation whose organizational I.D. number is 12345).

Note: If a Debtor is a transmitting utility as defined in applicable Commercial Code, attach Addendum (Form UCC1 Ad) and check box Ad8.

- 2. If an additional Debtor is included, complete Item 2, determined and formatted per Instruction 1. To include further additional Debtors, or one or more additional Secured Parties, attach either Addendum (Form UCC1Ad) or other additional page(s), using correct format. Follow Instruction 1 for determining and formatting additional names.
- 3. Enter information, determined and formatted per Instruction 1. If there is more than one Secured Party, see Instruction 2. If there has been a total assignment of the Secured Party's interest prior to filing this form, you may provide either assignor Secured Party's or assignee's name and address in Item 3.
- 4. Use Item 4 to indicate the types or describe the Items of collateral. If space in Item 4 is insufficient, put the entire collateral description or continuation of the collateral description on either Addendum (Form UCC1Ad) or other attached additional page(s).
- 5, 6. All Debtors must sign. Under certain circumstances, Secured Party may sign instead of Debtor; if applicable, check box in Item 5 and provide Secured Party's signature in Item 6, and under certain circumstances, in some states, you must also provide additional data; use Addendum (Form UCC1Ad) or attachment to provide such additional data.
- 7. If filing in the state of Florida you must check one of the two boxes in Item 7 to comply with documentary stamp tax requirements.
- 8. If the collateral consists of or includes fixtures, timber, minerals, and/or mineral-related accounts, check the box in Item 8 and complete the required information on Addendum (Form UCC1Ad). If the collateral consists of or includes crops, consult applicable law of state where this Financing Statement is to be filed and complete Ad3B, and Ad4 if required, on Addendum (Form UCC1Ad) and, if required, check box in Item 8.
- 9. Check box 9 to request Search Certificate(s) on all or some of the Debtors named in this Financing Statement. The Certificate will list all Financing Statements on file against the designated Debtor currently effective on the date of the Certificate, including this Financing Statement. There is an additional fee for each Certificate. This item is optional. If you have checked box 9, file copy 3 (Search Request Copy) of this form together with copies 1 and 2. Not all states will honor a search request made via this form; some states require a separate request form.

#### INSTRUCTIONS RE OPTIONAL ITEMS A-D

- A. To assist filing officers who might wish to communicate with filer, filer may provide information in Item A. This item is optional.
- B. If filer has an account with filing officer or is authorized to pay fees

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AGREEMENT TO PROVIDE INSURANCE

<Table>

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PRINCIPAL	LOAN DATE	MATURITY	LOAN NO	CALL	COLLATERAL	ACCOUNT	OFFICER	INITIALS
\$60,000.00	10-24-2000	01-24-2001	NEW			15380	Z0315	

</Table>

REFERENCES IN THE SHADED AREA ARE FOR LENDER'S USE ONLY AND DO NOT LIMIT THE APPLICABILITY OF THIS DOCUMENT TO ANY PARTICULAR LOAN OR ITEM.

BORROWER: TASER INTERNATIONAL INCORPORATED LENDER: BANK OF AMERICA, N.A.  
7339 E. EVANS RD STE 1 101 NORTH FIRST AVENUE  
SCOTTSDALE, AZ 85260 PHOENIX, AZ 85003

INSURANCE REQUIREMENTS. Taser International Incorporated ("Grantor") understands that insurance coverage is required in connection with the extending of a loan or the providing of other financial accommodations to Grantor by Lender. These requirements are set forth in the security documents. The following minimum insurance coverages must be provided on the following described collateral (the "Collateral"):

COLLATERAL: ALL EQUIPMENT.  
TYPE. All risks, including fire, theft and liability.  
AMOUNT. \$60,000.00.  
BASIS. Replacement value.  
ENDORSEMENTS. Lender's loss payable clause with stipulation that coverage will not be cancelled or diminished without a minimum of thirty (30) days' prior written notice to Lender.

INSURANCE COMPANY. Grantor may obtain insurance from any insurance company Grantor may choose that is reasonably acceptable to Lender. Grantor understands that credit may not be denied solely because insurance was not purchased through Lender.

INSURANCE MAILING ADDRESS. All documents and other materials relating to insurance for this loan should be mailed, delivered or directed to the following address:

BANK OF AMERICA, N.A.  
COMMERCIAL LOAN ADMIN. - INSURANCE  
P.O. BOX 830634  
DALLAS, TX 75283-0634

NOTICE OF FINAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

FAILURE TO PROVIDE INSURANCE. Grantor agrees to deliver to Lender, thirty (30) days from the date of this Agreement, evidence of the required insurance as provided above, with an effective date of October 24, 2000, or earlier. Grantor acknowledges and agrees that if Grantor fails to provide any required insurance or fails to continue such insurance in force, Lender may do so at Grantor's expense as provided in the applicable security document. The cost of any such insurance, at the option of Lender, shall be payable on demand or shall be added to the Indebtedness as provided in the security document. GRANTOR ACKNOWLEDGES THAT IF LENDER SO PURCHASES ANY SUCH INSURANCE, THE INSURANCE WILL PROVIDE LIMITED PROTECTION AGAINST PHYSICAL DAMAGE TO THE COLLATERAL, UP TO THE BALANCE OF THE LOAN; HOWEVER GRANTOR'S EQUITY IN THE COLLATERAL MAY NOT BE INSURED. IN ADDITION, THE INSURANCE MAY NOT PROVIDE ANY PUBLIC LIABILITY OR PROPERTY DAMAGE INDEMNIFICATION AND MAY NOT MEET THE REQUIREMENTS OF ANY FINANCIAL RESPONSIBILITY LAWS.

AUTHORIZATION. For purposes of insurance coverage on the Collateral, Grantor authorizes Lender to provide to any person (including any insurance agent or company) all information Lender deems appropriate, whether regarding the Collateral, the loan or other financial accommodations, or both.

GRANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS AGREEMENT TO PROVIDE INSURANCE AND AGREES TO ITS TERMS. THIS AGREEMENT IS DATED OCTOBER 24, 2000.



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NOTICE OF INSURANCE REQUIREMENTS

LOAN DATE	LOAN NO.	CALL	COLLATERAL	CUSTOMER NO.	OFFICER	INITIALS
10-24-2000	NEW			15380	Z0315	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

BORROWER: TASER INTERNATIONAL INCORPORATED LENDER: BANK OF AMERICA, N.A.  
 7339 E. EVANS RD STE 1 101 NORTH FIRST AVENUE  
 SCOTTSDALE, AZ 85260 PHOENIX, AZ 85003

TO:	[ ]	DATE: OCTOBER 24, 2000
-----	-----	------------------------

DEAR INSURANCE AGENT:

TASER INTERNATIONAL INCORPORATED ("GRANTOR") IS OBTAINING A LOAN FROM BANK OF AMERICA, N.A.. PLEASE SEND APPROPRIATE EVIDENCE OF INSURANCE TO BANK OF AMERICA, N.A., TOGETHER WITH THE REQUESTED ENDORSEMENTS, ON THE FOLLOWING PROPERTY, WHICH BORROWER IS GIVING AS SECURITY FOR THE LOAN.

COLLATERAL: ALL EQUIPMENT.  
 TYPE. All risks, including fire, theft and liability.  
 AMOUNT. \$60,000.00.  
 BASIS. Replacement value.  
 ENDORSEMENTS. Lender's loss payable clause with stipulation that coverage will not be cancelled or diminished without a minimum of thirty (30) days' prior written notice to Lender.

BORROWER:  
 TASER INTERNATIONAL INCORPORATED  
 BY: \_\_\_\_\_  
 PATRICK W. SMITH, PRESIDENT

MAIL TO:  
 [ BANK OF AMERICA, N.A. ]  
 [ COMMERCIAL LOAN ADMIN. - INSURANCE ]  
 [ P.O. BOX 830634 ]  
 [ DALLAS, TX 75283-0634 ]



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 [BANK OF AMERICA LOGO]

DISBURSEMENT REQUEST AND AUTHORIZATION

<Table>

<Caption>

	PRINCIPAL	LOAN DATE	MATURITY	LOAN NO.	CALL	COLLATERAL	ACCOUNT	OFFICER	INITIALS
<S>	<C> \$60,000.00	<C> 10-24-2000	<C> 01-24-2001	<C> New	<C>	<C>	<C> 15380	<C> Z0315	<C>

</Table>

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

BORROWER: Taser International Incorporated LENDER: Bank of America, N.A.  
 7339 E. Evans Rd Ste 1 101 North First Avenue  
 Scottsdale, AZ 85260 Phoenix, AZ 85003

LOAN TYPE. This is a Variable Rate (2.000% over fluctuating rate of interest established by Lender from time to time as its "Prime Rate" whether or not such rate shall otherwise be published, making an initial rate of 11.500%), Non-Revolver Line of Credit Loan to a Corporation for \$60,000.00 due on January 24, 2001.

PRIMARY PURPOSE OF LOAN. The primary purpose of this loan is for:

- [ ] Personal, Family, or Household Purposes or Personal Investment.
- [X] Business (including Real Estate Investment).

SPECIFIC PURPOSE. The specific purpose of this loan is: Purchase Machinery & Equipment.

DISBURSEMENT INSTRUCTIONS. Borrower understands that no loan proceeds will be disbursed until all of Lender's conditions for making the loan have been satisfied. Please disburse the loan proceeds of \$60,000.00 as follows:

<Table>

<S>	<C>
Undisbursed Funds:	\$60,000.00
Note Principal:	\$60,000.00

</Table>

CHARGES PAID IN CASH. Borrower has paid or will pay in cash as agreed the following charges:

<Table>

<S>	<C>
Prepaid Finance Charges Paid in Cash:	\$0.00
Other Charges Paid in Cash:	\$30.00
\$5.00 Recording	
\$12.50 Lien Search	
\$12.50 Goodstanding	
Total Charges Paid in Cash:	\$30.00

</Table>

DEBITING OF ACCOUNT. Borrower authorizes Lender to debit from Borrower's account number \_\_\_\_\_, all of the above Charges Paid in Cash and any other closing costs associated with the Loan.

NOTICE OF FINAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

FINANCIAL CONDITION. BY SIGNING THIS AUTHORIZATION, BORROWER REPRESENTS AND WARRANTS TO LENDER THAT THE INFORMATION PROVIDED ABOVE IS TRUE AND CORRECT AND THAT THERE HAS BEEN NO MATERIAL ADVERSE CHANGE IN BORROWER'S FINANCIAL CONDITION AS DISCLOSED IN BORROWER'S MOST RECENT FINANCIAL STATEMENT TO LENDER. THIS AUTHORIZATION IS DATED OCTOBER 24, 2000.

BORROWER:

TASER INTERNATIONAL INCORPORATED

BY:



to cause such other disposition of the proceeds derived therefrom as they may deem advisable.

FURTHER ACTS. In the case of lines of credit, to designate additional or alternate individuals as being authorized to request advances thereunder, and in all cases, to do and perform such other acts and things, to pay any and all fees and costs, and to execute and deliver such other documents and agreements as they may in their discretion deem reasonably necessary or proper in order to carry into effect the provisions of these Resolutions. The following person or persons currently are authorized to request advances and authorize payments under the line of credit until Lender receives written notice of revocation of their authority: Patrick W. Smith, President; and Thomas P. Smith, Vice President.

BE IT FURTHER RESOLVED, that any and all acts authorized pursuant to these Resolutions and performed prior to the passage of these Resolutions are hereby ratified and approved, that these Resolutions shall remain in full force and effect and Lender may rely on these Resolutions until written notice of their revocation shall have been delivered to and received by Lender. Any such notice shall not affect any of the Corporation's agreements or commitments in effect at the time notice is given.

BE IT FURTHER RESOLVED, that the Corporation will notify Lender in writing at Lender's address shown above (or such other addresses as Lender may designate from time to time) prior to any (a) change in the name of the Corporation, (b) change in the assumed business name(s) of the Corporation, (c) change in the management of the Corporation, (d) change in the authorized signer(s), (e) conversion of the Corporation to a new or different type of business entity, or (f) change in any other aspect of the Corporation that directly or indirectly relates to any agreements between the Corporation and Lender. No change in the name of the Corporation will take effect until after Lender has been notified.

I FURTHER CERTIFY that the officers, employees, and agents named above are duly elected, appointed, or employed by or for the Corporation, as the case may be, and occupy the positions set opposite their respective names; that the foregoing Resolutions now stand of record on the books of the Corporation; and that the Resolutions are in full force and effect and have not been modified or revoked in any manner whatsoever. The Corporation has no corporate seal, and therefore, no seal is affixed to this certificate.

IN TESTIMONY WHEREOF, I HAVE HEREUNTO SET MY HAND ON OCTOBER 24, 2000 AND ATTEST THAT THE SIGNATURES SET OPPOSITE THE NAMES LISTED ABOVE ARE THEIR GENUINE SIGNATURES.

CERTIFIED TO AND ATTESTED BY:

X \_\_\_\_\_

X \_\_\_\_\_

NOTE: In case the Secretary or other certifying officer is designated by the foregoing resolutions as one of the signing officers, it is advisable to have this certificate signed by a second Officer or Director of the Corporation.

=====  
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EXHIBIT 10.13

[TASER INTERNATIONAL LOGO]

PROMISSORY NOTE

Amount of Note (\$): \$200,000 CASH  
City: SCOTTSDALE, State: ARIZONA  
Date: MARCH 31, 2000

FOR VALUE RECEIVED the undersigned jointly and severally promise(s) to pay to the order of:

BRUCE R. CULVER

the principal sum of:

TWO HUNDRED THOUSAND & NO/100 (\$200,000.00) DOLLARS together with interest thereon from the date at the rate of:

10.00%

percent per annum until maturity. The principal balance and interest shall be due and payable on or before January 1, 2001.

Unless specifically disallowed by law, should litigation arise hereunder, service of process therefore may be obtained through certified mail, return receipt requested; the parties hereto waiving and all rights they may have to object to the method by which service was perfected.

All matters pertinent to this Agreement (including its interpretation, application, validity, performance and breach), shall be governed by, construed and enforce in accordance with the laws of the State of Arizona. The parties herein waive trial by jury and agree to submit to the personal jurisdiction and venue of a court of subject matter jurisdiction located in Maricopa County, State of Arizona. In the event that litigation results from or arises out of this Agreement or the performance thereof, the parties agree to reimburse the prevailing party's reasonable attorney's fees, court costs, and all other expenses, whether or not taxable by the court as costs, in addition to any other relief to which the prevailing party may be entitled. In such event, no action shall be entertained by said court or any court of competent jurisdiction if filed more than one year subsequent to the date the cause(s) of action actually accrued regardless of whether damages were otherwise as of said time calculable.

TASER INTERNATIONAL INC.  
-----  
CORPORATION

/s/ Bruce R. Culver

By: /s/ Patrick W. Smith

-----  
Signature

-----  
Signature

Bruce R. Culver  
Name Printed

Patrick W. Smith  
CEO

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Exhibit 10.14

INDUSTRIAL REAL ESTATE LEASE  
(Multi Tenant Facility)

COMMERCIAL

ARTICLE ONE: BASIC TERMS

This Article One contains the Basic Terms of this Lease between the Landlord and Tenant named below. Other Articles, Sections and Paragraphs of the Lease referred to in this Article One explain and define the Basic Terms and are to be read in conjunction with the Basic Terms.

Section 1.01. DATE OF LEASE: November 17, 2000

Section 1.02. LANDLORD (INCLUDE LEGAL ENTITY): NORTON P REMES and JOAN A REMES, CO-TRUSTEES OF THE NORTON P REMES and JOAN A. REMES REVOCABLE TRUST dated November 17, 1994

Address of Landlord: 10040 E. Happy Valley Road, Suite 401  
Scottsdale, AZ 85255

Section 1.03. TENANT (INCLUDE LEGAL ENTITY): Taser International, an Arizona corporation

Address of Tenant: 7860 East McClain Drive, Suite 2B & 2C  
Scottsdale, AZ 85260

Section 1.04. PROPERTY: The Property is part of Landlord's multi-tenant real property development known as North Scottsdale Airpark #1A, Lots 2 & 3, commonly known as 7860 E. McClain, and described or depicted in Exhibit "A" (the "Project"). The Project includes the land, the buildings and all other improvements located on the land, and the common areas described in Paragraph 4.05(a). The Property is 7860 E. McClain Drive, Suite 2B & 2C, Scottsdale, AZ 85260 consisting of approximately + or - 11,800 square feet to include nine (9) covered parking stalls on the east side of the building

Section 1.05. LEASE TERM: Five (5) years Zero (0) months BEGINNING ON January 1, 2001 or such other date as specified in this Lease, and ENDING ON December 31, 2005

Section 1.06. PERMITTED USES: (See Article Five) Administrative offices, warehouse and light manufacturing

Section 1.07. TENANT'S GUARANTOR: (If none, so state) see attached Guarantee

Section 1.08. BROKERS: (see Article Fourteen) (if none, so state)  
Landlord's Broker: Colliers Classic  
Tenant's Broker: American Realty Brokers

Section 1.09. COMMISSION PAYABLE TO LANDLORD'S BROKER: (See Article Fourteen) \$ under separate cover

Section 1.10. INITIAL SECURITY DEPOSIT: (See Section 3.03) \$11,500.00

Section 1.11. VEHICLE PARKING SPACES ALLOCATED TO TENANT: (see Section 4.05) Thirty (30) including nine (9) covered

Section 1.12. RENT AND OTHER CHARGES PAYABLE BY TENANT:  
(a) BASE RENT: See Rider #1 Dollars (\$ n/a )

per month for the first \_\_\_\_\_ months, as provided in Section 3.01, and shall be increase on the first day of the \_\_\_\_\_ month(s) after the Commencement Date, either (i) as provided in Section 3.02, or (ii) see Rider #1. (If (ii) is completed, then (i) and Section 3.02 are inapplicable.)

(b) OTHER PERIODIC PAYMENTS: (i) Real Property Taxes (See Section 4.02);



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ARTICLE TWO: LEASE TERM

Section 2.01. LEASE OF PROPERTY FOR LEASE TERM. Landlord leases the Property to Tenant and Tenant leases the Property from Landlord for the Lease Term. The Lease Term is for the period stated in Section 1.05 above and shall begin and end on the dates specified in Section 1.05 above, unless the beginning or end of the Lease Term is changed under any provision of this Lease. The "Commencement Date" shall be the date specified in Section 1.05 above for the beginning of the Lease Term, unless advanced or delayed under any provision of this Lease.

Section 2.02. DELAY IN COMMENCEMENT. Landlord shall not be liable to Tenant if Landlord does not deliver possession of the Property to Tenant on the Commencement Date. Landlord's non-delivery of the Property to the Tenant on that date shall not affect this Lease or the obligations of Tenant under this Lease except that the Commencement Date shall be delayed until Landlord delivers possession of the Property to Tenant and the Lease Term shall be extended for a period equal to the delay in delivery of possession of the Property to Tenant, plus the number of days necessary to end the Lease Term on the last day of a month. If Landlord does not deliver possession of the Property to Tenant within sixty (60) days after the Commencement Date, Tenant may elect to cancel this Lease by giving written notice to Landlord within ten (10) days after the sixty (60) day period ends. If Tenant gives such notice, the Lease shall be cancelled and neither Landlord nor Tenant shall have any further obligations to the other. If Tenant does not give such notice, Tenant's right to cancel the Lease shall expire and the Lease Term shall commence upon the delivery of possession of the Property to Tenant. If delivery of possession of the Property to Tenant is delayed, Landlord and Tenant shall, upon such delivery, execute an amendment to this Lease setting forth the actual Commencement Date and expiration date of the Lease. Failure to execute such amendment shall not affect the actual Commencement Date and expiration date of the Lease.

Section 2.03. EARLY OCCUPANCY. If Tenant occupies the Property prior to the Commencement Date, Tenant's occupancy of the Property shall be subject to all of the provisions of this Lease. Early occupancy of the Property shall not advance the expiration date of this Lease. Tenant shall pay Base Rent and all other charges specified in this Lease for the early occupancy period.

Section 2.04. HOLDING OVER. Tenant shall vacate the Property upon the expiration or earlier termination of this Lease. Tenant shall reimburse Landlord for and indemnify Landlord against all damages which Landlord incurs from Tenant's delay in vacating the Property. If Tenant does not vacate the Property upon the expiration or earlier termination of the Lease and Landlord thereafter accepts rent from Tenant, Tenant's occupancy of the Property shall be a "month-to-month" tenancy, subject to all of the terms of this Lease applicable to a month-to-month tenancy, except that the Base Rent then in effect shall be increased by twenty-five percent (25%).

ARTICLE THREE: BASE RENT

Section 3.01 TIME AND MANNER OF PAYMENT. Upon execution of this Lease, Tenant shall pay Landlord the Base Rent in the amount stated in Paragraph 1.12(a) above for the first month of the Lease Term. On the first day of the second month of the Lease Term and each month thereafter, Tenant shall pay Landlord the Base Rent, in advance, without offset, deduction or prior demand. The Base Rent shall be payable at Landlord's address or at such other place as Landlord may designate in writing.

Section 3.03. SECURITY DEPOSIT; INCREASES.

(a) Upon the execution of this Lease, Tenant shall deposit with Landlord a cash Security Deposit in the amount set forth in Section 1.10 above. Landlord may apply all or part of the Security Deposit to any unpaid rent or other charges due from Tenant or to cure any other defaults of Tenant. If Landlord uses any part of the Security Deposit, Tenant shall restore the Security Deposit to its full amount within ten (10) days after Landlord's written request. Tenant's failure to do so shall be a material default under this Lease. No interest shall be paid on the Security Deposit. Landlord shall not be required to keep the Security Deposit separate from its other accounts and no trust relationship is created with respect to the Security Deposit.

(b) Each Time the Base Rent is increased, Tenant shall deposit additional funds with Landlord sufficient to increase the Security Deposit to an amount which bears the same relationship to the adjusted Base Rent as the initial Security Deposit bore to the initial Base Rent.

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Section 3.04. TERMINATION; ADVANCE PAYMENTS. Upon termination of this Lease under Article Seven (Damage or Destruction), Article Eight (Condemnation) or any other termination not resulting from Tenant's default, and after Tenant has vacated the Property in the manner required by this Lease, Landlord shall refund or credit to Tenant (or Tenant's successor) the unused portion of the Security Deposit, any advance rent or other advance payments made by Tenant to Landlord, and any amounts paid for real property taxes and other reserves which apply to any time periods after termination of the Lease.

ARTICLE FOUR: OTHER CHARGES PAYABLE BY TENANT

Section 4.01. ADDITIONAL RENT. All charges payable by Tenant other than Base Rent are called "Additional Rent." Unless this Lease provides otherwise, Tenant shall pay all Additional Rent then due with the next monthly installment of Base Rent. The term "rent" shall mean Base Rent and Additional Rent.

Section 4.02. PROPERTY TAXES.

(a) REAL PROPERTY TAXES. Tenant shall pay all real property taxes on the Property (including any fees, taxes or assessments against, or as a result of, any tenant improvements installed on the Property by or for the benefit of Tenant) during the Lease Term. Subject to Paragraph 4.02(c) and Section 4.08 below, such payment shall be made at least ten (10) days prior to the delinquency date of the taxes. Within such ten (10)-day period, Tenant shall furnish Landlord with satisfactory evidence that the real property taxes have been paid. Landlord shall reimburse Tenant for any real property taxes paid by Tenant covering any period of time prior to or after the Lease Term. If Tenant fails to pay the real property taxes when due, Landlord may pay the taxes and Tenant shall reimburse Landlord for the amount of such tax payment as Additional Rent.

(b) DEFINITION OF "REAL PROPERTY TAX." "Real property tax" means: (i) any fee, license fee, license tax, business license fee, commercial rental tax, levy, charge, assessment, penalty or tax imposed by any taxing authority against the Property; (ii) any tax on the Landlord's right to receive, or the receipt of, rent or income from the Property or against Landlord's business of leasing the Property; (iii) any tax or charge for fire protection, streets, sidewalks, road maintenance, refuse or other services provided to the Property by any governmental agency; (iv) any tax imposed upon this transaction or based upon a re-assessment of the Property due to a change of ownership, as defined by applicable law, or other transfer of all or part of Landlord's interest in the Property; and (v) any charge or fee replacing any tax previously included within the definition of real property tax. "Real property tax" does not, however, include Landlord's federal or state income, franchise, inheritance or estate taxes.

(c) JOINT ASSESSMENT. If the Property is not separately assessed, Landlord shall reasonably determine Tenant's share of the real property tax payable by Tenant under Paragraph 4.02(a) from the assessor's worksheets or other reasonably available information. Tenant shall pay such share to Landlord within fifteen (15) days after receipt of Landlord's written statement.

(d) PERSONAL PROPERTY TAXES.

(i) Tenant shall pay all taxes charged against trade fixtures, furnishings, equipment or any other personal property belonging to Tenant. Tenant shall try to have personal property taxed separately from the Property.

(ii) If any of Tenant's personal property is taxed with the Property, Tenant shall pay Landlord the taxes for the personal property within fifteen (15) days after Tenant receives a written statement from Landlord for such personal property taxes.

Section 4.03. UTILITIES. Tenant shall pay, directly to the appropriate supplier, the cost of all natural gas, heat, light, power, sewer service, telephone, water, refuse disposal and other utilities and services supplied to the Property. However, if any services or utilities are jointly metered with other property, Landlord shall make a reasonable determination of Tenant's proportionate share of the cost of such utilities and services and Tenant shall pay such Landlord within fifteen (15) days after receipt of Landlord's written statement.

Section 4.04. INSURANCE POLICIES.

(a) LIABILITY INSURANCE. During the Lease Term, Tenant shall maintain a policy of commercial general liability insurance (sometimes known as broad form

in the full amount of its replacement value. Such policy shall contain an inflation Guard Endorsement and shall provide protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, special extended perils (all risk), sprinkler leakage and any other perils which Landlord deems reasonably necessary. Landlord shall have the right to obtain flood and earthquake insurance if required by any lender holding a security interest in the Property. Landlord shall not obtain insurance for Tenant's fixtures or equipment or building improvements installed by Tenant on the Property. During the Lease Term, Landlord shall also maintain a rental income insurance policy, with loss payable to Landlord, in an amount equal to one year's Base Rent, plus estimated real property taxes and insurance premiums. Tenant shall be liable for the payment of any deductible amount under Landlord's or Tenant's insurance policies maintained pursuant to this Section 4.04, in an amount not to exceed Ten Thousand Dollars (\$10,000). Tenant shall not do or permit anything to be done which invalidates any such insurance policies.

(c) PAYMENT OF PREMIUMS. Subject to Section 4.08, Tenant shall pay all premiums for the insurance policies described in Paragraphs 4.04(a) and (b) (whether obtained by Landlord or Tenant) within fifteen (15) days after Tenant's receipt of a copy of the premium statement or other evidence of the amount due, except Landlord shall pay all premiums for non-primary comprehensive public liability insurance which Landlord elects to obtain as provided in Paragraph 4.04(a). For insurance policies

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maintained by Landlord which cover improvements on the entire Project, Tenant shall pay Tenant's prorated share of the premiums, in accordance with the formula in Paragraph 4.05(e) for determining Tenant's share of Common Area costs. If insurance policies maintained by Landlord cover improvements on real property other than the Project, Landlord shall deliver to Tenant a statement of the premium applicable to the Property showing in reasonable detail how Tenant's share of the premium was computed. If the Lease Term expires before the expiration of an insurance policy maintained by Landlord, Tenant shall be liable for Tenant's prorated share of the insurance premiums. Before the Commencement Date, Tenant shall deliver to Landlord a copy of any policy of insurance which Tenant is required to maintain under this Section 4.04. At least thirty (30) days prior to the expiration of any such policy, Tenant shall deliver to Landlord a renewal of such policy. As an alternative to providing a policy of insurance, Tenant shall have the right to provide Landlord a certificate of insurance, executed by an authorized officer of the insurance company, showing that the insurance which Tenant is required to maintain under this Section 4.04 is in full force and effect and containing such other information which Landlord reasonably requires.

(d) GENERAL INSURANCE PROVISIONS.

(i) Any insurance which Tenant is required to maintain under this Lease shall include a provision which requires the insurance carrier to give Landlord not less than thirty (30) days' written notice prior to any cancellation or modification of such coverage.

(ii) If Tenant fails to deliver any policy, certificate or renewal to Landlord required under this Lease within the prescribed time period or if any such policy is cancelled or modified during the Lease Term without Landlord's consent, Landlord may obtain such insurance, in which case Tenant shall reimburse Landlord for the cost of such insurance within fifteen (15) days after receipt of a statement that indicates the cost of such insurance.

(iii) Tenant shall maintain all insurance required under this Lease with companies holding a "General Policy Rating" of A-12 or better, as set forth in the most current issue of "Best Key Rating Guide". Landlord and Tenant acknowledge the insurance markets are rapidly changing and that insurance in the form and amounts described in this Section 4.04 may not be available in the future. Tenant acknowledges that the insurance described in this Section 4.04 is for the primary benefit of Landlord. If at any time during the Lease Term, Tenant is unable to maintain the insurance required under the Lease, Tenant shall nevertheless maintain insurance coverage which is customary and commercially reasonable in the insurance industry for Tenant's type of business, as that coverage may change from time to time. Landlord makes no representation as to the adequacy of such insurance to protect Landlord's or Tenant's interests. Therefore, Tenant shall obtain any such additional property or liability insurance which Tenant deems necessary to protect Landlord and Tenant.

(iv) Unless prohibited under any applicable insurance policies maintained, Landlord and Tenant each hereby waive any and all rights of recovery against the other, or against the officers, employees, agents or representatives of the other, for loss of or damage to its property or the property of others under its control, if such loss or damage is covered by any insurance policy in force (whether or not described in this Lease) at the time of such loss or damage. Upon obtaining the required policies of insurance, Landlord and Tenant shall give notice to the insurance carriers of this mutual waiver of subrogation.

Section 4.05. COMMON AREAS; USE, MAINTENANCE AND COSTS.

(a) COMMON AREAS. As used in this Lease, "Common Areas" shall mean all areas within the Project which are available for the common use of tenants of the Project and which are not leased or held for the exclusive use of Tenant or other tenants, including, but not limited to, parking areas, driveways, sidewalks, loading areas, access roads, corridors, landscaping and planted areas. Landlord, from time to time, may change the size, location, nature and use of any of the Common Areas, convert Common Areas into leaseable areas, construct additional parking facilities (including parking structures) in the Common Areas, and increase or decrease Common Area land and/or facilities. Tenant acknowledges that such activities may result in inconvenience to Tenant. Such activities and changes are permitted if they do not materially affect Tenant's use of the Property.

(b) USE OF COMMON AREAS. Tenant shall have the nonexclusive right (in

spaces shall only be used by those legally permitted to use them. If Tenant parks more vehicles in the parking area than the number set forth in Section 1.11 of this Lease, such conduct shall be a material breach of this Lease. In addition to Landlord's other remedies under the Lease, Tenant shall pay a daily charge determined by Landlord for each such additional vehicle.

(d) MAINTENANCE OF COMMON AREAS. Landlord shall maintain the Common Areas in good order, condition and repair and shall operate the Project, in Landlord's sole discretion, as a first-class industrial/commercial real property development. Tenant shall pay Tenant's pro rata share (as determined below) of all costs incurred by Landlord for the operation and maintenance of the Common Areas. Common Area costs include, but are not limited to, costs and expenses for the following: gardening and landscaping; utilities, water and sewage charges; maintenance of signs (other than tenants' signs); premiums for liability, property damage, fire and other types of casualty insurance on the Common Areas and worker's compensation insurance; all property taxes and assessments levied on or attributable to the Common Areas and all Common Area improvements; all personal property taxes levied on or attributable to personal property used in connection with the Common Areas; straight-line depreciation on personal property owned by Landlord which is consumed in the operation or maintenance of the Common Areas; rental or lease payments paid by Landlord for rented or leased personal property used in the operation or maintenance

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of the Common Areas; fees for required licenses and permits; repairing, resurfacing, repaving, maintaining, painting, lighting, cleaning, refuse removal, security and similar items; reserves for roof replacement and exterior painting and other appropriate reserves; and a reasonable allowance to Landlord for Landlord's supervision of the Common Areas (not to exceed five percent (5%) of the gross rents of the Project for the calendar year). Landlord may cause any or all of such services to be provided by third parties and the cost of such services shall be included in Common Area costs. Common Area costs shall not include depreciation of real property which forms part of the Common Areas.

(e) TENANT'S SHARE AND PAYMENT. Tenant shall pay Tenant's annual pro rata share of all Common Area costs (prorated for any fractional month) upon written notice from Landlord that such costs are due and payable, and in any event prior to delinquency. Tenant's pro rata share shall be calculated by dividing the square foot area of the Property, as set forth in Section 1.04 of the Lease, by the aggregate square foot area of the Project which is leased or held for lease by tenants, as of the date on which the computation is made. Tenant's initial pro rata share is set out in Paragraph 1.12(b). Any changes in the Common Area costs and/or the aggregate area of the Project leased or held for lease during the Lease Term shall be effective on the first day of the month after such change occurs. Landlord may, at Landlord's election, estimate in advance and charge to Tenant as Common Area costs, all real property taxes for which Tenant is liable under Section 4.02 of the Lease, all insurance premiums for which Tenant is liable under Section 4.04 of the Lease, all maintenance and repair costs for which Tenant is liable under Section 6.04 of the Lease, and all other Common Area costs payable by Tenant hereunder. At Landlord's election, such statements of estimated Common Area costs shall be delivered monthly, quarterly or at any other periodic intervals to be designated by Landlord. Landlord may adjust such estimates at any time based upon Landlord's experience and reasonable anticipation of costs. Such adjustments shall be effective as of the next rent payment date after notice to Tenant. Within sixty (60) days after the end of each calendar year of the Lease Term, Landlord shall deliver to Tenant a statement prepared in accordance with generally accepted accounting principles setting forth, in reasonable detail, the Common Area costs paid or incurred by Landlord during the preceding calendar year and Tenant's pro rata share. Upon receipt of such statement, there shall be an adjustment between Landlord and Tenant, with payment to or credit given by Landlord (as the case may be) so that Landlord shall receive the entire amount of Tenant's share of such costs and expenses for such period.

Section 4.06. LATE CHARGES. Tenant's failure to pay rent promptly may cause Landlord to incur unanticipated costs. The exact amount of such costs are impractical or extremely difficult to ascertain. Such costs may include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord by any ground lease, mortgage or trust deed encumbering the Property. Therefore, if Landlord does not receive any rent payment within ten (10) days after it becomes due, Tenant shall pay Landlord a late charge equal to ten percent (10%) of the overdue amount. The parties agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of such late payment.

Section 4.07. INTEREST ON PAST DUE OBLIGATIONS. Any amount owed by Tenant to Landlord which is not paid when due shall bear interest at the rate of fifteen percent (15%) per annum from the due date of such amount. However, interest shall not be payable on late charges to be paid by Tenant under this Lease. The payment of interest on such amounts shall not excuse or cure any default by Tenant under this Lease. If the interest rate specified in this Lease is higher than the rate permitted by law, the interest rate is hereby decreased to the maximum legal interest rate permitted by law.

Section 4.08. IMPOUNDS FOR INSURANCE PREMIUMS AND REAL PROPERTY TAXES. If requested by any ground lessor or lender to whom Landlord has granted a security interest in the Property, or if Tenant is more than ten (10) days late in the payment of rent more than once in any consecutive twelve (12)-month period, Tenant shall pay Landlord a sum equal to one-twelfth (1/12) of the annual real property taxes and insurance premiums payable by Tenant under this Lease, together with each payment of Base Rent. Landlord shall hold such payments in a non-interest bearing impound account. If unknown, Landlord shall reasonably estimate the amount of real property taxes and insurance premiums when due. Tenant shall pay any deficiency of funds in the impound account to Landlord upon written request. If Tenant defaults under this Lease, Landlord may apply any funds in the impound account to any obligation then due under this Lease.

pesticides, ammonia compounds and other chemical products, asbestos, PCBs and similar compounds, and including any different products and materials which are subsequently found to have adverse effects on the environment or the health and safety of persons. Tenant shall not cause or permit any Hazardous Material to be generated, produced, brought upon, used, stored, treated or disposed of in or about the Property by Tenant, its agents, employees, contractors, sublessees or invitees without the prior written consent of Landlord. Landlord shall be entitled to take into account such other factors or facts as Landlord may reasonably determine to be relevant in determining whether to grant or withhold consent to Tenant's proposed activity with respect to Hazardous Material. In no event, however, shall Landlord be required to consent to the installation or use of any storage tanks on the Property.

Section 5.04. SIGNS AND AUCTIONS. Tenant shall not place any signs on the Property without Landlord's prior written consent. Tenant shall not conduct or permit any auctions or sheriff's sales at the Property.

Section 5.05. INDEMNITY. Tenant shall indemnify Landlord against and hold Landlord harmless from any and all costs, claims or liability arising from: (a) Tenant's use of the Property; (b) the conduct of Tenant's business or anything else done or

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permitted by Tenant to be done in or about the Property, including any contamination of the Property or any other property resulting from the presence or use of Hazardous Material caused or permitted by Tenant; (c) any breach or default in the performance of Tenant's obligations under this Lease; (d) any misrepresentation or breach of warranty by Tenant under this Lease; or (e) other acts or omissions of Tenant. Tenant shall defend Landlord against any such cost, claim or liability at Tenant's expense with counsel reasonably acceptable to Landlord or, at Landlord's election, Tenant shall reimburse Landlord for any legal fees or costs incurred by Landlord in connection with any such claim. As a material part of the consideration to Landlord, Tenant assumes all risk of damage to property or injury to persons in or about the Property arising from any cause, and Tenant hereby waives all claims in respect thereof against Landlord, except for any claim arising out of Landlord's gross negligence or willful misconduct. As used in this Section, the term "Tenant" shall include Tenant's employees, agents, contractors and invitees, if applicable.

Section 5.06. LANDLORD'S ACCESS. Landlord or its agents may enter the Property at all reasonable times to show the Property to potential buyers, investors or tenants or other parties; to do any other act or to inspect and conduct tests in order to monitor Tenant's compliance with all applicable environmental laws and all laws governing the presence and use of Hazardous Material; or for any other purpose Landlord deems necessary. Landlord shall give Tenant prior notice of such entry, except in the case of an emergency. Landlord may place customary "For Sale" or "For Lease" signs on the Property.

Section 5.07. QUIET POSSESSION. If Tenant pays the rent and complies with all terms of this Lease, Tenant may occupy and enjoy the Property for the full Lease Term, subject to the provisions of this Lease.

#### ARTICLE SIX: CONDITION OF PROPERTY; MAINTENANCE, REPAIRS AND ALTERATIONS

Section 6.01. EXISTING CONDITIONS. Tenant accepts the Property in its condition as of the execution of the Lease, subject to all recorded matters, laws, ordinances, and governmental regulations and orders. Except as provided herein, Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation as to the condition of the Property or the suitability of the Property for Tenant's intended use. Tenant represents and warrants that Tenant has made its own inspection of and inquiry regarding the condition of the Property and is not relying on any representations of Landlord or any Broker with respect thereto. If Landlord or Landlord's Broker has provided a Property Information Sheet or other Disclosure Statement regarding the Property, a copy is attached as an exhibit to the Lease.

Section 6.02. EXEMPTION OF LANDLORD FROM LIABILITY. Landlord shall not be liable for any damage or injury to the person, business (or any loss of income therefrom), goods, wares, merchandise or other property of Tenant, Tenant's employees, invitees, customers or any other person in or about the Property, whether such damage or injury is caused by or results from: (a) fire, steam, electricity, water, gas or rain; (b) the breakage, leakage, obstruction or other defects of pipes sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures or any other cause; (c) conditions arising in or about the Property or upon other portions of the Project, or from other sources or places; or (d) any act or omission of any other tenant of the Project. Landlord shall not be liable for any such damage or injury even though the cause of or the means of repairing such damage or injury are not accessible to Tenant. The provisions of this Section 6.02 shall not, however, exempt Landlord from liability for Landlord's gross negligence or willful misconduct.

#### Section 6.03. LANDLORD'S OBLIGATIONS.

(a) Except as provided in Article Seven (Damage or Destruction) and Article Eight (Condemnation), Landlord shall keep the following in good order, condition and repair: the foundations, exterior walls and roof of the Property.

However, Landlord shall not be obligated to maintain or repair windows, doors, plate glass or the interior surfaces of exterior walls. Landlord shall make repairs under this Section 6.03 within a reasonable time after receipt of written notice from Tenant of the need for such repairs.

(b) Tenant shall pay or reimburse Landlord for all costs Landlord incurs under Paragraph 6.03(a) above as Common Area costs as provided for in Section 4.05 of the Lease. Tenant waives the benefit of any statute in effect now or in the future which might give Tenant the right to make repairs at Landlord's expense or to terminate this Lease due to Landlord's failure to keep the Property in good order, condition and repair.

obligated to maintain in an attractive, first-class and fully operative condition.

(b) Tenant shall fulfill all of Tenant's obligations under this Section 6.04 at Tenant's sole expense. If Tenant fails to maintain, repair or replace the Property as required by this Section 6.04, Landlord may, upon ten (10) days' prior notice to Tenant (except that no notice shall be required in the case of an emergency), enter the Property and perform such maintenance or repair (including replacement, as needed) on behalf of Tenant. In such case, Tenant shall reimburse Landlord for all costs incurred in performing such maintenance or repair immediately upon demand.

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Section 6.05. ALTERATIONS, ADDITIONS, AND IMPROVEMENTS.

(a) Tenant shall not make any alterations, additions, or improvements to the Property without Landlord's prior written consent, except for non-structural alterations which do not exceed Ten Thousand Dollars (\$10,000) in cost cumulatively over the Lease Term and which are not visible from the outside of any building of which the Property is part. Landlord may require Tenant to provide demolition and/or lien and completion bonds in form and amount satisfactory to Landlord. Tenant shall promptly remove any alterations, additions, or improvements constructed in violation of this Paragraph 6.05(a) upon Landlord's written request. All alterations, additions, and improvements shall be done in a good and workmanlike manner, in conformity with all applicable laws and regulations, and by a contractor approved by Landlord. Upon completion of any such work, Tenant shall provide Landlord with "as built" plans, copies of all construction contracts, and proof of payment for all labor and materials.

(b) Tenant shall pay when due all claims for labor and material furnished to the Property. Tenant shall give Landlord at least twenty (20) days' prior written notice of the commencement of any work on the Property, regardless of whether Landlord's consent to such work is required. Landlord may elect to record and post notices of non-responsibility on the Property.

Section 6.06. CONDITION UPON TERMINATION. Upon the termination of the Lease, Tenant shall surrender the Property to Landlord, broom clean and in the same condition as received except for ordinary wear and tear which Tenant was not otherwise obligated to remedy under any provision of this Lease. However, Tenant shall not be obligated to repair any damage which Landlord is required to repair under Article Seven (Damage or Destruction). In addition, Landlord may require Tenant to remove any alterations, additions or improvements (whether or not made with Landlord's consent) prior to the expiration of the Lease and to restore the Property to its prior condition, all at Tenant's expense. All alterations, additions and improvements which Landlord has not required Tenant to remove shall become Landlord's property and shall be surrendered to Landlord upon the expiration or earlier termination of the Lease, except that Tenant may remove any of Tenant's machinery or equipment which can be removed without material damage to the Property. Tenant shall repair, at Tenant's expense, any damage to the Property caused by the removal of any such machinery or equipment. In no event, however, shall Tenant remove any of the following materials or equipment (which shall be deemed Landlord's property) without Landlord's prior written consent: any power wiring or power panels; lighting or lighting fixtures; wall coverings; drapes, blinds or other window coverings; carpets or other floor coverings; heaters, air conditioners or any other heating or air conditioning equipment; fencing or security gates; or other similar building operating equipment and decorations.

ARTICLE SEVEN: DAMAGE OR DESTRUCTION

Section 7.01. PARTIAL DAMAGE TO PROPERTY.

(a) Tenant shall notify Landlord in writing immediately upon the occurrence of any damage to the Property. If the Property is only partially damaged (i.e., less than fifty percent (50%) of the Property is untenable as a result of such damage or less than fifty percent (50%) of Tenant's operations are materially impaired) and if the proceeds received by Landlord from the insurance policies described in Paragraph 4.04(b) are sufficient to pay for the necessary repairs, this Lease shall remain in effect and Landlord shall repair the damage as soon as reasonably possible. Landlord may elect (but is not required) to repair any damage to Tenant's fixtures, equipment, or improvements.

(b) If the insurance proceeds received by Landlord are not sufficient to pay the entire cost of repair, or if the cause of the damage is not covered by the insurance policies which Landlord maintains under Paragraph 4.04(b), Landlord may elect either to (i) repair the damage as soon as reasonably possible, in which case this Lease shall remain in full force and effect, or (ii) terminate this Lease as of the date the damage occurred. Landlord shall notify Tenant within thirty (30) days after receipt of notice of the occurrence of the damage whether Landlord elects to repair the damage or terminate the Lease. If Landlord elects to repair the damage, Tenant shall pay Landlord the "deductible amount" (if any) under Landlord's insurance policies and, if the damage was due to an act or omission of Tenant, or Tenant's employees, agents, contractors or invitees, the difference between the actual cost of repair and any insurance proceeds received by Landlord. If Landlord elects to terminate the Lease, Tenant may elect to continue this Lease in full force and effect, in which case Tenant shall repair any damage to the Property and any building in which the Property is located. Tenant shall pay the cost of such repairs, except

Landlord shall notify Tenant of such election within thirty (30) days after Tenant's notice of the occurrence of total or substantial destruction. If Landlord so elects, Landlord shall rebuild the Property at Landlord's sole expense, except that if the destruction was caused by an act or omission of Tenant, Tenant shall pay Landlord the difference between the actual cost of rebuilding and any insurance proceeds received by Landlord.

Section 7.03. TEMPORARY REDUCTION OF RENT. If the Property is destroyed or damaged and Landlord or Tenant repairs or restores the Property pursuant to the provisions of this Article Seven, any rent payable during the period of such damage, repair and/or restoration shall be reduced according to the degree, if any, to which Tenant's use of the Property is impaired. However, the reduction shall not exceed the sum of one year's payment of Base Rent, insurance premiums and real property taxes. Except for such possible reduction in Base Rent, insurance premiums and real property taxes, Tenant shall not be entitled to any compensation, reduction, or reimbursement from Landlord as a result of any damage, destruction, repair, or restoration of or to the Property.

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Section 7.04. WAIVER. Tenant waives the protection of any statute, code or judicial decision which grants a tenant the right to terminate a lease in the event of the substantial or total destruction of the leased property. Tenant agrees that the provisions of Section 7.02 above shall govern the rights and obligations of Landlord and Tenant in the event of any substantial or total destruction to the Property.

ARTICLE EIGHT: CONDEMNATION

If all or any portion of the Property is taken under the power of eminent domain or sold under the threat of that power (all of which are called "Condemnation"), this Lease shall terminate as to the part taken or sold on the date the condemning authority takes title or possession, whichever occurs first. If more than twenty percent (20%) of the floor area of the building in which the Property is located, or which is located on the Property, is taken, either Landlord or Tenant may terminate this Lease as of the date the condemning authority takes title or possession, by delivering written notice to the other within ten (10) days after receipt of written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority takes title or possession). If neither Landlord nor Tenant terminates this Lease, this Lease shall remain in effect as to the portion of the Property not taken, except that the Base Rent and Additional Rent shall be reduced in proportion to the reduction in the floor area of the Property. Any Condemnation award or payment shall be distributed in the following order: (a) first, to any ground lessor, mortgagee or beneficiary under a deed of trust encumbering the Property, the amount of its interest in the Property; (b) second, to Tenant, only the amount of any award specifically designated for loss of or damage to Tenant's trade fixtures or removable personal property; and (c) third, to Landlord, the remainder of such award, whether as compensation for reduction in the value of the leasehold, the taking of the fee, or otherwise. If this Lease is not terminated, Landlord shall repair any damage to the Property caused by the Condemnation, except that Landlord shall not be obligated to repair any damage for which Tenant has been reimbursed by the condemning authority. If the severance damages received by Landlord are not sufficient to pay for such repair, Landlord shall have the right to either terminate this Lease or make such repair at Landlord's expense.

ARTICLE NINE: ASSIGNMENT AND SUBLETTING

Section 9.01. LANDLORD'S CONSENT REQUIRED. No portion of the Property or of Tenant's interest in this Lease may be acquired by any other person or entity, whether by sale, assignment, mortgage, sublease, transfer, operation of law, or act of Tenant, without Landlord's prior written consent, except as provided in Section 9.02 below. Landlord has the right to grant or withhold its consent as provided in Section 9.05 below. Any attempted transfer without consent shall be void and shall constitute a non-curable breach of this Lease. If Tenant is a partnership, any cumulative transfer of more than twenty percent (20%) of the partnership interests shall require Landlord's consent. If Tenant is a corporation, any change in the ownership of a controlling interest of the voting stock of the corporation shall require Landlord's consent.

Section 9.02 TENANT AFFILIATE. Tenant may assign this Lease or sublease the Property, without Landlord's consent, to any corporation which controls, is controlled by or is under common control with Tenant, or to any corporation resulting from the merger of or consolidation with Tenant ("Tenant's Affiliate"). In such case, any Tenant's Affiliate shall assume in writing all of Tenant's obligations under this Lease.

Section 9.03 NO RELEASE OF TENANT. No transfer permitted by this Article Nine, whether with or without Landlord's consent, shall release Tenant or change Tenant's primary liability to pay the rent and to perform all other obligations of Tenant under this Lease. Landlord's acceptance of rent from any other person is not a waiver of any provision of this Article Nine. Consent to one transfer is not a consent to any subsequent transfer. If Tenant's transferee defaults under this Lease, Landlord may proceed directly against Tenant without pursuing remedies against the transferee. Landlord may consent to subsequent assignments or modifications of this Lease by Tenant's transferee, without notifying Tenant or obtaining its consent. Such action shall not relieve Tenant's liability under this Lease.

Section 9.04 OFFER TO TERMINATE. If Tenant desires to assign the Lease or sublease the Property, Tenant shall have the right to offer, in writing, to terminate the Lease as of a date specified in the offer. If Landlord elects in writing to accept the offer to terminate within twenty (20) days after notice of

(but not assign), all or a portion of the Property to the proposed transferee, but only on the other terms of the proposed transfer.

(b) If Tenant assigns or subleases, the following shall apply:

(i) Tenant shall pay to Landlord as Additional Rent under the Lease the Landlord's Share (stated in Section 1.13) of the Profit (defined below) on such transaction as and when received by Tenant, unless Landlord gives written notice to Tenant and the assignee or subtenant that Landlord's Share shall be paid by the assignee or subtenant to Landlord directly. The "Profit" means (A) all amounts paid to Tenant for such assignment or sublease, including "key" money, monthly rent in excess of the monthly rent payable under the Lease, and all fees and other consideration paid for the assignment or sublease, including fees under any collateral agreements, less (B) costs and expenses directly incurred by Tenant in connection with the execution and performance of such assignment or sublease for real estate broker's commissions and costs of renovation or construction of tenant improvements required under such assignment or sublease. Tenant is entitled to recover such costs and expenses before Tenant is obligated to pay the Landlord's Share to Landlord. The Profit in the

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case of a sublease of less than all the Property is the rent allocable to the subleased space as a percentage on a square footage basis.

(ii) Tenant shall provide Landlord a written statement certifying all amounts to be paid from any assignment or sublease of the Property within thirty (30) days after the transaction documentation is signed, and Landlord may inspect Tenant's books and records to verify the accuracy of such statement. On written request, Tenant shall promptly furnish to Landlord copies of all the transaction documentation, all of which shall be certified by Tenant to be complete, true and correct. Landlord's receipt of Landlord's Share shall not be a consent to any further assignment or subletting. The breach of Tenant's obligation under this Paragraph 9.05(b) shall be a material default of the Lease.

Section 9.06. NO MERGER. No merger shall result from Tenant's sublease of the Property under this Article Nine, Tenant's surrender of this Lease or the termination of this Lease in any other manner. In any such event, Landlord may terminate any or all subtenancies or succeed to the interest of Tenant as sublandlord under any or all subtenancies.

#### ARTICLE TEN: DEFAULTS; REMEDIES

Section 10.01. COVENANTS AND CONDITIONS. Tenant's performance of each of Tenant's obligations under this Lease is a condition as well as a covenant. Tenant's right to continue in possession of the Property is conditioned upon such performance. Time is of the essence in the performance of all covenants and conditions.

Section 10.02. DEFAULTS. Tenant shall be in material default under this Lease:

(a) If Tenant abandons the Property or if Tenant's vacation of the Property results in the cancellation of any insurance described in Section 4.04;

(b) If Tenant fails to pay rent or any other charge when due;

(c) If Tenant fails to perform any of Tenant's non-monetary obligations under this Lease for a period of thirty (30) days after written notice from Landlord; provided that if more than thirty (30) days are required to complete such performance, Tenant shall not be in default if Tenant commences such performance within the thirty (30)-day period and thereafter diligently pursues its completion. However, Landlord shall not be required to give such notice if Tenant's failure to perform constitutes a non-curable breach of this Lease. The notice required by this Paragraph is intended to satisfy any and all notice requirements imposed by law on Landlord and is not in addition to any such requirement.

(d) (i) If Tenant makes a general assignment or general arrangement for the benefit of creditors; (ii) if a petition for adjudication of bankruptcy or for reorganization or rearrangement is filed by or against Tenant and is not dismissed within thirty (30) days; (iii) if a trustee or receiver is appointed to take possession of substantially all of Tenant's assets located at the Property or of Tenant's interest in this Lease and possession is not restored to Tenant within thirty (30) days; or (iv) if substantially all of Tenant's assets located at the Property or of Tenant's interest in this Lease is subjected to attachment, execution or other judicial seizure which is not discharged within thirty (30) days. If a court of competent jurisdiction determines that any of the acts described in this subparagraph (d) is not a default under this Lease, and a trustee is appointed to take possession (or if Tenant remains a debtor in possession) and such trustee or Tenant transfers Tenant's interest hereunder, then Landlord shall receive, as Additional Rent, the excess, if any, of the rent (or any other consideration) paid in connection with such assignment or sublease over the rent payable by Tenant under this Lease.

(e) If any guarantor of the Lease revokes or otherwise terminates, or purports to revoke or otherwise terminate, any guaranty of all or any portion of Tenant's obligations under the Lease. Unless otherwise expressly provided, no guaranty of the Lease is revocable.

Section 10.03. REMEDIES. On the occurrence of any material default by Tenant, Landlord may, at any time thereafter, with or without notice or demand and without limiting Landlord in the exercise of any right or remedy which Landlord may have:

(a) Terminate Tenant's right to possession of the Property by any lawful means, in which case this Lease shall terminate and Tenant shall immediately

of the award" is computed by allowing interest on unpaid amounts at the rate of fifteen percent (15%) per annum, or such lesser amount as may then be the maximum lawful rate. As used in subpart (iii) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus one percent (1%). If Tenant has abandoned the Property, Landlord shall have the option of (i) retaking possession of the Property and recovering from Tenant the amount specified in this Paragraph 10.03(a), or (ii) proceeding under Paragraph 10.03(b);

(b) Maintain Tenant's right to possession, in which case this Lease shall continue in effect whether or not Tenant has abandoned the Property. In such event, Landlord shall be entitled to enforce all of Landlord's rights and remedies under this Lease, including the right to recover the rent as it becomes due;

(c) Pursue any other remedy now or hereafter available to Landlord under the laws or judicial decisions of the state in which the Property is located.

Section 10.04. REPAYMENT OF "FREE" RENT. If this Lease provides for a postponement of any monthly rental payments, a period of "free" rent or other rent concession, such postponed rent or "free" rent is called the "Abated Rent". Tenant shall

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be credited with having paid all of the Abated Rent on the expiration of the Lease Term only if Tenant has fully, faithfully, and punctually performed all of Tenant's obligations hereunder, including the payment of all rent (other than the Abated Rent) and all other monetary obligations and the surrender of the Property in the physical condition required by this Lease. Tenant acknowledges that its right to receive credit for the Abated Rent is absolutely conditioned upon Tenant's full, faithful and punctual performance of its obligations under this Lease. If Tenant defaults and does not cure within any applicable grace period, the Abated Rent shall immediately become due and payable in full and this Lease shall be enforced as if there were no such rent abatement or other rent concession. In such case Abated Rent shall be calculated based on the full initial rent payable under this Lease.

Section 10.05. AUTOMATIC TERMINATION. Notwithstanding any other term or provision hereof to the contrary, the Lease shall terminate on the occurrence of any act which affirms the Landlord's intention to terminate the Lease as provided in Section 10.03 hereof, including the filing of an unlawful detainer action against Tenant. On such termination, Landlord's damages for default shall include all costs and fees, including reasonable attorneys' fees that Landlord incurs in connection with the filing, commencement, pursuing and/or defending of any action in any bankruptcy court or other court with respect to the Lease; the obtaining of relief from any stay in bankruptcy restraining any action to evict Tenant; or the pursuing of any action with respect to Landlord's right to possession of the Property. All such damages suffered (apart from Base Rent and other rent payable hereunder) shall constitute pecuniary damages which must be reimbursed to Landlord prior to assumption of the Lease by Tenant or any successor to Tenant in any bankruptcy or other proceeding.

Section 10.06. CUMULATIVE REMEDIES. Landlord's exercise of any right or remedy shall not prevent it from exercising any other right or remedy.

#### ARTICLE ELEVEN: PROTECTION OF LENDERS

Section 11.01. SUBORDINATION. Landlord shall have the right to subordinate this Lease to any ground lease, deed of trust or mortgage encumbering the Property, any advances made on the security thereof and any renewals, modifications, consolidations, replacements or extensions thereof, whenever made or recorded. Tenant shall cooperate with Landlord and any lender which is acquiring a security interest in the Property or the Lease. Tenant shall execute such further documents and assurances as such lender may require, provided that Tenant's obligations under this Lease shall not be increased in any material way (the performance of ministerial acts shall not be deemed material), and Tenant shall not be deprived of its rights under this Lease. Tenant's right to quiet possession of the Property during the Lease Term shall not be disturbed if Tenant pays the rent and performs all of Tenant's obligations under this Lease and is not otherwise in default. If any ground lessor, beneficiary or mortgagee elects to have this Lease prior to the lien of its ground lease, deed of trust or mortgage and gives written notice thereof to Tenant, this Lease shall be deemed prior to such ground lease, deed of trust or mortgage whether this Lease is dated prior or subsequent to the date of said ground lease, deed of trust or mortgage or the date of recording thereof.

Section 11.02. ATTORNMEN: If Landlord's interest in the Property is acquired by any ground lessor, beneficiary under a deed of trust, mortgage, or purchaser at a foreclosure sale, Tenant shall attorn to the transferee or successor to Landlord's interest in the Property and recognize such transferee or successor as Landlord under this Lease. Tenant waives the protection of any statute or rule of law which gives or purports to give Tenant any right to terminate this Lease or surrender possession of the Property under the transfer of Landlord's interest.

Section 11.03. SIGNING OF DOCUMENTS. Tenant shall sign and deliver any instrument or documents necessary or appropriate to evidence any such attornment or subordination or agreement to do so. If Tenant fails to do so within ten (10) days after written request, Tenant hereby makes, constitutes and irrevocably appoints Landlord, or any transferee or successor of Landlord, the attorney-in-fact of Tenant to execute and deliver any such instrument or document.

#### Section 11.04. ESTOPPEL CERTIFICATES.

(a) Upon Landlord's written request, Tenant shall execute, acknowledge and deliver to Landlord a written statement certifying: (i) that none of the terms or provisions of this Lease have been changed (or if they have been changed, stating how they have been changed); (ii) that this Lease has not been

Section 11.05. TENANT'S FINANCIAL CONDITION. Within ten (10) days after written request from Landlord, Tenant shall deliver to Landlord such financial statements as Landlord reasonably requires to verify the net worth of Tenant or any assignee, subtenant, or guarantor of Tenant. In addition, Tenant shall deliver to any lender designated by Landlord any financial statements required by such lender to facilitate the financing or refinancing of the Property. Tenant represents and warrants to Landlord that each such financial statement is a true and accurate statement as of the date of such statement. All financial statements shall be confidential and shall be used only for the purposes set forth in this Lease.

ARTICLE TWELVE: LEGAL COSTS

Section 12.01. LEGAL PROCEEDINGS. If Tenant or Landlord shall be in breach or default under this Lease, such party (the "Defaulting Party") shall reimburse the other party (the "Nondefaulting Party") upon demand for any costs or expenses that the Nondefaulting Party incurs in connection with any breach or default of the Defaulting Party under this Lease, whether or not suit is commenced or judgment entered. Such costs shall include legal fees and costs incurred for the negotiation of a

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settlement, enforcement of rights or otherwise. Furthermore, if any action for breach of or to enforce the provisions of this Lease is commenced, the court in such action shall award to the party in whose favor a judgment is entered, a reasonable sum as attorneys' fees and costs. The losing party in such action shall pay such attorneys' fees and costs. Tenant shall also indemnify Landlord against and hold Landlord harmless from all costs, expenses, demands and liability Landlord may incur if Landlord becomes or is made a party to any claim or action (a) instituted by Tenant against any third party, or by any third party against Tenant, or by or against any person holding any interest under or using the Property by license of or agreement with Tenant; (b) for foreclosure of any lien for labor or material furnished to or for Tenant or such other person; (c) otherwise arising out of or resulting from any act or transaction of Tenant or such other person; or (d) necessary to protect Landlord's interest under this Lease in a bankruptcy proceeding, or other proceeding under Title 11 of the United States Code, as amended. Tenant shall defend Landlord against any such claim or action at Tenant's expense with counsel reasonably acceptable to Landlord or, at Landlord's election, Tenant shall reimburse Landlord for any legal fees or costs Landlord incurs in any such claim or action.

Section 12.02 LANDLORD'S CONSENT. Tenant shall pay Landlord's reasonable attorneys' fees incurred in connection with Tenant's request for Landlord's consent under Article Nine (Assignment and Subletting), or in connection with any other act which Tenant proposes to do and which requires Landlord's consent.

#### ARTICLE THIRTEEN: MISCELLANEOUS PROVISIONS

Section 13.01. NON-DISCRIMINATION. Tenant promises, and it is a condition to the continuance of this Lease, that there will be no discrimination against, or segregation of, any person or group of persons on the basis of race, color, sex, creed, national origin or ancestry in the leasing, subleasing, transferring, occupancy, tenure or use of the Property or any portion thereof.

#### Section 13.02. LANDLORD'S LIABILITY; CERTAIN DUTIES.

(a) As used in this Lease, the term "Landlord" means only the current owner or owners of the fee title to the Property or Project or the leasehold estate under a ground lease of the Property or Project at the time in question. Each Landlord is obligated to perform the obligations of Landlord under this Lease only during the time such Landlord owns such interest or title. Any Landlord who transfers its title or interest is relieved of all liability with respect to the obligations of Landlord under this Lease to be performed on or after the date of transfer. However, each Landlord shall deliver to its transferee all funds that Tenant previously paid if such funds have not yet been applied under the terms of this Lease.

(b) Tenant shall give written notice of any failure by Landlord to perform any of its obligations under this Lease to Landlord and to any ground lessor, mortgagee or beneficiary under any deed of trust encumbering the Property whose name and address have been furnished to Tenant in writing. Landlord shall not be in default under this Lease unless Landlord (or such ground lessor, mortgagee or beneficiary) fails to cure such non-performance within thirty (30) days after receipt of Tenant's notice. However, if such non-performance reasonably requires more than thirty (30) days to cure, Landlord shall not be in default if such cure is commenced within such thirty (30)-day period and thereafter diligently pursued to completion.

(c) Notwithstanding any term or provision herein to the contrary, the liability of Landlord for the performance of its duties and obligations under this Lease is limited to Landlord's interest in the Property and the Project, and neither the Landlord nor its partners, shareholders, officers or other principals shall have any personal liability under this Lease.

Section 13.03. SEVERABILITY. A determination by a court of competent jurisdiction that any provision of this Lease or any part thereof is illegal or unenforceable shall not cancel or invalidate the remainder of such provision or this Lease, which shall remain in full force and effect.

Section 13.04. INTERPRETATION. The captions of the Articles or Sections of this Lease are to assist the parties in reading this Lease and are not a part of the terms or provisions of this Lease. Whenever required by the context of this Lease, the singular shall include the plural and the plural shall include the singular. The masculine, feminine and neuter genders shall each include the other. In any provision relating to the conduct, acts or omissions of Tenant, the term "Tenant" shall include Tenant's agents, employees, contractors, invitees, successors or others using the Property with Tenant's expressed or implied permission.

statement on a payment check from Tenant or in a letter accompanying a payment check shall be binding on Landlord. Landlord may, with or without notice to Tenant, negotiate such check without being bound to the conditions of such statement.

Section 13.08. NO RECORDATION. Tenant shall not record this Lease without prior written consent from Landlord. However, either Landlord or Tenant may require that a "Short Form" memorandum of this Lease executed by both parties be recorded. The party requiring such recording shall pay all transfer taxes and recording fees.

Section 13.09. BINDING EFFECT; CHOICE OF LAW. This Lease binds any party who legally acquires any rights or interest in this Lease from Landlord or Tenant. However, Landlord shall have no obligation to Tenant's successor unless the rights or interests of Tenant's successor are acquired in accordance with the terms of this Lease. The laws of the state in which the Property is located shall govern this Lease.

Section 13.10. CORPORATE AUTHORITY; PARTNERSHIP AUTHORITY. If Tenant is a corporation, each person signing this Lease on behalf of Tenant represents and warrants that he has full authority to do so and that this Lease binds the corporation. Within thirty (30) days after this Lease is signed, Tenant shall deliver to Landlord a certified copy of a resolution of Tenant's Board of Directors authorizing the execution of this Lease or other evidence of such authority reasonably acceptable to Landlord. If Tenant is a partnership, each person or entity signing this Lease for Tenant represents and warrants that he or it is a general

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partner of the partnership, that he or it has full authority to sign for the partnership and that this Lease binds the partnership and all general partners of the partnership. Tenant shall give written notice to Landlord of any general partner's withdrawal or addition. Within thirty (30) days after this Lease is signed, Tenant shall deliver to Landlord a copy of Tenant's recorded statement of partnership or certificate of limited partnership.

Section 13.11. JOINT AND SEVERAL LIABILITY. All parties signing this Lease as Tenant shall be jointly and severally liable for all obligations of Tenant.

Section 13.12. FORCE MAJEURE. If Landlord cannot perform any of its obligations due to events beyond Landlord's control, the time provided for performing such obligations shall be extended by a period of time equal to the duration of such events. Events beyond Landlord's control include, but are not limited to, acts of God, war, civil commotion, labor disputes, strikes, fire, flood or other casualty, shortages of labor or material, government regulation or restriction and weather conditions.

Section 13.13 EXECUTION OF LEASE. This Lease may be executed in counterparts and, when all counterpart documents are executed, the counterparts shall constitute a single binding instrument. Landlord's delivery of this Lease to Tenant shall not be deemed to be an offer to lease and shall not be binding upon either party until executed and delivered by both parties.

Section 13.14. SURVIVAL. All representations and warranties of Landlord and Tenant shall survive the termination of this Lease.

#### ARTICLE FOURTEEN: BROKERS

Section 14.01. BROKER'S FEE. When this Lease is signed by and delivered to both Landlord and Tenant, Landlord shall pay a real estate commission to Landlord's Broker named in Section 1.08 above, if any, as provided in the written agreement between Landlord and Landlord's Broker, or the sum stated in Section 1.09 above for services rendered to Landlord by Landlord's Broker in this transaction. Landlord shall pay Landlord's Broker a commission if Tenant exercises any option to extend the Lease Term or to buy the Property, or any similar option or right which Landlord may grant to Tenant, or if Landlord's Broker is the procuring cause of any other lease or sale entered into between Landlord and Tenant covering the Property. Such commission shall be the amount set forth in Landlord's Broker's commission schedule in effect as of the execution of this Lease. If a Tenant's Broker is named in Section 1.08 above, Landlord's Broker shall pay an appropriate portion of its commission to Tenant's Broker if so provided in any agreement between Landlord's Broker and Tenant's Broker. Nothing contained in this Lease shall impose any obligation on Landlord to pay a commission or fee to any party other than Landlord's Broker.

Section 14.02. PROTECTION OF BROKERS. If Landlord sells the Property, or assigns Landlord's interest in this Lease, the buyer or assignee shall, by accepting such conveyance of the Property or assignment of the Lease, be conclusively deemed to have agreed to make all payments to Landlord's Broker thereafter required of Landlord under this Article Fourteen. Landlord's Broker shall have the right to bring a legal action to enforce or declare rights under this provision. The prevailing party in such action shall be entitled to reasonable attorneys' fees to be paid by the losing party. Such attorneys' fees shall be fixed by the court in such action. This Paragraph is included in this Lease for the benefit of Landlord's Broker.

Section 14.03. AGENCY DISCLOSURE; NO OTHER BROKERS. Landlord and Tenant each warrant that they have dealt with no other real estate broker(s) in connection with this transaction except: Colliers Classic who represents Landlord and American Realty Brokers, who represents Tenant.

In the event that \_\_\_\_\_ represents both Landlord and Tenant, Landlord and Tenant hereby confirm that they were timely advised of the dual representation and that they consent to the same, and that they do not expect said broker to disclose to either of them the confidential information of the other party.

#### ARTICLE FIFTEEN: COMPLIANCE

The parties hereto agree to comply with all applicable federal, state and local laws, regulations, codes, ordinances and administrative orders having jurisdiction over the parties, property or the subject matter of this Agreement, including, but not limited to, the 1964 Civil Rights Act and all amendments thereto, the Foreign Investment In Real Property Tax Act, the



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Landlord and Tenant have signed this Lease at the place and on the dates specified adjacent to their signatures below and have initialed all Riders which are attached to or incorporated by reference in this Lease.

"LANDLORD"

Signed on November 28, 2000 NORTON P. REMES and JOAN A. REMES, CO-TRUSTEES  
 at \_\_\_\_\_ OF THE NORTON P. REMES and JOAN A. REMES  
 REVOCABLE TRUST dated November 17, 1994

By: /s/ Norton P. Remes  
 -----  
 Its: Trustee  
 -----  
 By: /s/ Joan A. Remes  
 -----  
 Its: Trustee  
 -----

"TENANT"

Signed on Nov. 24, 2000 Taser International, an Arizona  
 at \_\_\_\_\_ Corporation

By: /s/ Patrick Smith  
 -----  
 Its: CEO  
 -----  
 By: \_\_\_\_\_  
 -----  
 Its: \_\_\_\_\_  
 -----

IN ANY REAL ESTATE TRANSACTION, IT IS RECOMMENDED THAT YOU CONSULT WITH A PROFESSIONAL, SUCH AS A CIVIL ENGINEER, INDUSTRIAL HYGIENIST OR OTHER PERSON WITH EXPERIENCE IN EVALUATING THE CONDITION OF THE PROPERTY, INCLUDING THE POSSIBLE PRESENCE OF ASBESTOS, HAZARDOUS MATERIALS AND UNDERGROUND STORAGE TANKS.

THIS PRINTED FORM LEASE HAS BEEN DRAFTED BY LEGAL COUNSEL AT THE DIRECTION OF THE SOUTHERN CALIFORNIA CHAPTER OF THE SOCIETY OF INDUSTRIAL AND OFFICE REALTORS(R), INC. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE SOUTHERN CALIFORNIA CHAPTER OF THE SOCIETY OF INDUSTRIAL AND OFFICE REALTORS(R), INC., ITS LEGAL COUNSEL, THE REAL ESTATE BROKERS NAMED HEREIN, OR THEIR EMPLOYEES OR AGENTS, AS THE LEGAL SUFFICIENCY, LEGAL EFFECT OR TAX CONSEQUENCES OF THIS LEASE OR THIS TRANSACTION. LANDLORD AND TENANT SHOULD RETAIN LEGAL COUNSEL TO ADVISE THEM ON SUCH MATTERS AND SHOULD RELY UPON THE ADVICE OF SUCH LEGAL COUNSEL.

(C) 1988 Southern California Chapter Initials /s/ R.G.  
 of the Society of Industrial \_\_\_\_\_  
 and Office Realtors, (R) Inc. /s/ J.R. AR  
 (Multi-Tenant Net Form) \_\_\_\_\_

<PAGE> 14

RIDER #1 TO INDUSTRIAL REAL ESTATE LEASE

This Rider #1 to Industrial Real Estate Lease ("Rider") is entered into this 17th day of November, 2000 by and between NORTON P. REMES and JOAN A. REMES, CO-TRUSTEES OF THE NORTON P. REMES and JOAN A. REMES REVOCABLE TRUST dated November 17, 1994 ("Landlord") and Taser International, an Arizona corporation, ("Tenant").

WHEREAS, Landlord and Tenant have entered into that certain, attached, Industrial Real Estate Lease ("Lease") dated November 17, 2000 and;

WHEREAS, Landlord and Tenant wish to further modify certain terms and conditions of the Lease;

NOW THEREFORE, Landlord and Tenant do hereby agree to modify the Lease as follows:

1. BASE RENT, The Base Rent for the term of the Lease shall be as follows:

Lease Year	1	\$10,030.00 per month, plus applicable tax, (NNN)
	2	\$10,330.90 per month, plus applicable tax, (NNN)
	3	\$10,640.83 per month, plus applicable tax, (NNN)
	4	\$10,960.05 per month, plus applicable tax, (NNN)
	5	\$11,288.85 per month, plus applicable tax, (NNN)

2. ADDITIONAL RENT. Tenant shall pay monthly as Additional Rent its prorata share of all estimated Common Area/Operating Expenses. This estimate will include, but is not limited to, Property Taxes and Insurance. These expenses will be reconciled and adjusted semi-annually in accordance with Section 4.05(e). Tenant will occupy 52% of building, i.e., 22,690 square feet -/- 11,800=52%. 2000 estimate is \$.19 per square foot, per month.

3. IMPROVEMENTS. Tenant will take suite is "AS-IS" condition, except for the following:

Landlord, at Landlord's sole expense, will hereby agree to install the following:

1. Replace carpet (chosen from Landlord's swatches only).
2. Broom clean warehouse prior to move in.

In addition, Landlord agrees to provide a total of \$29,500.00 for additional improvements only, not to include furniture or fixtures. Any additional improvements (over this amount) to the suite will be at Tenants sole expense. Tenant shall submit to Landlord, prior to construction of any improvements, a reasonable detailed description or plan describing the improvements to be made. All improvements will be completed in accordance with applicable building codes, by licensed contractors. Tenant will not permit any liens to be place against the property in connection with construction of improvements.

All other terms and conditions of the Lease will remain in full force and effect.

The above terms and conditions are agreed to and accepted this 28th day of November, 2000.

LANDLORD:  
NORTON P. REMES and JOAN A. REMES,  
TRUSTEES OF THE NORTON P. REMES  
and JOAN A. REMES REVOCABLE TRUST  
dated November 17, 1994

TENANT:  
Taser International, an Arizona  
corporation

BY: /s/ Norton P. Remes

By: /s/ Patrick Smith

Its: Trustee

Its: CEO

By: /s/ Joan A. Remes

By:

Its: Trustee

Its:

<PAGE> 15  
GUARANTEE OF LEASE

Reference is hereby made to a lease between, NORTON P. REMES and JOAN A. REMES, CO-TRUSTEES OF THE NORTON P. REMES and JOAN A. REMES REVOCABLE TRUST dated November 17, 1994 (Landlord), and Taser International, an Arizona corporation (Tenant), of certain premises located at 7860 E. McClain Drive, Suite 2B & 2C in the City of Scottsdale, County of Maricopa, State of Arizona.

In consideration of Landlord's having executed said Lease at the request of the undersigned and other valuable considerations, the receipt whereof is hereby acknowledged, the undersigned (Guarantors) hereby jointly and severally unconditionally guarantee to Landlord and Landlord's successors and assigns, the payment of the rents and other sums provided for in said Lease and the performance and observance of all agreements and conditions contained in said Lease on the part of Tenant to be performed or observed.

Guarantors hereby waive presentment for payment, demand for payment, notice of nonpayment or dishonor, protest and notice of protest, diligence in collection, and any and all formalities that may be legally required to charge them or either or any of them with liability; and the Guarantors, and each of them, for further agree that their liability as Guarantors shall in no way be impaired or affected by any renewals, waivers, or extensions that may be made from time to time, with or without the knowledge and consent of any one or more of them, of any default or the time of payment or performance required under said Lease, or by any forbearance or delay in enforcing any obligation thereof, or by assignment of said Lease or subletting of the demised Premises, neglect or refusal to enforce or to realize upon any security that may have been given or may hereafter be given thereunder or hereunder, or by any modifications of the terms or provisions of the Lease.

The Guarantors further jointly and severally covenant and agree to pay all expenses and fees, including attorney fees that may be incurred by the Landlord or its successors or assigns enforcing any of the terms or provisions of this Guarantee.

This Guarantee shall be binding upon the heirs, legal representatives, successors, and assigns of the Guarantors, and each of them, shall not be discharged or affected, in whole or in part by the death, bankruptcy, insolvency of the Guarantors, or any one or more of them.

This Guarantee is absolute, unconditional, and continuing and payment of the sums for which the undersigned becomes liable shall be made at the office of Landlord or its successors or assigns from time to time on demand as the same become or are declared due.

Guarantors hereby waives any and all benefits under Arizona Revised Statutes ("A.R.S.") Sections 12-1641 - 12-1646 and Rule 17(f) of the Arizona Rules of Civil Procedure.

IN WITNESS THEREOF, Guarantor has hereunto set his hands and seal this Agreement the 27th day of November 2000.

Guarantor: Phillips W. Smith

By: /s/ Phillips W. Smith

By: \_\_\_\_\_

Date: 11/27/00

Date: \_\_\_\_\_

By: \_\_\_\_\_

By: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

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7860 E. McClain \* Scottsdale, Arizona

[OFFICE FLOOR PLAN GRAPHIC]

[STREET MAP GRAPHIC]

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<FILENAME> p64567ex23-2.txt  
<DESCRIPTION> EX-23.2  
<TEXT>

<PAGE> 1

Exhibit 23.2

[AA LETTERHEAD]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our report dated February 12, 2001 (and to all references to our firm) included in or made a part of this SB-2 Registration Statement.

Phoenix, Arizona  
February 12, 2001  
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<PAGE> 1  
THOMAS P. PALMER

(503) 802-2018  
FAX (503) 972-3718  
tom@tonkon.com

February 26, 2001

VIA EDGAR

Securities and Exchange Commission  
Division of Corporation Finance  
Judiciary Plaza  
450 Fifth Street, N.W.  
Washington, D.C. 20549

TASER International, Inc.  
Registration Statement on Form SB-2, filed February 14, 2001  
Registration No. 333-55658, Amendment No. 1

On behalf of TASER International, Inc., a Delaware corporation (the "Company"), transmitted through the Edgar system for filing pursuant to the Securities Act of 1933, as amended, is accompanying Amendment No. 1 to the above referenced Registration Statement on Form SB-2 (the "Registration Statement"). Amendment No. 1 includes certain exhibits not included with the original filing of the Registration Statement and newly provides pro forma balance sheet information as of December 31, 2000 with respect to the Company in the Summary Financial Information portion of the Prospectus Summary. It also makes certain clarifications and corrects typographical and other minor errors.

Please telephone me at the number above if you have any questions.

Very truly yours,

/s/ THOMAS P. PALMER

-----

Thomas P. Palmer

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<R>

As filed with the Securities and Exchange Commission on February 26, 2001

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<R>

Registration No. 333-55658

<R>

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

<R>

**Amendment No. 1**

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**To**

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**Form SB-2**

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**REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**TASER INTERNATIONAL, INC.**

(Name of small business issuer in its charter)

**Delaware**  
(State or other Jurisdiction of  
Incorporation or Organization)

**3699**  
(Primary Standard Industrial  
Classification Code Number)

**86-0741227**  
(I.R.S. Employer  
Identification Number)

**7860 E. McClain Drive, Suite 2  
Scottsdale, Arizona 85260  
(480) 991-0797**  
(Address and telephone number of  
principal executive offices and  
principal place of business)

**Patrick W. Smith,  
Chief Executive Officer  
TASER International, Inc.  
7860 E. McClain Drive, Suite 2  
Scottsdale, Arizona 85260  
(480) 991-0797**  
(Name, address and telephone  
number of agent for service)

<R>

*Copies to:*

**Thomas P. Palmer, Esq.  
Jeffrey S. Cronn, Esq.  
Tonkon Torp LLP  
888 S.W. Fifth Avenue, Suite 1600  
Portland, Oregon 97204  
(503) 802-2018**

**Mark A. von Bergen, Esq.  
Joshua E. Husbands, Esq.  
Weiss Jensen Ellis & Howard  
2300 U.S. Bancorp Tower  
111 S.W. Fifth Avenue  
Portland, Oregon 97204  
(503) 243-2300**

<R>

**Approximate date of proposed sale to the public:  
As soon as practicable after the effective date of this registration statement.**

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement

[B/E]

CRC: 11756  
EDGAR 2

JB: P64567

PN: 001.00.00.00-1

SN: 8

Ed#: 4



for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

---

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

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**SUBJECT TO COMPLETION, DATED FEBRUARY 26, 2001**

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**PRELIMINARY PROSPECTUS**

**1,000,000 Units**



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This is an initial public offering of units by TASER International, Inc. Each unit consists of one share of common stock and one redeemable public warrant to purchase one share of common stock. We expect that the initial public offering price will be between \$9 and \$11 per unit. Prior to this offering, there has been no public market for our securities. We have filed an application to list the units, the common stock and the public warrants on The Nasdaq SmallCap Market under the symbols "TASRU," "TASR" and "TASRW," respectively.

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The common stock and warrants will trade only as a unit for at least 30 days following this offering. The representative of the underwriters will then determine when the units separate, after which the common stock and the public warrants will trade separately.

**Investing in these units involves significant risks. See "Risk Factors" beginning on page 4.**

	<u>Per Unit</u>	<u>Total</u>
Initial public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to TASER International, Inc.	\$	\$

**The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

Paulson Investment Company, Inc. is the representative of the underwriters. We have granted the representative the option for a period of 45 days to purchase up to an additional 150,000 units to cover over-allotments.

**PAULSON INVESTMENT COMPANY, INC.**

The date of this prospectus is \_\_\_\_\_, 2001.

[gatefold cover]

Page 1 of the gatefold: The artwork depicts below the company logo a side view of the ADVANCED TASER M26 with certain parts labeled and a top view of the AIR TASER 34000.

Pages 2 and 3 of the gatefold: The artwork depicts a pictorial diagram illustrating the effective range of the ADVANCED TASER M26 compared to batons and chemical sprays over distances of between zero and twenty feet.

Below the pictorial diagram are smaller photographs of the air cartridges (ammunition), the probes, the dataport on the ADVANCED TASER M26 and the AFID tags.

Below the smaller pictures the following captions appear:

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“The ADVANCED TASER M26 fires two small metal probes with fine wires attached. When the probes make contact, small barbs adhere to the target. Electrical signals are transmitted through the wires into the body of the subject, impairing his ability to perform coordinated action.”

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“The ADVANCED TASER M26 records the time and date of up to 585 firings. This data can be downloaded to a computer and used to investigate potential misuse of the weapon.”

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“The ADVANCED TASER M26 disperses 20-50 serial numbered identification tags upon firing. These tags can be used to trace the registered owner of the air cartridge used.”

## PROSPECTUS SUMMARY

*The following summary highlights selected information contained in this prospectus. This summary does not contain all the information you should consider before investing in the units. Before making an investment decision, you should read the entire prospectus carefully, including the "Risk Factors" section, the financial statements and the notes to the financial statements.*

### Our Company

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TASER International, Inc. develops, assembles and markets less-lethal, conducted energy weapons primarily for use in the law enforcement and corrections market. Our ADVANCED TASER weapon offers improved performance over other less-lethal force options used by law enforcement agencies. It can temporarily incapacitate virtually any individual regardless of pain tolerance, drug use, or body size — factors that cause other less-lethal options to have decreased effectiveness. Yet it has a comparable or lower injury rate than other less-lethal weapons and has had no reported long-term, adverse after-effects.

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The ADVANCED TASER uses compressed nitrogen to shoot two small probes up to 21 feet. These barbed probes are connected to the weapon by high-voltage insulated wires. When the probes make contact with the target, the ADVANCED TASER transmits powerful electrical pulses along the wires and into the body of the target through up to two inches of clothing. These electrical pulses impair voluntary muscle control so that the subject cannot perform coordinated action.

Law enforcement agencies are increasingly adopting less-lethal weapons, including pepper sprays, rubber bullets, and conducted energy weapons such as TASERs. Effective less-lethal weapons may increase the safety of law enforcement officers, decrease suspect injuries, improve community relations, reduce litigation and police department medical and liability insurance costs, and potentially save lives.

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Since December 1999, over 350 police departments in the United States have made initial purchases of our products, and 15 police departments, including San Diego, Sacramento and Albuquerque, have purchased our products for every patrol officer. In addition, at February 1, 2001, more than 200 other police departments were evaluating the use of the ADVANCED TASER.

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The key elements of our growth strategy are:

- To expand sales in the law enforcement and corrections market, which we believe to be the opinion leader for all other markets for less-lethal weapons;
- To expand into the related private security and military markets;
- To expand into the consumer market;
- To develop enhanced less-lethal weapons and technologies, such as longer-range TASERs and TASERs with multiple shot capabilities; and
- To acquire related businesses that enhance our strategic position.

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Our corporate headquarters is located at 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260 and our telephone number is (480) 991-0797. Our website address is [www.eTASER.com](http://www.eTASER.com). Information contained on our website or any other website does not constitute a part of this prospectus.

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## This Offering

Securities offered 1,000,000 units. Each unit consists of one share of common stock and one public warrant to purchase an additional share of common stock.

The common stock and public warrants will trade only as a unit for at least 30 days following this offering. The representative of the underwriters will then determine when the units separate, after which the common stock and the public warrants will trade separately.

<R>  
Public warrants The public warrants included in the units will be exercisable commencing 30 days after this offering. The exercise price of a public warrant is 150% of the initial public offering price of the units. The public warrants expire on the fifth anniversary of the closing of this offering.

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We have the right, commencing three months after the closing of this offering, to redeem the public warrants issued in this offering at a redemption price of \$0.25 per public warrant, after providing 30 days prior written notice to the public warrant holders, if the average closing bid price of the common stock equals or exceeds 200% of the initial public offering price of the units for ten consecutive trading days ending prior to the date of the notice of redemption.

Common stock outstanding after this offering 2,510,754 shares

Use of proceeds Repayment of debt, sales and marketing, research and development, production tooling and working capital.

### Proposed Nasdaq SmallCap

#### Market symbols

Common stock	TASR
Units offered in this offering	TASRU
Public warrants included in the units	TASRW

The number of shares of common stock outstanding after this offering is based on 1,510,754 shares outstanding as of February 12, 2001. The number of shares of common stock outstanding after this offering assumes no exercise of the representative's over-allotment option and does not include an aggregate of 1,687,049 shares of common stock that may become outstanding as follows:

- 434,322 shares of common stock issuable upon exercise of stock options outstanding as of February 12, 2001, with a weighted average exercise price of \$5.96;
- 52,727 shares of common stock issuable upon exercise of warrants outstanding as of February 12, 2001, with a weighted average exercise price of \$4.71;
- 1,000,000 shares of common stock issuable upon exercise of the public warrants; and
- 100,000 shares of common stock issuable upon exercise of the representative's warrants and 100,000 shares of common stock issuable upon exercise of the public warrants underlying the representative's warrants.

*Historical information regarding our securities has been adjusted to reflect a 1-for-6 reverse stock split effected in connection with our reincorporation in Delaware on February 12, 2001. Except as otherwise indicated, all information in this prospectus assumes no exercise of the representative's over-allotment option or the representative's warrants. References to "we," "us," the "company" or "TASER" mean TASER International, Inc., unless otherwise indicated.*

**SUMMARY FINANCIAL INFORMATION**

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	Years ended December 31,	
	1999	2000
<b>Statements of Operations Data:</b>		
Net sales	\$ 2,366,440	\$3,499,758
Gross profit	873,855	2,062,445
Loss from operations	(1,329,478)	(46,885)
Net loss	(1,610,299)	(415,629)
Basic and diluted net loss per share of common stock	\$ (0.52)	\$ (0.17)
Basic and diluted shares of common stock	3,076,410	2,482,976

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	December 31, 2000	
	Actual	As adjusted
<b>Balance Sheet Data:</b>		
Working capital (deficiency)	\$(1,011,984)	\$5,438,016
Property and equipment, net	274,273	524,273
Total assets	1,039,066	6,756,378
Total long-term debt	2,822,144	1,322,144
Stockholders' equity (deficit)	\$(3,559,855)	\$4,640,145

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The as adjusted balance sheet data reflects:

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- the receipt of approximately \$8,200,000 as the estimated net proceeds from the sale of 1,000,000 units offered by us in this offering at an assumed public offering price of \$10.00 per unit, after deducting the underwriting discount, expense allowance and estimated offering expenses; and

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- our planned use of the net proceeds of this offering.

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*We have rights to 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 prospectus belongs to its respective holder.*

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## RISK FACTORS

*This offering involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this prospectus before purchasing any units. Any of the following risks could materially harm our business, operating results and financial condition, and could result in a decrease in the trading price of our units, common stock or public warrants, or in a complete loss of your investment.*

### **Risks Related to Our Business**

***We have no history of profitable operations and may incur future losses.***

Since our inception in 1993, we have incurred significant losses. Our net losses for the years ended December 31, 1999 and 2000 were \$1.6 million and \$416,000, respectively. At December 31, 2000, we had an accumulated deficit of approximately \$6.7 million. In addition, we expect our operating expenses to increase significantly as we expand our sales and marketing efforts and otherwise support our expected growth. Given these planned expenditures, we may incur additional losses in the near future. We may never achieve or sustain profitability.

***We are materially dependent on acceptance of our products by the law enforcement and corrections market.***

We have recently devoted significant resources to sales opportunities in the law enforcement and corrections market. A substantial number of law enforcement and corrections agencies may not purchase our conducted energy, less-lethal weapons. Despite the absence of reported long-term, adverse after-effects from the use of our products, these 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 be delayed or limited by these claims or perceptions. 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 in additional markets.

***We have a limited operating history in the law enforcement and corrections market.***

Under an agreement with another company, we were prevented from selling our products in the law enforcement and corrections market until February 1998. We shifted our corporate focus to this market only in late 1999. Due to our limited operating history, we may not be able to attain significant sales in this market.

***We substantially depend on sales of a single product line.***

We derived the majority of our revenues from sales of ADVANCED TASERS and related cartridges in 2000. A decrease in the prices of or demand for this product line, or its failure to achieve broad market acceptance, would significantly harm our business, financial condition and operating results.

***We may not be able to manage our projected growth.***

We may experience growth that strains our managerial, financial and other resources. Our systems, procedures, controls and management resources may not be adequate to support our future operations. We will need to continually improve our operational, financial and other internal systems to manage our growth effectively. If we are unable to manage our growth, our business, operating results and financial condition could be adversely affected.

***We may face potential personal injury and other liability claims.***

Our products are often used in aggressive confrontations that may result in serious, permanent bodily injury to those involved. Although there have been no reported long-term, adverse after-effects from the use of our products, 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.

***We plan to relocate our product assembly operations from Mexico to the United States by the end of the second quarter of 2001, which may adversely affect product availability and cost.***

We plan to terminate assembly operations with our turnkey supplier in Guaymas, Mexico and relocate some production equipment from Mexico to the United States. In anticipation of moving our product assembly operations from Mexico, we have initiated a parallel production capability in our new facility in Scottsdale, Arizona. If we encounter delays or unforeseen problems in this move, it may significantly adversely affect our ability to produce and ship product and generate short-term sales and cash flow. Also, assembly of our products in the United States may result in an increase in our cost of products sold.

***We are materially dependent on independent distributors for the sale of our products.***

We sell our products primarily through a network of independent distributors. Our arrangements with these 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.

***We expend significant resources in anticipation of a sale due to our lengthy sales cycle.***

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.***

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 with the acquisition of products by government 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" implement 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. While we have a history of timely obtaining DOC export licenses for sales of our weapons to the majority of our international customers, unforeseen changes in U.S. export regulations could significantly and adversely affect our international sales.

*State and local regulation.* Our weapons are currently 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, Rhode Island, Massachusetts and Hawaii. 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 our products.

***We are dependent on key personnel.***

Our success depends to a significant extent upon the continued services of our executive officers and other key management, sales and technical personnel. In particular, we rely upon Mr. Patrick W. Smith, our chief executive officer, and Mr. Thomas P. Smith, our president. The loss of the services of any of our executive officers or other key management, sales or technical personnel could adversely affect us. We intend to purchase key-person insurance on the lives of Thomas and Patrick Smith following this offering.

***We may not be able to adequately protect or enforce our intellectual property rights.***

We have licensed or patented certain aspects of the technology incorporated in our 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. The scope of any patent to which we have or may obtain rights may not prevent others from developing and selling competing products. In addition, our patents may be held invalid upon challenge, others may claim rights in or ownership of our patents, and our products may infringe, or be alleged to infringe, upon the intellectual property rights of others.

***We may face competition from larger, more established companies.***

The law enforcement and corrections market and other markets we plan to enter are highly competitive. We face competition from numerous larger, better capitalized and more widely known companies that make other less-lethal weapons and products. Increased competition may result in greater pricing pressure, which could adversely affect our gross margins.

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***We may incur significant warranty costs if our products fail to operate properly.***

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We offer a lifetime warranty on our AIR TASER and ADVANCED TASER weapons under which we will replace any weapon that fails to operate properly for a \$25 fee. We may incur significant warranty costs if our products are defective in hardware or workmanship and fail to operate properly for these or any other reason. In 2000, we recalled and replaced a series of ADVANCED TASERs due to a defective component.

<R>

***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 changes in our operating expenses, the timing of the introduction of new products and services, market acceptance of our new products and services, regulatory changes that may affect the competitive environment for our products, and budgetary cycles of municipal,

state, and federal law enforcement agencies. As a result of these and other factors, we believe that period-to-period comparisons of our operating results may not be meaningful in the near term and that you should not rely upon our performance in a particular period as indicative of our performance in any future period.

***We depend on third-party suppliers for key components of our weapons.***

We depend on certain domestic and foreign suppliers for the delivery of raw materials used in the production of our products. Specifically, we depend on suppliers of sub-assemblies, machined parts, injection molded parts, steel castings, custom wire fabrications, and other miscellaneous custom parts for our products. We do not have long-term supply agreements with any of these suppliers. Although we believe that alternative supplies for these materials and components are available, 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 business, financial condition and operating results.

***Foreign currency fluctuations may reduce our competitiveness in foreign markets.***

Although our policy of exclusively entering into dollar-denominated contracts eliminates our risk of foreign exchange losses, the relative change in currency values creates fluctuations in product pricing for potential international customers. These changes in end-user foreign prices 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.

***We are parties to a lawsuit involving the rights of a former distributor of our products.***

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. We believe the claims are without merit.

**Risks Related to This Offering**

***We may use the proceeds of this offering in ways that do not improve our operating results or the market value of our common stock.***

We intend to use the net proceeds from this offering for repayment of stockholder and other debt, increased marketing efforts, research and development and general corporate purposes. Repayment of our debt will not directly improve our operating results. Our management will retain broad discretion and significant flexibility in applying the net proceeds from this offering. If our management does not apply the proceeds effectively, our business will be harmed.

***You will suffer immediate dilution of your investment and may experience further dilution in the future.***

We anticipate that the initial public offering price of the units will be substantially higher than the net tangible book value per share of our common stock after this offering. As a result, you will incur immediate dilution of approximately \$8.15 in net tangible book value for each share of our common stock included in the units you purchase. If any currently outstanding options or warrants to purchase our common stock are exercised, your investment will be further diluted.

***There has been no prior market for our securities and a public market for our securities may not develop or be sustained.***

Prior to this offering, you could not buy or sell our securities publicly. If an active public market for our securities is not sustained after this offering, the market price of our securities may fall below their initial public offering price, and the liquidity of your investment may be significantly limited.

***The initial public offering price of our units may not accurately reflect their future market performance.***

The initial public offering price of the units has been determined based on negotiations between the underwriters' representative and us. The initial public offering price may not be indicative of future market performance and may bear no relationship to the price at which our units, common stock or public warrants will trade.

***The price of our securities may be volatile.***

The stock market has recently experienced significant price and volume fluctuations. The price of our securities may fluctuate significantly in response to a number of factors, including:

- Our quarterly operating results;
- Changes in earnings estimates by analysts and whether our earnings meet or exceed such estimates;
- Announcements of technological innovations by us or our competitors;
- Additions or departures of key personnel; and
- Other events or factors that may be beyond our control.

Volatility in the market price of our securities could lead to claims against us. Defending these claims could result in significant costs and a diversion of our management's attention and resources.

***Future sales of our common stock by our existing stockholders could decrease the trading price of our common stock.***

Sales of a large number of shares of our common stock in the public markets after this offering, or the potential for such sales, could decrease the trading price of our common stock and could impair our ability to raise capital through future sales of our common stock. Upon completion of this offering, there will be 2,510,754 shares of our common stock outstanding. The 1,000,000 shares of common stock sold in this offering and the 1,000,000 shares of common stock reserved for issuance upon exercise of the public warrants sold in this offering will be freely tradeable without restrictions or further registration under the Securities Act of 1933, unless such shares are purchased by our "affiliates," as that term is defined in the Securities Act of 1933. An additional 1,687,049 shares of common stock, including shares issuable upon exercise of the representative's warrants, may become outstanding upon exercise or conversion of options or warrants currently outstanding or sold in this offering, subject to various lock-up agreements prohibiting the sale of such shares for one year following completion of this offering.

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***The exercise of previously issued options and warrants may dilute your investment in our shares and impair our ability to obtain equity financing.***

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In addition to the 1,510,754 shares outstanding as of February 12, 2001, there are currently outstanding options to purchase 434,322 shares of our common stock, 119,055 of which are currently exercisable. We have reserved an additional 259,000 shares of our common stock for issuance pursuant to options that may be granted in the future to key employees, and others, under our 2001 Stock Option Plan. In addition, we have issued warrants to acquire up to 52,727 shares of our common stock. During the terms of such options and warrants, the holders of such securities have the opportunity to profit from a rise in the value or market price of our common stock, and the exercise of these options and warrants could dilute the then book value per share of our common stock. The existence of these options and warrants could adversely affect the terms at which we could obtain additional equity financing. Moreover, the holders of the options and warrants may be expected to exercise them at a time when we could obtain equity capital on terms more favorable than those provided by the options and warrants.

***We will need to comply with federal and state securities laws to maintain the tradeability of our securities.***

We must maintain in effect the registration statement filed with the Securities and Exchange Commission with respect to the units and must also comply with the securities laws of a state for the units, common stock and public warrants to be tradeable in that state. If we do not comply with federal or state securities laws, your ability to sell the securities offered by this prospectus may be significantly reduced.

***Certain of our directors or investors will personally benefit from the use of the proceeds of this offering.***

We will use the proceeds from this offering to repay a \$1.5 million loan from a director who is also a stockholder and to retire the interest accrued through March 1, 2001, on our outstanding stockholder notes. In addition, if the over-allotment option granted to the representative of the underwriters is exercised in full, approximately \$1.3 million in stockholder notes, including a note issued to our chairman, will be retired. This debt matures July 1, 2002.

***We may need additional financing.***

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If revenues are less than expected, or if expenses exceed our expectations, we may be required to find additional sources of financing to continue or expand our operations. We could seek additional financing from a number of sources, including, but not limited to, possible further sales of equity or debt securities and loans from banks, affiliates of the company, or other financial institutions. We may not be able to sell any such securities, or obtain such additional financing, on terms and conditions acceptable or favorable to us, or at all, if and when needed by us.

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***Our existing stockholders will continue to control us.***

Upon completion of this offering, existing stockholders will own approximately 60% of our outstanding common stock. These stockholders will continue to control most matters requiring approval by our stockholders, including the election of our directors.

***We do not intend to pay cash dividends.***

Any investors who have or anticipate any need for immediate income from their investment should not purchase any of the units offered hereby.

***Provisions of our charter documents and Delaware law may have anti-takeover effects that could hinder a change in our corporate control.***

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable. These provisions include:

- authorizing our board of directors to issue preferred stock without stockholder approval;
- providing for a classified board of directors with staggered, three-year terms; and
- allowing written stockholder actions only by unanimous consent.

Provisions of Delaware law, including provisions that prohibit business combinations with entities holding greater than a threshold amount of voting stock, also may discourage, delay or prevent someone from acquiring or merging with us, which may cause the market price of our securities to decline.

***You should not rely upon our forward-looking statements.***

Some of the statements made in this prospectus discuss future events and developments, including our future business strategy and our ability to generate revenue, income and cash flow. In some cases, you can identify forward-looking statements by words or phrases such as “may,” “will,” “should,” “expects,”

“plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue,” “our future success depends,” “seek to continue,” or the negative of these words or phrases, or comparable words or phrases. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various facts, including the risks outlined under “Risk Factors.” These factors may cause our actual results to differ materially from any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these statements. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results.

### USE OF PROCEEDS

We estimate that the net proceeds from the sale of the 1,000,000 units that we are selling in this offering will be approximately \$8,200,000, or \$9,527,500 if the representative exercises its over-allotment option in full, based on an assumed public offering price of \$10.00 per unit, and after deducting the underwriting discount, expense allowance, and estimated offering expenses of \$650,000 payable by us.

We expect to allocate the net proceeds of this offering as follows:

	Approximate Amount	Approximate Percentage
Payment of stockholder note	\$1,500,000	18%
Other debt repayment	1,180,000	14%
Accrued expenses and payables	300,000	4%
Accounts receivable and inventory	1,000,000	12%
Sales and marketing programs	1,500,000	18%
Research and development	500,000	6%
Tooling and equipment	250,000	3%
Other working capital/ general corporate purposes	1,970,000	25%
<b>Total</b>	<b>\$8,200,000</b>	<b>100%</b>

The debt we intend to repay includes:

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  - a \$1,500,000 note at an interest rate of bank prime, which was 9.5% at December 31, 2000, plus 1%, payable to a director;
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  - a \$500,000 note at an interest rate of 18% payable to a private investor;
- <R>
  - a \$189,980 note at an interest rate of 10% payable to a third-party vendor;
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  - a \$99,974 note at an interest rate of 10% payable to our chairman;
  - a remaining balance of \$94,000 on a note at an interest rate of 11% payable to a private investor; and
  - approximately \$300,000 of accrued but unpaid interest on notes to our stockholders, including our chairman and a director.

Further, if the representative exercises its over-allotment option in full, we will repay the principal on other outstanding stockholder notes of approximately \$1.3 million.

Payment of accrued expenses and payables includes deferred employee expense reimbursement, accumulated interest, past due trade payables, and other miscellaneous accrued expenses.

Pending application of the net proceeds, we intend to invest the net proceeds in interest-bearing, investment grade securities.



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The foregoing discussion is merely an estimate based on our current business plan. Our actual expenditures may vary depending upon circumstances not yet known, such as the time actually required to reach a positive cash flow or to successfully expand the market for our products.

#### **DIVIDEND POLICY**

We have never declared or paid any cash dividends on our shares of common stock and do not anticipate paying any cash dividends in the foreseeable future. Currently, we intend to retain any future earnings for use in the operation and expansion of our business. Any future decision to pay cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, capital requirements and other factors our board of directors may deem relevant.

## CAPITALIZATION

The following table sets forth our capitalization at December 31, 2000 on an actual basis and on a pro forma basis, after giving effect to our reincorporation in Delaware, our related 1-for-6 reverse stock split, and the sale of 1,000,000 units offered hereby at an estimated price of \$10.00 per unit and the initial application of the estimated net proceeds therefrom. This table should be read in conjunction with, and is qualified by, the financial statements and notes thereto included elsewhere in this prospectus.

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	December 31, 2000	
	Actual	Pro Forma
	(dollars in thousands)	
Current portion of note payable(1)	\$ 100	\$ —
Current portion of notes payable to related parties	125	—
Accounts payable and accrued liabilities	300	—
Inventory financing payable	190	—
Accrued interest	268	—
	\$ 983	\$ —
Long-term notes payable to stockholders and others, and capital lease obligations, excluding current portion	\$ 2,822	\$1,322
Stockholders' equity (deficit)		
Preferred stock \$0.00001 par value, 25,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock \$0.00001 par value, 50,000,000 shares authorized; 1,510,754 shares issued and outstanding actual, 2,510,754 shares issued and outstanding pro forma(2)	1,890	—
Additional paid-in capital	1,310	4,720
Deferred compensation	(80)	(80)
Retained earnings (deficit)(3)	(6,680)	—
Total stockholders' equity (deficit)	(3,560)	4,640
Total capitalization (deficiency)	\$ (738)	\$5,962

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(1) Subsequent to December 31, 2000, an investor advanced us \$500,000, which is due to be repaid with the proceeds from this offering upon its closing or by July 1, 2002, whichever is earlier.

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(2) Does not include (i) 434,322 shares of common stock issuable upon exercise of stock options issued pursuant to our stock option plans, which have a weighted average exercise price of \$5.96 per share, (ii) an additional 52,727 shares of common stock issuable upon exercise of warrants outstanding, which have a weighted average exercise price of \$4.71, and (iii) the shares of common stock underlying the units issuable upon exercise of the representative's over-allotment option or the representative's warrants.

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(3) Our accumulated deficit, which was \$6.7 million at December 31, 2000, was reclassified into additional paid-in capital upon the termination of our S-corporation tax status in the first quarter of 2001.

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## DILUTION

If you invest in our units, your interest will be diluted to the extent of the difference between the public offering price per share of our common stock and the as adjusted net tangible book value per share of our common stock after this offering. For purposes of the dilution computation and the following tables, we have allocated the full purchase price of a unit to the share of common stock included in the unit and nothing to the warrant included in the unit. As of December 31, 2000, our net tangible book value was a negative \$3,559,855, or a deficiency of \$2.36 per share of common stock. Net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities, divided by the total number of shares of common stock outstanding. Dilution in net tangible book value per share represents the difference between the amount per share paid by the purchasers of our units in this offering and the net tangible book value per share of our common stock immediately afterwards. Without taking into effect any changes in the net tangible book value after December 31, 2000, other than to give effect to the sale of 1,000,000 units in this offering at the assumed initial public offering price of \$10.00 per unit and the application of the net proceeds of this offering, the net tangible book value of TASER as of December 31, 2000 would have been \$4,640,145, or \$1.85 per share. This represents an immediate increase of \$4.20 per share of common stock to existing stockholders and an immediate dilution of \$8.15 per share of common stock to the new investors who purchase units in this offering. The following table illustrates this per share dilution:

Assumed initial public offering price		\$10.00
Net tangible book value (deficiency) per share before this offering	\$(2.36)	
Increase in net tangible book value per share attributable to new investors	\$ 4.21	
As adjusted net tangible book value per share after this offering		\$ 1.85
Dilution in net tangible book value per share to new investors		\$ 8.15

If the representative's over-allotment option is exercised in full, dilution per share to new investors would be \$7.76 per share of common stock.

The following table summarizes as of December 31, 2000 the differences between the existing stockholders and the new investors with respect to the number of shares of common stock purchased, the total consideration paid, and the average price per share paid:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	1,510,754	60%	\$ 3,199,898	24%	\$ 2.12
New investors	1,000,000	40%	10,000,000	76%	\$10.00
Total	2,510,754	100%	\$13,199,898	100%	

The above computations assume no exercise of outstanding options or warrants to purchase common stock, the representative's over-allotment option, the public warrants included in units sold in this offering or the representative's warrants. To the extent that these options and warrants are exercised, there will be further dilution to new investors.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and related notes to the financial statements included elsewhere in this prospectus. This discussion contains forward-looking statements that relate to future events or our future financial performance. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include, among others, those listed under "Risk Factors" and those included elsewhere in this prospectus.*

### Overview

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

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In 1995 and 1996, we focused 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 prohibiting the company from marketing or selling 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.

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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. 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.

The non-compete agreement that had precluded sales to the law enforcement and military markets expired in 1998. During this year, we focused our development efforts on the ADVANCED TASER product line, a redesigned and enhanced version of the AIR TASER, targeted primarily to the U.S. law enforcement and corrections market. During 1998, in addition to \$66,000 paid to outside research and development consultants, we also incurred substantial internal unallocated expenses associated with the development of the ADVANCED TASER. Further, end-user sales of the AUTO TASER continued to decline, and product returns remained higher than expectations.

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In August 1999, the AUTO TASER product line was discontinued and we closed our production facilities in Mexico. We sold all remaining finished goods associated with the AUTO TASER product line by the end of the first quarter of 2000. We outsourced the production of our remaining finished goods and non-proprietary components to a third-party assembler. We shifted our focus to completion of the ADVANCED TASER development project and introduced the first ADVANCED TASER units for sale to law enforcement customers in December 1999. As a result of these activities and product development expenses, we had accumulated a deficit of \$6.3 million by December 31, 1999.

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The first full year of the ADVANCED TASER product line sales was 2000. We spent the year focusing on 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.

**Results of Operations**

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For the years ended December 31, 1999 and 2000, sales by product line were as follows:

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Product Line	1999	%	2000	%
ADVANCED TASER (including cartridges and accessories)	\$ 80,000	3%	\$2,152,000	62%
AIR TASER (including cartridges and accessories)	1,327,000	56%	1,241,000	35%
AUTO TASER (including accessories)	608,000	26%	24,000	1%
Miscellaneous sales (components, freight, services, equipment)	351,000	15%	83,000	2%
Total sales	\$2,366,000	100%	\$3,500,000	100%

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*Net sales.* Net sales increased \$1.1 million, or 48%, from \$2.4 million for the year ended December 31, 1999 to \$3.5 million for the year ended December 31, 2000. The increase was due almost entirely to the first full year of sales of the ADVANCED TASER, primarily to law enforcement agencies. The increase in sales was partially offset by the decline in AUTO TASER sales due to the discontinuation of this product line and somewhat lower sales of the AIR TASER to consumers.

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*Cost of products sold.* Cost of products sold decreased from \$1.5 million in 1999, or 63% of net sales, to \$1.4 million in 2000, or 41% of net sales. The decrease in cost of products sold as a percentage of net sales was due primarily to the lower direct production costs associated with the AIR and ADVANCED TASERS, which averaged 33% of gross sales as compared to 55% of gross sales for the AUTO TASER, and a one-time charge related to the phase out of the AUTO TASER product line of approximately \$355,000 in 1999.

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At December 31, 2000, our principal product costs included the following:

- **Direct materials:** Direct materials include raw materials and sub-assemblies sold to our contract manufacturer for insertion into the final production assemblies as well as supplies used in production. Direct materials represent the majority of our cost of products.
- **Direct labor:** Direct labor represents the expenses incurred in our Scottsdale, Arizona facility for the assembly and packaging of sub-assemblies. Once finished, these sub-assemblies are sold to our contract manufacturer for insertion in finished product. Prior to 2000, direct labor included wages paid to employees in our Mexico production facility.
- **Shipping expense:** Shipping expense includes those costs associated with shipping finished products to our customers. This includes freight paid to ship orders, special handling charges and related transaction fees.

In 2001, we anticipate that direct labor will represent a larger portion of cost of products sold as we move final assembly to our facility in Scottsdale.

*Gross profit.* Gross profit increased \$1.2 million, or 136%, from \$874,000 in 1999 to \$2.1 million in 2000. Our gross profit margin was 37% of net sales in 1999 compared to 59% in 2000 due to increased sales of higher margin ADVANCED TASER products and the write offs taken in 1999 as a result of the phase out of the AUTO TASER.

*Operating expenses.* Operating expenses decreased \$203,000, or 32%, from \$634,000 in 1999 to \$431,000 in 2000. Operating expenses were 27% of net sales in 1999 compared to 12% of net sales in 2000. This reduction in operating expenses is due largely to the closure of our manufacturing facility in Mexico in August 1999, and the associated reduction in staff when we outsourced production and assembly. Operating expenses are the indirect costs associated with producing our products, such as rent on production facilities, engineering and support salaries and other indirect manufacturing costs. We do not anticipate proportionate increases in operating expenses in the event our revenues increase.

*Sales, general and administrative expenses.* Sales, general and administrative expenses increased by \$163,000, or 12%, from \$1.4 million in 1999 to \$1.5 million in 2000. Sales, general and administrative

expenses were 58% of net sales in 1999 compared to 44% of net sales in 2000. These costs increased to support the sales of the ADVANCED TASER and included sales commissions and product demonstration costs. However, sales, general and administrative expenses declined as a percentage of sales in 2000 due to the fixed nature of certain of these costs and higher per unit sales prices attributable to the ADVANCED TASER product line.

*Interest expense.* Interest expense increased by \$88,000, or 31%, from \$281,000 in 1999 to \$369,000 in 2000. The increase reflects the cost of the higher level of related party debt in 2000 over 1999, primarily used to fund working capital. In addition, we issued warrants and options in 2000 valued at \$26,000 to certain stockholders for loan guarantees.

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*Corporate tax status.* Prior to our re-incorporation in Delaware in February 2001, we were an S-corporation, which allowed all the tax attributes to flow through to the stockholders. In February 2001, we changed our tax reporting status to that of a C-corporation. When we changed our reporting status, all accumulated shareholder deficit was converted to additional paid-in capital. As a result there are no net operating loss carry forwards available to us.

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*Net loss.* The net loss decreased \$1.2 million, or 74%, from \$1.6 million in 1999 to \$416,000 in 2000. Basic and diluted net loss per common share was \$0.52 in 1999 compared to \$0.17 in 2000. The reduced net loss in 2000 resulted primarily from increased sales volume and increased gross margins attributable to sales of the ADVANCED TASER line.

## **Liquidity and Capital Resources**

*Liquidity.* We had a working capital deficiency of \$2.4 million at December 31, 1999 and \$1.0 million at December 31, 2000. The improvement in working capital from 1999 to 2000 was largely due to the extension of short-term related party debt to long-term debt. In both 1999 and 2000, cash was used primarily to fund operating losses and for investment in property and equipment. We have historically addressed our working capital shortfalls through capital investment and debt financing from related parties.

In 2000 we generated cash from operations of \$66,000, primarily as a result of a significant customer deposit of \$440,000 received in December 2000. In 1999, operations consumed \$705,000 in cash. Although we anticipate that our cash flow from operations will be at least break-even in 2001, we have not historically generated sufficient cash from operations to fund future growth or to repay our long-term debt that principally comes due July 1, 2002.

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We anticipate that, after the completion of this offering, our cash resources will be adequate to meet our liquidity needs for at least the next 12 months. There can also be no assurances that our working capital objectives will be reached in the near future, if ever. If additional capital is required, it may not be available on favorable terms or at all.

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*Capital resources.* In the past, we have funded our operating deficits primarily through indebtedness to related parties. Our indebtedness to stockholders and related parties totaled \$2.9 million at December 31, 2000. The majority of this indebtedness matures at the earlier of the completion of this offering or July 2002. The indebtedness bears interest ranging from 9% to 27%. A significant portion of this indebtedness will be repaid from the proceeds of this offering, including the representative's over-allotment option, if exercised.

*Capital commitments.* At December 31, 2000, we had no material commitments for capital expenditures. Other commitments include rental payments under operating leases for office space and equipment, and commitments under employment contracts with our chief executive officer, president, and chief financial officer.

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## BUSINESS

### Company overview

We develop, assemble and market less-lethal, conducted energy weapons primarily for use in the law enforcement and corrections market. Over 350 police departments in the United States have made initial purchases of our products and 15 police departments, including San Diego, Sacramento, and Albuquerque, have purchased our products for every patrol officer. As of February 1, 2001, more than 200 additional police departments were evaluating our newest product, the ADVANCED TASER.

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We sell two principal products. We introduced the AIR TASER in 1994 and targeted it primarily at the consumer market. We designed the AIR TASER to look like a cellular telephone or other consumer electronic item, rather than a weapon. The terms of an agreement we signed with Electronic Medical Laboratories, Inc., doing business as Tasertron and the original licensee of a patent on certain technology used in our weapons, precluded us from selling our products to United States law enforcement, corrections and military agencies until February 1998. After expiration of this agreement, we introduced the ADVANCED TASER, an upgraded and redesigned version of the AIR TASER, to appeal to the law enforcement and corrections market. It uses the same basic operating principle as the AIR TASER but produces four times the AIR TASER's power output. It is also pistol-shaped to make it easier for police officers to use. The ADVANCED TASER can be sold with an integrated laser sight and a built-in memory option to record the time and date of up to 585 firings. We believe the ADVANCED TASER will also appeal to the security, military and consumer markets, and intend to pursue sales in these markets after further penetrating the law enforcement and corrections market.

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### Industry background

The market for less-lethal weapons includes law enforcement agencies, correctional facilities, military agencies, private security guard companies and retail consumers. We believe law enforcement officials are the opinion leaders regarding market acceptance of new security products. In recent years, successful new security products — such as the GLOCK handgun and the Mag-Lite flashlight — were first marketed to and accepted by police departments. We therefore focus on the law enforcement agency segment of the market for less-lethal weapons.

Generally, each police force has a use-of-force policy that dictates the level of force its officers can use to respond to various situations. A police officer is trained to use only the minimum force necessary to overcome the threat of injury or violence posed by a suspect. For example, under most policies, an officer may not use lethal force unless a subject poses a threat of significant bodily injury or fatality to the officer or other persons.

In fact, most police officers never deploy lethal force in the course of their careers. While the vast majority of law enforcement officers around the world are armed with firearms, only a small percentage will actually ever use them. Many police officers, however, must use less-lethal force on a regular basis. Less-lethal force can range from a control hold to the use of a baton, chemical spray, or other means to control a subject that is actively resisting the officer.

Police officers are often injured while trying to subdue a suspect with less-lethal force. Traditional tactics such as using a baton or fist to control a suspect result not only in a significant risk of injury to the suspect, but also a significant risk that the officer will be injured. If an officer can subdue a suspect from a safe distance using effective less-lethal weapons, he greatly reduces the probability that he or the suspect, as well as bystanders, will be injured during a confrontation.

A variety of new less-lethal weapons have been developed to address the need to temporarily incapacitate an attacker without causing permanent injury or fatality. These weapons vary in approach, but generally include stun guns, batons and clubs, chemical sprays, rubber bullets, pepper balls and other impact munitions. Each weapon has distinct advantages and disadvantages, and law enforcement agencies

require different tools for different situations. We believe that the following characteristics of less-lethal weapons are the most important to law enforcement agencies:

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  - *Effectiveness: temporary incapacitation of aggressive suspects;*</R>
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  - *Range: variable distance over which the weapon is effective;*</R>
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  - *Safety: low risk of injury or death;*</R>
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  - *Ease of use: simple operation, low maintenance and no contamination;*</R>
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  - *Dependability: reliability in many environments, product durability;*</R>
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  - *Accountability: tracking to reduce misuse of the weapon; and*</R>
- <R>
  - *Cost: low cost per use and possible reduction of litigation expense.*</R>

### **The ADVANCED TASER solution**

All our products are designed to perform well in terms of the above characteristics. We believe the ADVANCED TASER, however, offers the best combination of these characteristics currently available in a less-lethal weapon. This superior performance could make the ADVANCED TASER the less-lethal weapon of choice in many situations for law enforcement agencies and other security services.

- *Effectiveness*

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Most less-lethal weapons rely upon a pain response for effect. A less-lethal weapon that inflicts only pain may not stop the most dangerous and aggressive suspects. The ADVANCED TASER is designed to cause complete yet temporary physical incapacitation, not just discomfort or distraction. In police testing and field use, the ADVANCED TASER has incapacitated even highly focused individuals who have demonstrated the ability to fight through other less-lethal weapons that rely only on pain.

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- *Range*

Batons and chemical sprays can only be used from close distances, usually less than five feet. Rubber bullets, beanbag rounds, and similar less-lethal impact weapons must be used at distances greater than 30 feet to minimize suspects' injuries. Therefore, we believe that other less-lethal weapons as a group are generally ineffective between five and thirty feet. The ADVANCED TASER is designed to operate within this range. Since it is equally effective at very close range, we believe the ADVANCED TASER represents a more versatile less-lethal weapon for encounters taking place within 21 feet.

- *Safety*

In tests involving over 1,000 human volunteers and in hundreds of field applications, the ADVANCED TASER has had no reported long-term, adverse after-effects. In field uses, our technology has been found to have a comparable or lower risk of injury to officers and suspects than other less-lethal technologies. Further, the recovery time from an application of the ADVANCED TASER is generally less than one minute. In contrast, recovery time from the application of chemical sprays can range from ten minutes to one hour. Recovery time from the effect of impact rounds can vary from hours to weeks, depending on bruising and bone breakage.

- *Ease of Use*

The ADVANCED TASER is shaped and designed to function like a standard handgun. Accordingly, it is easy

for law enforcement officers to use during stressful situations, since their firearms training familiarizes them with the muscle movements required for its operation. Further, the weapon requires no maintenance other than a periodic battery check. The ADVANCED TASER also does not leave contaminating residues, unlike chemical sprays that may contaminate buildings, vehicles or other closed facilities or officer uniforms.

- *Dependability*

The ADVANCED TASER operates effectively under a variety of unfavorable conditions, such as wind and rain, that render chemical sprays less effective. The ADVANCED TASER housing is constructed of high tensile-strength polycarbonate to withstand the rigors of typical police use.

- *Accountability*

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The ADVANCED TASER incorporates features designed to reduce inappropriate use. Our cartridges contain numerous confetti-like Anti-Felon Identification tags, or AFIDs, which are scattered when the unit is fired. AFID tags recovered from usage sites can thus help identify the owner of the cartridge used. The ADVANCED TASER we market to law enforcement and corrections agencies also comes with a data port that records the exact time, date and duration of up to 585 firings.

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- *Cost*

The ADVANCED TASER is sold to law enforcement agencies for approximately \$400 per unit. The air cartridge ammunition is priced under \$18 per shot. These prices are competitive with impact munitions and most other specialized less-lethal weapons, with the exception of the least expensive chemical sprays. However, the indirect costs of decontaminating buildings, vehicles, and uniforms resulting from the use of chemical sprays can place the ADVANCED TASER at an overall cost advantage per use.

In addition, litigation costs for law enforcement agencies can be significant. Reducing the number of injuries and fatalities caused by law enforcement officers may reduce the number of suits filed against agencies for excessive use of force, wrongful death and injury. Further, reducing officer injuries minimizes medical claims and lost time for work-related injuries.

As with other less-lethal weapons, these characteristics, particularly safety, may also have the benefit of increasing goodwill between law enforcement agencies and their communities. Community relations considerations can be particularly important at a time when almost any interaction with police can be videotaped and scrutinized by the media and the public.

## **Our strategy**

Key elements of our strategy for growth include the following:

- *Fully exploit the expanding law enforcement and corrections market.*

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Our goal is to make the ADVANCED TASER the dominant less-lethal weapon for use by law enforcement and corrections agencies. Law enforcement officials are often viewed as experts with regard to weapons and other security products. As a result, we believe that widespread acceptance of the ADVANCED TASER in this market will enhance its credibility and represent a necessary first step toward expanding sales of our products in additional markets.

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- *Expand into private security, military, and consumer markets.*

After increasing our presence in the law enforcement and corrections market, we intend to expand our penetration in the private security, military and consumer self-defense markets. We believe the same performance characteristics that will enable our products to succeed in the law enforcement and corrections market will also appeal to potential customers in these additional markets.

- *Develop enhanced less-lethal weapon technologies.*

We intend to improve our less-lethal weapons technology to provide further growth and market opportunities. Among other things, we intend to develop multiple shot capability and greater effective range. These innovations may increase our revenues by allowing us to sell upgraded less-lethal weapons and accessories, both to existing and potential new customers.

- *Acquire businesses that enhance our strategic position.*

We may acquire businesses that will complement our growth strategy and enhance our competitive position in our markets. However, we have no current plans for such acquisitions.

## Markets

### *Law enforcement and corrections*

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Federal, state and local law enforcement agencies in the United States currently represent the primary target market for the ADVANCED TASER. According to United States Bureau of Justice statistics, there were nearly 19,000 of these agencies in the United States in 1996 that employed about 740,000 full-time, sworn law enforcement officers. In 1995, industry analysts estimated that the total number of non-administrative correctional officers in the United States was approximately 450,000.

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Acceptance of the ADVANCED TASER by United States police departments has been fairly rapid since its introduction in December 1999. We believe it could prove equally suitable for use in correctional facilities. The ADVANCED TASER is particularly useful in these confined and crowded settings since it provides a means of bringing virtually any individual under control without requiring the use of lethal force. We anticipate that some correctional officers will be armed with ADVANCED TASERS, particularly as its performance attributes become more familiar to the wider law enforcement community.

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In the law enforcement market, over 350 police departments have made initial purchases of the ADVANCED TASER for testing or deployment. In addition, 15 police departments, including San Diego, Sacramento, and Albuquerque, purchased enough of our weapons to issue one to each of their patrol officers.

### *Private security firms and guard services*

In 1999, it was 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. We believe that security personnel armed with ADVANCED TASERS could be as effective in many circumstances as those armed with conventional firearms. At the same time, arming guards with ADVANCED TASERS may reduce the potential liability of private security companies and personnel.

A number of environments can prove problematic for the use of conventional firearms. The use of conventional firearms in airplanes, for example, poses a significant threat to the integrity of the aircraft and the safety of the passengers. Conventional firearms may also be inappropriate in subways, buses, transit systems, banks and casinos. In many of these crowded environments, the contamination associated with the use of chemical sprays could also pose significant problems.

One large private security force overseas has ordered over 1,000 ADVANCED TASERS for delivery in Spring 2001. We are 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.

### *Consumer/personal protection*

In the late 1990s, industry sources estimated that 35 million Americans owned handguns. We believe these handgun owners represent one segment of a potentially large consumer market for our products.

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As a result of our shift in focus, the share of our sales made to consumer markets fell sharply from 1999 to 2000. In 1999, sales to consumers represented 88% of total revenues while these sales dropped to only 32% of total sales in 2000. We expect the relative share of sales to consumer markets to remain small in the next few years. Given the size of the potential consumer market, however, we believe consumer sales could contribute a substantial portion of our revenues in the future, particularly if the ADVANCED TASER becomes more established in the law enforcement and corrections market.

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## *Military*

Military police forces may use the ADVANCED TASER for purposes similar to those of civilian police units. Military peace-keeping forces also perform policing functions, and the ADVANCED TASER may prove an effective tool for these operations. The ADVANCED TASER may also be used by armed forces to reduce the possibility of civilian casualties resulting from combat operations on battlefields consisting of both civilians and combatants. We have yet to pursue sales opportunities in the military market.

## **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. 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.

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.

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We developed the ADVANCED TASER product line, launched in December 1999, primarily for the law enforcement and corrections market. The ADVANCED TASER M26 is our primary product in this market and is sold exclusively to law enforcement and corrections agencies. The ADVANCED TASER M26 offers the following improvements over the AIR TASER:

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- Increased effectiveness: the ADVANCED TASER has four times the power of the AIR TASER and has proven effective in incapacitating over 99% of volunteers tested.

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- Better accountability: the ADVANCED TASER's memory system records the time, date, and duration of up to 585 firings. By downloading this information periodically, law enforcement and corrections agencies can track every use of the ADVANCED TASER. These agencies can use this data to investigate potential misuse.

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- Ease of use: the ADVANCED TASER's familiar pistol shape and integrated laser sight minimize the training required for law enforcement and corrections officers and make it easier to use.

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Our products are sold primarily through our network of distributors at a wide range of prices. Our most inexpensive consumer product is the entry-level consumer AIR TASER, with a retail price of \$99. 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. Distributors sell the M26 to law enforcement and corrections agencies for \$400. Retail cartridge prices range from \$16 to \$30 per unit.

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In addition to weapons and cartridges, we sell holsters, attachments, cases and other accessories that complement our core products. Although to date these accessories have generated limited sales, they offer additional revenue opportunities and attractive margins.

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 users 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.

We offer a no-questions-asked lifetime replacement policy on the ADVANCED TASER. If the weapon fails to operate properly for any reason, we will replace it for a fee of \$25. The 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. Warranty costs under both the AIR TASER and the ADVANCED TASER replacement policies have been minimal to date.

## 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 independent regional police equipment distributors. To service these distributors and assist us in expanding sales to new ones, we retain two manufacturer's representatives that call on potential distributors. We compensate our manufacturer's representatives solely on a commission basis, calculated as a percentage of the sales they complete. Sales in the consumer market are made through different independent distributors, dealers, and retailers. We provide our distributors with performance-based incentive programs.

*International distribution.* As a result of our shift in focus to the United States law enforcement and corrections market, our international sales efforts are currently limited to presentations and training seminars conducted by TASER personnel. We recently began introducing the ADVANCED TASER in Europe and parts of the Middle East, South America and Asia, but have yet to devote significant resources to these markets. Sales outside the United States and Canada accounted for 48% and 18% of total revenues in 1999 and 2000, respectively. In 2001, we expect international sales to account for approximately 10% of our total sales.

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 over 2,500 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.

Fifty 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,

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not just end-users within these organizations. Twenty-five 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 area TASER experts, and assist our distributors in conducting TASER demonstrations at other police departments within their regions. Through the end of 2000, we did not charge for attendance at these classes but now charge \$195 per attendee. We pay master instructors a per-session training fee and a share of the attendance fees collected at each session that they conduct. These training sessions have led directly to the sale of ADVANCED TASERS to a number of police departments.

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*Communications.* In addition to our training programs, we regularly participate in a variety of trade shows and conferences. Our marketing efforts also benefit from significant free news coverage. Other marketing communications include video e-mails, press releases, and conventional print advertising in law enforcement trade publications. Our website also contains similar marketing information.

## **Manufacturing**

After a review of our operating costs and changes in regulations pertaining to the export of the technology used to produce our weapons, we elected to move our final assembly operations from our subcontractor in Guaymas, Mexico to our new facility in Scottsdale, Arizona. We own all of the production equipment used for the final assembly of our products in the Guaymas facility, and expect to reinstall it in Scottsdale no later than April 2001. We currently assemble the compressed nitrogen containers used inside our air cartridges in our Scottsdale facility.

Our Scottsdale facility has approximately 6,000 square feet of assembly and warehouse space. We plan to employ between 15 and 25 assembly personnel by the end of 2001. After the move, our production capabilities will support the assembly of 2,000 ADVANCED TASERS, 1,000 AIR TASERS, and 24,000 cartridges per month on a single shift. We can expand our production capabilities by adding additional personnel and a second shift with negligible new investment in tooling and equipment. We expect our Scottsdale facility and tooling to be sufficient to support our current growth projections at least through 2003.

We currently purchase finished circuit boards and injection-molded plastic components from third-party suppliers in Phoenix. 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 acquire most of our components on a purchase order basis and do not have long-term contracts with suppliers.

## **Competition**

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 1970s. 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.

*Law enforcement and corrections market.* Tasertron had an exclusive license to sell TASER products in the North American law enforcement and corrections market until February 1998. Compared to the Tasertron unit, our ADVANCED TASER offers reduced size, additional power, and a more convenient pistol-shaped design. We believe agencies choosing to employ a conducted energy weapon will prefer to adopt a single weapon system. Since its introduction, the ADVANCED TASER has competed successfully against the Tasertron unit, even in agencies that had previously purchased Tasertron units.

Other less-lethal weapons, sold by companies such as Armor Holdings, Inc. and Jaycor, Inc., compete with our ADVANCED TASER indirectly. Many law enforcement and corrections personnel consider less-

lethal weapons to be distinct tools, each best-suited to a particular set of circumstances. Consistent with this tool kit approach, purchasing any given tool does not preclude the purchase of one or several more. In other cases, budgetary considerations and limited space on officers' belts dictate that only a limited number of less-lethal weapons will be purchased and carried. 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, its effectiveness, and its ease of use. The widespread adoption of the ADVANCED TASER by 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 are subject to the same regulations. Neither weapon is considered a "firearm" by the Bureau of Alcohol, Tobacco, and Firearms. There are, therefore, no firearms-related regulations regarding 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 market. 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	Prohibited	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	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 the 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. In addition, export regulations prohibit the further shipment of our products from foreign markets in which we hold an export license for the products to foreign markets in which we do not hold an export license for the products.

In addition, in the fall of 2000, the Department of Commerce introduced new regulations restricting the export of the 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. After moving our final assembly to our Scottsdale facility, these technology export regulations will no longer apply to us but will still apply to certain of our suppliers located outside of the United States.

*Foreign regulation.* Foreign regulations are numerous and often unclear. We prefer to work with an exclusive distributor who is familiar with applicable 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. In Australia, Canada, and India we are also aware that sales of our products are permitted to law enforcement and corrections agencies but prohibited to consumers.

### Intellectual property

We protect our intellectual property with a variety of patents and trademarks. In addition, we use confidentiality agreements with employees and some suppliers to ensure the safety 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 are the licensee of a United States patent on the process by which compressed gases launch the probes in our cartridges. This patent 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 covering the wave form of the energy we developed for the ADVANCED TASER.

We have several unregistered and federally registered trademarks. We own the AIR TASER and TASER registered trademarks.

### 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 as well as electrical

and mechanical engineering design. Future development projects will focus on reducing the size, extending the range, and improving the functionality of our weapons. Total research and development expenditures were \$6,900 in 1999 and \$7,100 in 2000.

## Employees

As of December 31, 2000, we had 16 full-time employees. Six employees were involved in sales, marketing and training. Two were employed in research, development and engineering. We also employed four administrative personnel and four in production support. 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.

## Facilities

We conduct our operations from a modern 11,800-square-foot facility located in Scottsdale, Arizona. The monthly rent for this facility is approximately \$11,000. Our lease expires on January 1, 2006. 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 require additional space.

## Legal proceedings

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We are a defendant in a lawsuit filed in February 2000 by a former distributor of our products in the United States District Court, Southern District of New York. This former distributor claims the exclusive right to sell our products to many of the largest law enforcement, corrections, and military agencies in the United States and seeks monetary damages. We signed no contracts with this former distributor. 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 affect on our business, operating results or financial condition.

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## 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.

**MANAGEMENT**

**Directors and executive officers**

Our directors and executive officers are as follows:

Name	Age	Position
Phillips W. Smith	63	Chairman
Patrick W. Smith	30	Chief Executive Officer and Director
Thomas P. Smith	33	President and Director
Bruce R. Culver	55	Director
Matthew R. McBrady	30	Director
Karl F. Walter	54	Director
Kathleen C. Hanrahan	37	Chief Financial Officer

**Phillips W. Smith** is the chairman of our board of directors. Dr. Smith has served as a director since 1993. Since January 1999, Dr. Smith has served on the board of directors of Pentawave, Inc., a developer of cross-media publishing software. From June 1991 to September 1997, Dr. Smith served as the president and chief executive officer of Zycad Corporation, a developer of engineering and manufacturing applications software. Dr. Smith holds a B.S.E. degree from West Point, an M.B.A. degree from Michigan State University, and a Ph.D. in Business Administration from St. Louis University.

**Patrick W. Smith** is the chief executive officer and a co-founder of TASER. Mr. Smith has served as our chief executive officer and as a director since 1993. Mr. Smith holds a B.S. degree in Biology and Neurobiology from Harvard University, an M.B.A. degree from the University of Chicago, and a Masters Degree in International Finance from the University of Leuven in Leuven, Belgium.

**Thomas P. Smith** is the president and a co-founder of TASER. Mr. Smith has served as our president since April 1994 and as a director since 1993. Mr. Smith holds a B.S. degree in Ecology and Evolutionary Biology from the University of Arizona and an M.B.A. degree from Northern Arizona University.

**Bruce R. Culver** has served as a director of TASER since January 1994. Mr. Culver co-founded Professional Staff, P.L.C., a human resource management company, and has served on its board of directors since April 1990. In March 1993, Mr. Culver organized and has since remained the chief executive officer of Culver Distributions, Inc., doing business as California Distribution Company, providing warehouse and distribution services to internet companies. Since April 1997, Mr. Culver has served on the board of Pentawave, Inc., becoming its chairman in October 2000.

**Matthew R. McBrady** has served as a director of TASER since January 2001. From August 1998 through July 1999, Mr. McBrady served as a member of the staff of President Clinton’s Council of Economic Advisers. In December 1997, Mr. McBrady began working as a financial and analytical consultant for Avenue A, Inc, an internet marketing company, and served as its vice president of analytics from June 1999 through October 1999. Mr. McBrady taught corporate finance courses at the University of Southern California during the summer terms of 1997 and 1998, at Harvard College from September 1996 through May 1997, and at Harvard Business School during the spring term of 1998. Mr. McBrady holds a B.S. in Economics from Harvard University, an M.S. in International Economics from Oxford University, and expects to receive a Ph.D. in Corporate and International Finance from Harvard University in June 2001.

**Karl F. Walter** has served as a director of TASER since January 2001. Mr. Walter was a co-founder of Glock, Inc., a subsidiary of GLOCK GmbH, an Austrian semi-automatic pistols manufacturer. From January 1994 through February 1997, Mr. Walter worked as a director of law enforcement sales for Sturm Ruger Co., a firearms manufacturer. Since March 1997, Mr. Walter has worked as the program manager for AV Technology International, LLC, a builder of armored vehicles.

**Kathleen C. Hanrahan** is our chief financial officer, serving in that position since November 2000. Ms. Hanrahan first joined TASER in January 1996 as an internal controls consultant and became our controller in March 1996.

Our certificate of incorporation provides that we have no less than three and no more than nine directors divided into three classes (Class 1, Class 2, and Class 3), with members of each class serving for staggered three-year terms. As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms. Messrs. Phillips Smith and Bruce Culver have been designated as Class 1 directors, whose term expires at the 2001 annual meeting; Messrs. Patrick Smith and Karl Walter have been designated as Class 2 directors, whose term expires at the 2002 annual meeting; and Messrs. Thomas Smith and Matthew McBrady have been designated as Class 3 directors, whose term expires at the 2003 annual meeting.

Each officer serves at the discretion of our board of directors. No officer is subject to an agreement that requires the officer to serve TASER for a specified number of years. Mr. Thomas Smith and Mr. Patrick Smith are Dr. Phillips Smith's sons. No other family relationships exist among our directors and executive officers.

### Director compensation

Prior to 2001, directors were not compensated for their service on the board. Beginning in 2001, independent directors will receive \$1,250 per quarter. In addition, in December 2000, Messrs. McBrady and Walter each received options to purchase 6,667 shares vesting ratably over four years at an exercise price of \$3.30 per share. Directors are also reimbursed for expenses incurred in connection with attendance at meetings.

### Committees of the board of directors

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Our board of directors has an Audit Committee consisting of Mr. McBrady and Mr. Walter, and a Compensation Committee consisting of Mr. Culver and Mr. Walter. The Audit Committee meets with management and our independent public accountants to determine the adequacy of our internal controls and other financial reporting matters. The Compensation Committee reviews and recommends to the board of directors the compensation and benefits of our officers, reviews general policy matters relating to compensation and benefits of our employees and administers the issuance of stock options and discretionary cash bonuses to our officers, employees, directors and consultants. We intend to appoint only independent directors to the Audit and Compensation Committees.

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### Executive compensation

The following table sets forth information regarding compensation awarded to, earned by or paid to our chief executive officer for all services rendered to us during 1998, 1999 and 2000. None of our other executive officers earned in excess of \$100,000 in 2000.

**Summary Compensation Table**

Name and Principal Position	Annual Compensation			Long Term Compensation Securities Underlying Options (#)
	Year	Salary	Bonus	
Patrick W. Smith Chief Executive Officer	2000	\$65,208	\$2,500	—
	1999	\$49,161	—	10,000
	1998	\$43,205	—	—

### Option grants in last fiscal year

We did not grant any options to our chief executive officer during the year ended December 31, 2000.

**Fiscal year end option values**

The following table sets forth information regarding the number and value of unexercised options held by our chief executive officer on December 31, 2000. He did not exercise options to purchase common stock during 2000.

Name	Number of Securities Underlying Options at Fiscal Year End(#)		Value of Unexercised In-the-Money Options at Fiscal Year End\$(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Patrick W. Smith	6,389	3,611	\$46,895	\$26,505

(1) Based on the estimated fair value of our common stock as of December 31, 2000, determined by our board of directors to be \$8.00 per share.

**Stock option plans**

We have two stock option plans: the 1999 stock option plan and the 2001 stock option plan.

The 1999 stock option plan is an incentive and stock option plan which authorizes us to issue options to purchase up to 833,333 shares of our common stock. Under this plan, we have issued options to purchase 143,322 shares at \$0.24 to \$7.20 per share, including 10,000 options to Patrick W. Smith. We will issue no further options under the plan. The plan is administered by our board of directors. Subject to the provisions of this plan, the board determines who will receive options, the number of options granted, the manner of exercise and the exercise price of the options. The term of incentive stock options granted under the plan may not exceed ten years, or five years for options granted to an optionee owning more than 10% of our voting stock. The exercise price of an incentive stock option granted under this plan must be equal to or greater than the fair market value of the shares of our common stock on the date the option is granted. The exercise price of a non-qualified option granted under this plan must be equal to or greater than 85% of the fair market value of the shares of our common stock on the date the option is granted. An incentive stock option granted to an optionee owning more than 10% of our voting stock must have an exercise price equal to or greater than 110% of the fair market value of our common stock on the date the option is granted.

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The 2001 stock option plan is an incentive and stock option plan which authorizes us to issue options to purchase up to 550,000 shares of our common stock. Under this plan, we have issued options to purchase 291,000 shares at an average price of \$8.33 per share, including 60,000 options to Patrick W. Smith. The plan is administered by our board of directors. Subject to the provisions of this plan, the board determines who will receive options, the number of options granted, the manner of exercise and the exercise price of the options. The term of incentive stock options granted under the plan may not exceed ten years, or five years for incentive stock options granted to an optionee owning more than 10% of our voting stock. The exercise price of an incentive stock option granted under this plan must be equal to or greater than the fair market value of the shares of our common stock on the date the option is granted. The exercise price of a non-qualified option granted under this plan must be equal to or greater than 85% of the fair market value of the shares of our common stock on the date the option is granted. An incentive stock option granted to an optionee owning more than 10% of our voting stock must have an exercise price equal to or greater than 110% of the fair market value of our common stock on the date the option is granted.

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**Employment agreements**

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In July 1998, we entered into an employment agreement with Patrick W. Smith pursuant to which he agreed to serve as our chief executive officer. The agreement is for an initial three-year term ending June 30, 2001, and is automatically renewed for a two-year term on such date and every two years thereafter unless we give Mr. Smith one-year prior notice of termination, if the termination is without cause. The agreement provides for annual base compensation in the amount of \$65,000, which amount may be increased based on performance. In 2000, Mr. Smith's salary was increased to \$90,000. We may terminate this agreement with or without cause. Should we terminate the agreement without cause, upon a change of control or upon his death or disability, our chief executive officer is entitled to compensation equal to 12, 24 or 18 months of salary, respectively.

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## CERTAIN TRANSACTIONS

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In 1998, Mr. Bruce R. Culver, a director of TASER, loaned us \$622,525. In March 1998, \$150,000 of such amount was converted into 20,833 shares of our common stock at an estimated value of \$7.20 per share. In December 1998, we issued Mr. Culver a promissory note for \$472,525, the remaining amount due. The note bears interest at a rate of 10% per year and matures July 1, 2002. In 1999, Mr. Culver loaned an additional \$150,000 to us at an interest rate of 10%, due July 1, 2002. In 2000, Mr. Culver loaned an additional \$200,000 to us at an interest rate of 10%, due July 1, 2002. As of December 31, 2000, the aggregate amount due to Mr. Culver under these notes was \$822,525 in principal plus accrued interest of \$140,794.

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In January 1999, Mr. Culver loaned us \$1,500,000. In return, we issued him a promissory note for \$500,000 at an effective interest rate of 27.1% per year, and 1,666,667 shares of our common stock at a price of \$0.60 per share. These shares were subject to a repurchase agreement between Mr. Culver and us that allowed us to repurchase the shares if we met certain operating performance criteria. We met the criteria and repurchased the shares from Mr. Culver in July 2000 in exchange for a promissory note in the amount of \$1,000,000. We consolidated this note and the January 1999 note for \$500,000 into a new note for \$1,500,000 which carries interest at bank prime, which was 9.5% at December 31, 2000, plus 1% and matures July 1, 2002.

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In 1998, Mr. Phillips W. Smith, our chairman, loaned us \$455,691 in the form of a stockholder note at an interest rate of 9%. This note is currently outstanding, and the maturity has been extended to July 1, 2002 at an interest rate of 10%. Further, Mr. Smith has deferred expenses in the amount of \$99,794, which has been formalized in a note bearing 10% interest, which matures July 1, 2002. As of December 31, 2000, the aggregate amount due to Mr. Smith under these notes was \$555,485 in principal plus accrued interest of \$119,045.

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In 1999, Mr. Smith worked as a full time advisor to us and was compensated solely by an option on 16,667 shares of our common stock at a price of \$0.66 per share.

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**PRINCIPAL SHAREHOLDERS**

The following table sets forth certain information regarding the beneficial ownership of our common stock as of December 31, 2000, and as adjusted to reflect the sale of 1,000,000 units in this offering, by:

- each person or group of affiliated persons known to be the beneficial owner of more than 5% of our outstanding common stock;
- each of our directors;
- our chief executive officer; and
- all of our directors and executive officers as a group.

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As of such date, there were 1,510,754 shares of common stock outstanding before giving effect to the sale of units in this offering. We believe that, except as otherwise listed below, each named beneficial owner has sole voting and investment power with respect to the shares listed.

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Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage Beneficially Owned Before This Offering	Percentage Beneficially Owned After This Offering
Phillips W. Smith(1)	388,479	23.1%	14.5%
Patrick W. Smith(2)	361,584	21.5%	13.5%
Bruce R. Culver(3)	491,146	29.2%	18.3%
Thomas P. Smith(4)	217,674	12.9%	8.1%
Malcolm W. Sherman(5)	123,796	7.4%	4.6%
Karl F. Walter(6)	1,111	*	*
Matthew R. McBrady(7)	1,111	*	*
All directors and executive officers as a group (7 persons)(8)	1,475,637	92.1%	56.7%

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The address of each person in this table is c/o 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260, (480) 991-0797.

As of December 31, 2000, we had nine stockholders.

\* less than 1%

- (1) Includes 20,833 shares subject to options or warrants that are exercisable within 60 days.
- (2) Includes 11,250 shares subject to options that are exercisable within 60 days.
- (3) Includes 31,061 shares subject to warrants that are exercisable within 60 days.
- (4) Includes 11,250 shares subject to options that are exercisable within 60 days.
- (5) Includes 3,333 shares subject to options that are exercisable within 60 days.
- (6) Includes 1,111 shares subject to options that are exercisable within 60 days.
- (7) Includes 1,111 shares subject to options that are exercisable within 60 days.

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- (8) Includes 91,148 shares subject to options or warrants that are exercisable within 60 days.

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## DESCRIPTION OF SECURITIES

Upon completion of the offering, our authorized capital stock will consist of (1) 50,000,000 shares of common stock, \$0.00001 par value, and (2) 25,000,000 shares of preferred stock, \$0.00001 par value, of which there will be 2,510,754 shares of common stock and no shares of preferred stock outstanding. The following description of our capital stock is a summary and is qualified in its entirety by the provisions of our certificate of incorporation and our bylaws, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part.

### Units

Each unit consists of one share of common stock and one public warrant to purchase an additional share of common stock. The common stock and warrants will trade only as a unit for at least 30 days following this offering. The representative of the underwriters will then determine when the units separate, after which the common stock and the public warrants will trade separately.

### Common stock

Holder of our common stock are entitled to one vote for each share on all matters submitted to a stockholder vote and may not cumulate their votes. Holders of common stock are entitled to share in all dividends that the board of directors, in its discretion, declares from legally available funds. In the event of our liquidation, dissolution or winding up, each outstanding share entitles its holder to participate pro rata in all assets that remain after payment of liabilities and after providing for each class of stock, if any, having preference over the common stock.

Holder of our common stock have no conversion, preemptive or other subscription rights, and there are no redemption provisions applicable to our common stock. The rights of the holders of common stock are subject to any rights that may be fixed for holders of preferred stock. All outstanding shares of common stock are, and the shares underlying all options and public warrants will be, duly authorized, validly issued, fully paid and non-assessable upon our issuance of these shares.

### Preferred stock

Our certificate of incorporation provides for the issuance of up to 25,000,000 shares of preferred stock. As of the date of this prospectus, there are no outstanding shares of preferred stock. Subject to certain limitations prescribed by law and the rights and preferences of the preferred stock, our board of directors is authorized, without further stockholder approval, from time to time to issue up to an aggregate of 25,000,000 shares of our preferred stock, in one or more additional series. Each new series of preferred stock may have different rights and preferences that may be established by our board of directors.

The rights and preferences of future series of preferred stock may include:

- number of shares to be issued;
- dividend rights and dividend rates;
- right to convert the preferred stock into a different type of security;
- voting rights attributable to the preferred stock;
- right to receive preferential payments upon a liquidation of the company;
- right to set aside a certain amount of assets for payments relating to the preferred stock; and
- prices to be paid upon redemption of the preferred stock.

### Public warrants

#### *General*

Each public warrant entitles the holder to purchase one share of our common stock at an exercise price per share of 150% of the initial public offering price of the units. The exercise price is subject to adjustment upon the occurrence of certain events as provided in the public warrant certificate and

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**JB: P64567**

**PN: 036.00.00.00-1**

**SN: 13**

**Ed#: 5**



summarized below. Our public warrants may be exercised at any time during the period commencing 30 days after this offering and ending on the fifth anniversary date of the closing of this offering, which is the expiration date. Those of our public warrants which have not previously been exercised will expire on the expiration date. A public warrant holder will not be deemed to be a holder of the underlying common stock for any purpose until the public warrant has been properly exercised.

#### *Separate transferability*

Our public warrants will trade only as a unit for a period of at least 30 days following this offering. The representative of the underwriters will then determine when the units separate, after which the common stock and the public warrants will trade separately.

#### *Redemption*

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We have the right, commencing three months after the closing of this offering, to redeem the public warrants issued in this offering at a redemption price of \$0.25 per public warrant after providing 30 days prior written notice to the public warrant holders, if the average closing bid price of the common stock equals or exceeds 200% of the initial public offering price of the units for ten consecutive trading days ending prior to the date of the notice of redemption. We will send the written notice of redemption by first class mail to public warrant holders at their last known addresses appearing on the registration records maintained by the transfer agent for our public warrants. No other form of notice or publication or otherwise will be required. If we call the public warrants for redemption, they will be exercisable until the close of business on the business day next preceding the specified redemption date.

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#### *Exercise*

A public warrant holder may exercise our public warrants only if an appropriate registration statement is then in effect with the Securities and Exchange Commission and if the shares of common stock underlying our public warrants are qualified for sale under the securities laws of the state in which the holder resides.

Our public warrants may be exercised by delivering to our transfer agent the applicable public warrant certificate on or prior to the expiration date or the redemption date, as applicable, with the form on the reverse side of the certificate executed as indicated, accompanied by payment of the full exercise price for the number of public warrants being exercised. Fractional shares will not be issued upon exercise of our public warrants.

#### *Adjustments of exercise price*

The exercise price is subject to adjustment if we declare any stock dividend to stockholders or effect any split or share combination with respect to our common stock. Therefore, if we effect any stock split or stock combination with respect to our common stock, the exercise price in effect immediately prior to such stock split or combination will be proportionately reduced or increased, as the case may be. Any adjustment of the exercise price will also result in an adjustment of the number of shares purchasable upon exercise of a public warrant or, if we elect, an adjustment of the number of public warrants outstanding.

#### **Prior warrants**

As of the date of this prospectus, we had issued and outstanding warrants to purchase 52,727 shares of our common stock at a weighted average exercise price of \$4.71, the forms of which have been filed as exhibits to the registration statement of which this prospectus is a part.

## Registration rights

All holders of registration rights contained in agreements with us have waived such rights in connection with this offering. In connection with this offering, we have granted Paulson Investment Company, Inc., representative of the underwriters of this offering, warrants to purchase shares of our common stock. These representative's warrants, as well as the shares of common stock and warrants included in the units issuable upon exercise of the representative's warrants, are being registered on the registration statement of which this prospectus is a part. We will cause the registration statement to remain effective until the earlier of the time that all of the representative's warrants have been exercised and the date which is five years after the effective date of this offering. The common stock and warrants issued to the representative upon exercise of these warrants will be freely tradeable. We will bear all expenses incurred in connection with the registration of the shares of common stock and warrants included in the units issuable upon the exercise of the representative's warrants.

## Anti-takeover provisions of our charter documents

Our certificate of incorporation and bylaws include a number of provisions that may have the effect of delaying or preventing a change of control of TASER:

- Our board is divided into three classes, with each class serving a three-year staggered term, so that one-third of the board is elected each year;
- The authorized number of our directors can be changed only by resolution of the board of directors;
- We can issue preferred stock without any vote or further action by stockholders;
- Any action required or permitted to be taken by our stockholders at an annual or a special meeting is valid only if it is properly brought before the meeting, and written stockholder action is valid only if unanimous; and
- Our bylaws limit persons who may call a special meeting of our stockholders.

These provisions may deter hostile takeovers or delay changes in control of our management, which could depress the market price of our securities.

## Transfer agent and public warrant agent

The transfer agent for our common stock and public warrants is US Stock Transfer Corporation, Glendale, California.

## SHARES ELIGIBLE FOR FUTURE SALE

### This offering

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Upon completion of this offering, we expect to have 2,510,754 shares of common stock outstanding, assuming no exercise of outstanding options or warrants, or 2,660,754 shares if the representative's over-allotment is exercised in full. Of these shares, the 1,000,000 shares of common stock issued as part of the units sold in this offering will be freely tradeable without restrictions or further registration under the Securities Act of 1933, except that any shares purchased by our "affiliates," as that term is defined under the Securities Act, may generally only be sold in compliance with the limitations of Rule 144 under the Securities Act. The 1,000,000 shares of common stock underlying the public warrants issued as part of the units sold in this offering will also be freely tradeable after exercise of the warrants, except for shares held by our affiliates.

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### Outstanding restricted stock

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The 1,510,754 outstanding shares of common stock held by our existing stockholders are restricted securities within the meaning of Rule 144 and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including the exemption from registration offered by Rule 144. Holders of all of our outstanding restricted shares of common stock have agreed not to sell or otherwise dispose of any of their shares of common stock for a period of one year after completion of this offering, without the prior written consent of Paulson Investment Company, Inc., subject to certain limited exceptions. Prior to the expiration of this lock-up period, no shares of our outstanding restricted common stock may be sold in the public market pursuant to Rule 144. After the expiration of this lock-up period, or earlier with the prior written consent of Paulson Investment Company, Inc., all 1,510,754 of these outstanding restricted shares may be sold in the public market pursuant to Rule 144.

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In general, under Rule 144, as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned restricted shares for at least one year, including a person who may be deemed to be our affiliate, may sell within any three-month period a number of shares of common stock that does not exceed a specified maximum number of shares. This maximum is equal to the greater of 1% of the then outstanding shares of our common stock or the average weekly trading volume in the common stock during the four calendar weeks immediately preceding the sale. Sales under Rule 144 are also subject to restrictions relating to manner of sale, notice and availability of current public information about us. In addition, under Rule 144(k) of the Securities Act, a person who is not our affiliate, has not been an affiliate of ours within three months prior to the sale and has beneficially owned shares for at least two years would be entitled to sell such shares immediately without regard to volume limitations, manner of sale provisions, notice or other requirements of Rule 144.

### Preferred stock

As of December 31, 2000, we had no shares of preferred stock outstanding.

### Options

Beginning 90 days after the date of this prospectus, certain shares issued or issuable upon the exercise of options granted by us prior to the date of this prospectus will also be eligible for sale in the public market pursuant to Rule 701 under the Securities Act of 1933, except that of these shares are subject to the lock-up agreements discussed above. Pursuant to Rule 701, persons who purchase shares upon exercise of options granted under a written compensatory plan or contract may sell such shares in reliance on Rule 144 without having to comply with the holding period requirements of Rule 144, and in the case of non-affiliates, without having to comply with the public information, volume limitation or notice provisions of Rule 144. As of February 12, 2001, we had options outstanding to purchase 434,322 shares of common stock which have not been exercised and which become exercisable at various times in

the future. Any shares issued upon the exercise of these options will be eligible for sale pursuant to Rule 701.

We intend to file registration statements on Form S-8 under the Securities Act to register approximately 434,322 shares of our common stock issuable under our stock option plans. These registration statements are expected to be filed within three to six months after the completion of this offering. Shares of our common stock issued upon the exercise of stock options after the effective date of the Form S-8 registration statements will be eligible for resale in the public market without restriction, subject to Rule 144 limitations and the lock-up agreements discussed above.

### **Warrants**

As of February 12, 2001, we had warrants outstanding to purchase 52,727 shares of common stock which have not been exercised and which are currently exercisable. Any shares issued upon the exercise of these warrants will be eligible for sale pursuant to Rule 144, except that these shares are also subject to the lock-up agreements discussed above.

### **Representative's warrants**

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In connection with this offering, we have agreed to issue to the representative of the underwriters warrants to purchase 100,000 units. The representative's warrants will be exercisable into units at any time during the four-year period commencing one year after the effective date of this offering. We will cause the registration statement to remain effective until the earlier of the time that all of the representative's warrants have been exercised and the date which is five years after the effective date of this offering. The common stock and warrants issued to the representative upon exercise of these warrants will be freely tradeable.

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**UNDERWRITING**

Paulson Investment Company, Inc. is acting as the representative of the underwriters. We and the underwriters named below have entered into an underwriting agreement with respect to the units being offered. In connection with this offering and subject to certain conditions, each of the underwriters named below has severally agreed to purchase, and we have agreed to sell, the number of units set forth opposite the name of each underwriter.

<u>Underwriters</u>	<u>Number of Units</u>
Paulson Investment Company, Inc.	
Total	

The underwriting agreement provides that the underwriters are obligated to purchase all of the units offered by this prospectus, other than those covered by the over-allotment option, if any units are purchased. The underwriting agreement also provides that the obligations of the several underwriters to pay for and accept delivery of the units are subject to the approval of certain legal matters by counsel and certain other conditions. These conditions include the requirements that no stop order suspending the effectiveness of the registration statement be in effect and that no proceedings for such purpose have been instituted or threatened by the Securities and Exchange Commission.

The representative has advised us that the underwriters propose to offer our units to the public initially at the offering price set forth on the cover page of this prospectus and to selected dealers at such price less a concession of not more than \$ per unit. The underwriters and selected dealers may reallocate a concession to other dealers, including the underwriters, of not more than \$ per unit. After completion of the initial public offering of the units, the offering price, the concessions to selected dealers and the reallocation to their dealers may be changed by the underwriters.

The underwriters have informed us that they do not expect to confirm sales of our units offered by this prospectus to any accounts over which they exercise discretionary authority.

**Over-allotment option**

Pursuant to the underwriting agreement, we have granted Paulson Investment Company, Inc. an option, exercisable for 45 days from the date of this prospectus, to purchase up to an additional units on the same terms as the units being purchased by the underwriters from us. Paulson Investment Company, Inc. may exercise the option solely to cover over-allotments, if any, in the sale of the units that the underwriters have agreed to purchase. If the over-allotment option is exercised in full, the total public offering price, underwriting discounts and commissions, and proceeds to us before offering expenses will be \$ , \$ and \$ , respectively.

**Stabilization**

Until the distribution of the units offered by this prospectus is completed, rules of the Securities and Exchange Commission may limit the ability of the underwriters to bid for and to purchase units. As an exception to these rules, the underwriters may engage in transactions that stabilize the price of the units. Paulson Investment Company, Inc., on behalf of the underwriters, may engage in over-allotment sales, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934.

- Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Syndicate covering transactions involve purchases of the common stock and public warrants in the open market after the distribution has been completed in order to cover syndicate short positions. The underwriters may also elect to reduce any short position by exercising all or part of the over-allotment option to purchase additional units as described above.
- Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the units originally sold by the syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions.

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In general, the purchase of a security to stabilize or to reduce a short position could cause the price of the security to be higher than it might be otherwise. These transactions may be effected on The Nasdaq SmallCap Market or otherwise. Neither we nor the underwriters can predict the direction or magnitude of any effect that the transactions described above may have on the price of the units. In addition, neither we nor the underwriters can represent that the underwriters will engage in these types of transactions or that these types of transactions, once commenced, will not be discontinued without notice.

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### **Indemnification**

The underwriting agreement provides for indemnification between us and the underwriters against specified liabilities, including liabilities under the Securities Act, and for contribution by us and the underwriters to payments that may be required to be made with respect to those liabilities. We have been advised that, in the opinion of the Securities and Exchange Commission, indemnification for liabilities under the Securities Act of 1933 is against public policy as expressed in the Securities Act and is therefore unenforceable.

### **Underwriters' compensation**

We have agreed to sell the units to the underwriters at the initial offering price of \$ , less the % underwriting discount. The underwriting agreement also provides that upon the closing of the sale of the units offered, Paulson Investment Company, Inc. will be paid a nonaccountable expense allowance equal to 2.5 percent of the gross proceeds from the sale of the units offered by this prospectus, including the over-allotment option.

We have also agreed to issue warrants to the representative to purchase from us up to units at an exercise price per unit equal to 120% of the offering price per unit. These warrants are exercisable during the four-year period beginning one year from the date of effectiveness of the registration statement. These warrants, and the securities underlying the warrants, are not transferable for one year following the effective date of the registration, except to an individual who is an officer or partner of an underwriter, by will or by the laws of descent and distribution, and are not redeemable. These warrants will have registration rights. We will cause the registration statement to remain effective until the earlier of the time that all of the representative's warrants have been exercised and the date which is five years after the effective date of this offering. The common stock and warrants issued to the representative upon exercise of these warrants will be freely tradeable.

The holders of the representative's warrants will have, in that capacity, no voting, dividend or other stockholder rights. Any profit realized by the representative on the sale of the securities issuable upon exercise of the representative's warrants may be deemed to be additional underwriting compensation. The securities underlying the representative's warrants are being registered on the registration statement. During the term of the representative's warrants, the holders thereof are given the opportunity to profit from a rise in the market price of our common stock. We may find it more difficult to raise additional equity capital while the representative's warrants are outstanding. At any time at which the representative's warrants are likely to be exercised, we may be able to obtain additional equity capital on more favorable terms.

## Lock-up agreements

Our officers, directors and other stockholders have agreed that for a period of one year from the date this registration statement becomes effective that they will not sell, contract to sell, grant any option for the sale or otherwise dispose of any of our equity securities, or any securities convertible into or exercisable or exchangeable for our equity securities, other than through intra-family transfers or transfers to trusts for estate planning purposes, without the consent of Paulson Investment Company, Inc., as the representative of the underwriters, which consent will not be unreasonably withheld.

## Determination of offering price

Before this offering, there has been no public market for the units and the common stock and public warrants contained in the units. Accordingly, the initial public offering price of the units offered by this prospectus and the exercise price of the public warrants were determined by negotiation between us and the underwriters. Among the factors considered in determining the initial public offering price of the units and the exercise price of the public warrants were:

- our history and our prospects;
- the industry in which we operate;
- the status and development prospects for our proposed products and services;
- our past and present operating results;
- the previous experience of our executive officers; and
- the general condition of the securities markets at the time of this offering.

The offering price stated on the cover page of this prospectus should not be considered an indication of the actual value of the units. That price is subject to change as a result of market conditions and other factors, and we cannot assure you that the units, or the common stock and public warrants contained in the units, can be resold at or above the initial public offering price.

## LEGAL MATTERS

The validity of the securities being offered hereby will be passed upon on our behalf by Tonkon Torp LLP, Portland, Oregon. Certain legal matters will be passed upon for the underwriters by Weiss Jensen Ellis & Howard, P.C., Portland, Oregon.

## EXPERTS

The financial statements as of and for the years ended December 31, 1999 and 2000 included in this prospectus have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in auditing and accounting in giving said reports.

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## WHERE YOU CAN FIND MORE INFORMATION

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We have filed a registration statement on Form SB-2 under the Securities Act with the Securities and Exchange Commission with respect to the units offered hereby. This prospectus filed as part of the registration statement does not contain all of the information contained in the registration statement and exhibits thereto and reference is hereby made to such omitted information. Statements made in this registration statement are summaries of the terms of such referenced contracts, agreements or documents and are not necessarily complete. Reference is made to each such exhibit for a more complete description of the matters involved and such statements shall be deemed qualified in their entirety by such reference. The registration statement and the exhibits and schedules thereto filed with the Securities and Exchange Commission may be inspected by you at the Securities and Exchange Commission's principal office in Washington, D.C. Copies of all or any part of the registration statement may be obtained from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices located at Seven World Trade Center, 13th Floor, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 11400, Chicago, Illinois 60661. The Commission also maintains a website at <http://www.sec.gov> that contains reports, proxy statements and information statements and other information regarding registrants that file electronically with the Commission. For further information pertaining to us and the units offered by this prospectus, reference is made to the registration statement.

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We intend to furnish our stockholders with annual reports containing financial statements audited by our independent accountants.



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**TASER INTERNATIONAL, INC.**

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## 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. (an Arizona corporation) as of December 31, 1999 and 2000, and the related statements of operations, stockholders' deficit and cash flows for the years then ended. 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, 1999 and 2000, and the results of its operations and its cash flows for each of the years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Phoenix, Arizona  
February 12, 2001

**TASER INTERNATIONAL, INC.**

**BALANCE SHEETS  
 December 31, 1999 and 2000**

	1999	2000
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 54,905	\$ 206,408
Accounts receivable, net of allowance of \$48,000 in 1999 and \$55,000 in 2000	121,921	312,681
Inventory	158,167	221,169
Prepays and other	14,043	24,535
	349,036	764,793
Total current assets		
Property and Equipment, net	256,110	274,273
	\$ 605,146	\$ 1,039,066
<b>Liabilities and Stockholders' Deficit</b>		
Current Liabilities:		
Current portion of note payable	\$ 112,000	\$ 100,000
Current portion of notes payable to related parties	1,664,774	124,574
Current portion of capital lease obligations	19,176	22,171
Accounts payable and accrued liabilities	517,629	532,589
Customer deposits	62,317	539,329
Inventory financing payable	189,980	189,980
Accrued interest	138,942	268,134
	2,704,818	1,776,777
Total current liabilities		
Notes Payable to Related Parties, net of current portion	74,781	2,778,219
Capital Lease Obligations, net of current portion	19,979	43,925
	2,799,578	4,598,921
Total liabilities		
Commitments and Contingencies		
Stockholders' Deficit:		
Common stock, 0.00001 par value per share; 50 million shares authorized; 3,177,421 and 1,510,754 shares issued and outstanding at December 31, 1999 and 2000, stated at	2,889,590	1,889,590
Additional paid-in capital	1,180,182	1,310,308
Deferred compensation	—	(79,920)
Accumulated deficit	(6,264,204)	(6,679,833)
	(2,194,432)	(3,559,855)
Total stockholders' deficit		
Total liabilities and stockholders' deficit	\$ 605,146	\$ 1,039,066

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

**TASER INTERNATIONAL, INC.**

**STATEMENTS OF OPERATIONS**  
**For the Years Ended December 31, 1999 and 2000**

	<u>1999</u>	<u>2000</u>
Net Sales	\$ 2,366,440	\$3,499,758
Cost of Products Sold	1,492,585	1,437,313
Gross profit	873,855	2,062,445
Operating expenses	633,828	430,871
Sales, general and administrative expenses	1,383,185	1,546,519
Research and development expenses	6,867	7,137
Depreciation	179,453	124,803
Loss from operations	(1,329,478)	(46,885)
Interest Expense	280,821	368,744
Net Loss	<u>\$(1,610,299)</u>	<u>\$ (415,629)</u>
Basic and diluted net loss per common share	<u>\$ (0.52)</u>	<u>\$ (0.17)</u>
Basic and diluted common shares	<u>3,076,410</u>	<u>2,482,976</u>

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

**TASER INTERNATIONAL, INC.**

**STATEMENTS OF STOCKHOLDERS' DEFICIT  
 For the Years Ended December 31, 1999 and 2000**

	Common Stock		Additional Paid-in Capital	Deferred Compensation	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount				
Balance, December 31, 1998	1,359,239	\$ 1,389,590	\$1,177,856	\$ —	\$(4,653,905)	\$(2,086,459)
Shares sold for cash	1,666,667	1,000,000	—	—	—	1,000,000
Issuance of common stock	151,515	500,000	—	—	—	500,000
Stock options granted for payment of consulting fees and loan guarantees	—	—	2,326	—	—	2,326
Net loss	—	—	—	—	(1,610,299)	(1,610,299)
Balance, December 31, 1999	3,177,421	2,889,590	1,180,182	—	(6,264,204)	(2,194,432)
Exchange of shares from related party for note payable	(1,666,667)	(1,000,000)	—	—	—	(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	—	—	13,917
Stock options granted for loan guarantees	—	—	36,289	—	—	36,289
Net loss	—	—	—	—	(415,629)	(415,629)
Balance, December 31, 2000	1,510,754	\$ 1,889,590	\$1,310,308	\$(79,920)	\$(6,679,833)	\$(3,559,855)

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

**TASER INTERNATIONAL, INC.**

**STATEMENTS OF CASH FLOWS  
 For the Years Ended December 31, 1999 and 2000**

	<u>1999</u>	<u>2000</u>
Cash Flows from Operating Activities:		
Net loss	\$(1,610,299)	\$ (415,629)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities —		
Depreciation	179,453	124,803
Change in assets and liabilities:		
Accounts receivable	90,474	(190,760)
Inventory	607,165	(63,002)
Prepays and other	16,598	(10,492)
Accounts payable and accrued liabilities	(152,510)	14,960
Customer deposits	62,317	477,012
Accrued interest	101,650	129,192
Net cash (used in) provided by operating activities	<u>(705,152)</u>	<u>66,084</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment, net	<u>(133,760)</u>	<u>(99,759)</u>
Cash Flows from Financing Activities:		
Net payments under capital leases	(19,195)	(16,266)
Payments on note payable	—	(12,000)
Net proceeds from notes payable to related parties	728,344	163,238
Net borrowings (payments) under line of credit	(1,329,635)	—
Issuance of common stock	1,500,000	—
Deferred compensation	—	(79,920)
Compensatory stock options	2,326	130,126
Net cash provided by financing activities	<u>881,840</u>	<u>185,178</u>
Net Increase in Cash and Cash Equivalents	42,928	151,503
Cash and Cash Equivalents, beginning of year	11,977	54,905
Cash and Cash Equivalents, end of year	<u>\$ 54,905</u>	<u>\$ 206,408</u>
Supplemental Disclosure:		
Cash paid for interest	<u>\$ 179,171</u>	<u>\$ 239,552</u>
Noncash Investing and Financing Activities:		
Acquisition of property and equipment under capital leases	<u>\$ 33,635</u>	<u>\$ 43,207</u>
Exchange of shares from related party for note payable	<u>\$ —</u>	<u>\$1,000,000</u>

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

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 1999 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. During the period leading up to the start of production, the Company's activities included raising capital, hiring key personnel and obtaining the necessary licenses. All production costs during the period from inception through December 31, 1995, consisting of research and development activities and limited product manufacturing, were expensed as incurred.

Through 1996, the Company was developing its signature product, the AIR TASER, and establishing the marketing channels to promote retail sales. Significant nonrecurring expenditures were incurred, including research and development costs, the development of marketing and sales materials, the purchase of the licensing rights to the TASER technology and trademark, and the relocation of the manufacturing operations to Mexico, which resulted in significant operating losses.

In 1997, the Company introduced a new product, the AUTO TASER. As a result of significant expenditures for research and development, manufacturing difficulties, scrap, engineering changes and other costs associated with the start up of this product line, the Company continued to experience operating losses in 1997, 1998 and 1999. This product line was discontinued August 1, 1999.

In 1998, the Company formally changed its name from Air Taser, Inc. to TASER International, Inc. and began development of its ADVANCED TASER product, which was introduced for sale in December 1999.

*b. Financing*

The Company has been financed primarily from bank financing, usually guaranteed by major stockholders, and advances and investment by a number of major stockholders. Since inception, the Company has sustained significant operating losses and has, at December 31, 2000, a deficit in working capital of approximately \$1,009,000. In addition, new capital will be required to fund further product development, market penetration, working capital and future operations. The Company believes that additional financing will be available under terms and conditions that are acceptable to the Company. However, there can be no assurance that additional financing will be available. In the event the Company is unable to obtain the needed financing required, the two major stockholders have guaranteed to fund working capital and operational cash needs through at least December 31, 2001.

*c. Initial Public Offering*

The Company is contemplating an initial public offering (IPO) of 1,000,000 shares of common stock at an estimated price of \$10 per unit, consisting of one share of common stock and one warrant to purchase one share of common stock (Note 10).

*d. 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.

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**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.

*b. Inventory*

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

	1999	2000
Raw materials and work-in-process	\$131,007	\$153,506
Finished goods	27,160	67,663
	\$158,167	\$221,169

*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. 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.

*e. Cost of Products Sold*

During 2000, the Company outsourced the assembly of its finished goods, but continued to manufacture certain 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. Prior to August 1999, 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.

At December 31, 1999, included within cost of products sold is a one-time charge related to the phase-out of the AUTO TASER product line of approximately \$355,000.

*f. Revenue Recognition*

The Company recognizes revenues when products are shipped 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.

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*g. 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.

*h. 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 \$24,652 and \$35,035 in 1999 and 2000, respectively. Advertising costs are included in sales, general and administrative expenses in the statements of operations.

*i. Warranty Costs*

The Company warrants its products from manufacturing defects for their lives and will replace any defective units with a new one. Included in accrued liabilities at December 31, 2000 is \$50,000 to cover estimated future warranty costs.

*j. Research and Development Expenses*

The Company expenses research and development costs as incurred. The Company incurred product development expense of \$6,867 and \$7,137 in 1999 and 2000, respectively. Product development costs are included in operating expenses in the statements of operations.

*k. Income Taxes*

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

Subsequent to December 31, 2000, 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 are not available to reduce future taxes payable by the Company as a C corporation.

Upon termination of the S status, the Company is required to implement Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS No. 109), which requires the calculation of existing temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Management does not expect such implementation to have a significant impact on the Company.

Had the Company been a C corporation in 1999 and 2000, no federal or state income tax benefit would have been recorded for the NOLs discussed above because their realizability could not be determined as more likely than not. 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 will be reclassified to additional paid-in capital.

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*l. 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. Provision for bad debts was \$32,250 and \$72,905 at December 31, 1999 and 2000, respectively.

For the years ended December 31, 1999 and 2000, sales by product were as follows:

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	1999	2000
	(000s omitted)	
Sales by product line:		
AIR TASER	\$1,327	\$1,241
AUTO TASER	608	24
ADVANCED TASER	80	2,152
Other	351	83
	\$2,366	\$3,500
Geographic:		
United States	52%	82%
Other countries	48	18
	100%	100%

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*m. 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 does not have material financial instruments with off-balance sheet risk.

The Company has notes payable to stockholders at varying terms which, based on the short-term nature of the notes and financing obtained from outside sources, the Company believes are stated at their estimated fair market value.

*n. Segment Information*

Effective January 1, 1998, 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.

*o. 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 years.

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*p. Comprehensive Income*

Effective January 1, 1998, the Company 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, 1999 and 2000, the Company did not have any components of comprehensive income.

*q. 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. As a result of anti-dilutive effects, approximately 145,875 and 186,049 options and warrants were not included in the computation of diluted earnings per share for 1999 and 2000, respectively.

*r. Recent Accounting Pronouncements*

Effective January 1, 2000, the Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. During 1999 and 2000, the Company did not have any derivative instruments or hedging activities.

**3. Property and Equipment**

Property and equipment consist of the following at December 31, 1999 and 2000:

	<b>Estimated Useful Lives</b>	<b>1999</b>	<b>2000</b>
Leasehold improvements	5 years	\$ —	\$ 5,000
Production equipment	5 years	335,050	380,326
Telephone and office equipment	5 years	31,535	31,535
Computer equipment	3-5 years	332,460	383,492
Furniture and fixtures	5-7 years	22,767	57,542
		721,812	857,895
Less: accumulated depreciation		(465,702)	(583,622)
		<u>\$ 256,110</u>	<u>\$ 274,273</u>

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**4. 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, 1999 and 2000, was \$147,655 and \$93,241, respectively. Future minimum lease payments under operating leases as of December 31, 2000, are as follows:

2001	\$144,481
2002	142,643
2003	146,362
2004	150,193
2005	154,139
Thereafter	143,156
	<hr/>
Total	\$880,974
	<hr/>

*b. Litigation*

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.

In February 2000, the Company was named a defendant in a suit with a former distributor in the state of New York. The distributor alleges unfair termination of the distribution relationship and is seeking substantial damages. The Company believes the case is without significant merit, and intends to vigorously defend itself. In the opinion of management, this dispute will not have a material adverse effect on the Company's financial position.

*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 remaining amounts under the contract upon termination which could total \$510,000.

**5. Income Taxes**

Concurrently with the change in tax status as discussed in Note 2, the Company will adopt 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 the deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Management believes that the following estimated deferred tax assets and liabilities would exist at December 31, 2000, if the date of tax status change was effective on December 31, 2000. The Company

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

would provide a full valuation reserve for the deferred tax asset because the Company has not sustained taxable net income in any periods at sufficient levels to assure realization:

Deferred tax assets:	
Nondeductible reserves for bad debts, sales returns and other	\$ 42,171
Depreciation	26,646
Valuation reserve	(68,817)
	<u>          </u>
	\$ —

**6. Line of Credit**

During 1999, the Company had a line of credit with a bank with a total commitment of up to \$1,500,000. The line was used to fund the Company's working capital needs, and was personally guaranteed by two stockholders, had an interest rate of 10% and was secured by virtually all of the assets of the Company. At December 31, 1998, borrowings under the line were \$1,329,600. The line matured and was paid in full on February 15, 1999.

**7. Inventory Financing Agreement**

The Company has entered into an inventory financing agreement with its warehouser and minority stockholder. Under the agreement, the Company has the right to sell its product to the warehouser 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 bears interest at 10% and is paid monthly and matured March 31, 2000. As of December 31, 2000, no amounts of principal have been paid on this note and the balance is recorded as a current payable.

**8. Notes Payable**

At December 31, 1999 and 2000 debt obligations were as follows:

	<u>1999</u>	<u>2000</u>
Notes payable to stockholders, interest at varying rates of 9% to 27%, principal and interest due July 1, 2002	\$ 1,678,010	\$2,878,010
Note payable to stockholder, interest at 9.18% payable monthly, principal matures July 15, 2001	61,545	24,783
Note payable to private investor, interest at 11%, payable monthly, principal matured June 30, 2000	112,000	100,000
Capital leases, interest at varying rates of 7% to 23%, due in monthly installments through December 2005, secured by equipment	39,155	66,096
	<u>1,890,710</u>	<u>3,068,889</u>
Less: Current portion	(1,795,950)	(246,745)
Total	<u>\$ 94,760</u>	<u>\$2,822,144</u>

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

At December 31, 2000, aggregate annual maturities of long-term debt and capital leases were as follows:

2001	\$ 246,745
2002	2,809,359
2003	5,308
2004	3,589
2005	3,888
	<hr/>
	<u>\$3,068,889</u>

During 1998, a significant stockholder 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. In December 1998, the Company issued a promissory note for \$455,691, the remaining amounts 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, another stockholder 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 amounts 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, a stockholder 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 the stockholder at a fair market value of \$0.60 per share. The stock issued 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 carries interest at bank prime (9.5% at December 31, 2000) plus 1% and matures July 1, 2002.

In March 1999, the Company issued a promissory note to a stockholder 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 a stockholder for \$99,794 at an interest rate of 10% which matures July 1, 2002.

In July 1999, the Company issued a promissory note to a stockholder 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 a stockholder for \$200,000 to fund working capital needs at an interest rate of 10% which matures on July 1, 2002.

In January 2001, the Company issued a promissory note to a private investor to fund working capital for \$500,000 at an interest rate of 18% which matures the earlier of the close of the IPO or July 1, 2002.

**9. 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

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

\$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 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, 2000, the Company has warrants outstanding to purchase 42,747 shares of common stock at prices ranging from \$0.24 to \$21.00 per share with an average exercise price of \$3.49 per share and a weighted average useful life of 3.58 years. A summary of warrants outstanding and exercisable at December 31, 2000 is presented in the table below:

Weighted Average Exercise Price	Outstanding	
	Warrants	Expiration Date
\$21.00	3,333	7/31/05
0.24	16,667	1/1/03
3.30	22,727	7/31/05
<u>\$ 3.49</u>	<u>42,727</u>	

In 2000, the Company issued 22,727 warrants to a stockholder as a loan guarantee. The warrants are exercisable at \$3.30 per share and expire July 31, 2005. These warrants have been recorded at fair value as additional paid-in capital and the related expense recorded in the accompanying financial statements.

In January 2001, the Company issued 5,000 warrants to a private investor as a loan guarantee and 5,000 warrants to its attorney related to the IPO. These warrants are exercisable at \$10 per share and expire January 1, 2006.

*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 13,333 options at an exercisable price of \$3.30. These options have been recorded at fair value as deferred compensation in the accompanying balance sheets and will be amortized into expense over the next four years.

*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 generally vest over a three-year period.

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

The directors of the Company adopted the Company’s 1998-1999 Stock Option Plan. The 1998-1999 Plan was administered by the Board of Directors which determined the employees, directors or consultants which will be granted options and the terms of the options, including the vesting provision which typically is over a three-year period.

The 1998-1999 Plan and options previously granted were voluntarily canceled by the recipients.

The Company has a 1999 Stock Option Plan (the “1999 Plan”) that provides for officers, key employees and consultants to receive nontransferable stock options to purchase up to 833,333 shares of the Company’s common stock. The term of the options may not exceed ten years although most options granted had an initial expiration period of between five and seven years. In 1998, the Company had a similar plan which was cancelled in 1999.

In 1999, the Company issued 16,667 five-year options to a stockholder at an exercise price of \$0.66 per share for consulting services, and 3,959 ten-year options to a lender at an exercise price of \$7.20 per share for a loan guarantee. In 2000, the Company issued 4,697 ten-year options to a non-employee at an exercise price of \$3.30 per share for consulting services, and 3,333 five-year options to a stockholder at an exercise price of \$0.24 per share for a loan guarantee. These options have been recorded at fair value as additional paid-in capital and the related expense recorded in the year in which the service is provided in the accompanying financial statements. In 2000, the 1999 Plan was cancelled.

A summary of the Company’s stock options at December 31, 1999 and 2000 and for the years then ended is presented in the table below:

	1999		2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	65,334	\$6.37	124,875	\$0.82
Granted	124,791	0.82	18,530	3.30
Exercised	—	—	—	—
Expired/terminated	(65,250)	6.38	(83)	0.24
Options outstanding, end of year	124,875	\$0.82	143,322	\$1.14
Exercisable at end of year	42,352	\$1.21	84,979	\$1.02

Stock options outstanding and exercisable at December 31, 2000 are as follows:

Average Exercise Price	Outstanding		Exercisable	
	Options	Average Life(a)	Options	
\$0.24	3,333	3.50	3,333	
0.60	80,833	7.52	50,718	
0.66	36,667	3.00	23,426	
7.20	3,959	9.74	3,958	
3.30	18,530	8.42	3,544	
\$1.02	143,322	6.58	84,979	

(a) Average contractual life remaining.

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

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 6.64 years. Had the Company’s compensation cost been determined using the fair value based method of accounting prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company’s net loss and net loss per common share would have been adjusted to the following pro forma amounts (amounts in thousands except per common share amounts):

	<u>Year Ended December 31,</u>	
	<u>1999</u>	<u>2000</u>
Net loss available to common stockholders:		
As reported	\$(1,610)	\$ (416)
Pro forma	(1,633)	(440)
Basic and diluted net loss per common share:		
As reported	\$ (0.52)	\$(0.17)
Pro forma	(0.53)	(0.18)

In January 2001, the Company adopted the 2001 Stock Option Plan (the “2001 Plan”) that 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 issued 291,000 ten year options to employees, shareholders and consultants at exercise prices ranging from \$8.00 to \$8.80 per share.

**10. Subsequent Event**

The Company intends to file an SB-2 registration statement offering 1,000,000 units at an estimated initial offering price of \$10 per unit consisting of one share of common stock and one warrant to purchase one share of common stock. Also, the Company intends to issue to the representative of the IPO’s underwriters warrants which enable the representative to acquire 100,000 units for 120% of the IPO unit offering price.



**You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from the information contained in this prospectus. We are offering to sell, and seeking offers to buy, units only in jurisdictions in which offers and sales are permitted.**

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**Until , 2001 (25 days after the date of this prospectus), all broker-dealers that effect the transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.**

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**1,000,000 UNITS**

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**PROSPECTUS**

**PAULSON INVESTMENT  
COMPANY, INC.**

<R>

, 2001

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**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 24. *Indemnification of Directors and Officers.***

Our certificate of incorporation allows and our bylaws require that we indemnify our directors and officers who are or were a party to, or are threatened to be made a party to, any proceeding (including a derivative action if the director or officer is not found liable to us), against all expenses reasonably incurred by a director or officer in connection with such a proceeding (including expenses, judgments, fines and amounts paid in settlement), if the director or officer acted in good faith, in a manner he or she believed was not opposed to our best interests, and, with respect to a criminal proceeding, had no reason to believe that his or her conduct was unlawful.

We have entered into separate indemnification agreements with each of our directors and officers. The agreements provide for mandatory indemnification for and limit the liability of our directors and officers in serving us to the fullest extent permitted by the Delaware General Corporation Law. Specifically, under the agreements, our directors and officers will not be personally liable for monetary damages for their errors or omissions, except for liability for the breach of a director's or officer's duty of loyalty to us or our stockholders, for intentional misconduct or acts not in good faith, for making any unlawful distribution, for any transaction from which the director or officer derived an improper benefit, or for violating section 16(b) of the Securities Exchange Act of 1934, as amended, or similar laws.

Our bylaws and indemnification agreements generally require that we advance to our directors and officers expenses incurred by them in defending a proceeding in advance of its final disposition, provided that the director or officer agrees to reimburse us for such advances if it is ultimately found that the director or officer is not entitled to indemnification. In addition, our bylaws permit us to purchase insurance on behalf of our directors and officers against any liability asserted against them in such capacity. We intend to obtain such insurance.

**Item 25. *Other Expenses of Issuance and Distribution.***

The following table sets forth an itemization of SEC Registration, NASD filing and Nasdaq listing fees, and all other estimated expenses, all of which we will pay, in connection with the issuance and distribution of the securities being registered:

Nature of Expense	Amount
SEC Registration fee	\$ 8,649
NASD Filing fees	3,960
Nasdaq Listing fee	8,000
Accounting fees and expenses	125,000
Legal fees and expenses	125,000
Directors and officers insurance expenses	150,000
Printing and related expenses	145,000
Blue sky legal fees and expenses	65,000
Transfer agent fees and expenses	1,250
Miscellaneous expenses	18,131
Total	<u>\$650,000</u>

**Item 26. *Recent Sales of Unregistered Securities.***

We have issued the following securities within the last three years. The following information regarding our securities has been adjusted to reflect a 1-for-6 reverse stock split effected in connection with our redomestication in Delaware on February 12, 2001.

(1) In March 1998, pursuant to an exemption under Section 4(2) of the Securities Act, we sold shares of our common stock as follows: 20,833 shares at \$7.20 per share for an aggregate purchase price of \$150,000 to Bruce R. Culver; and 20,833 shares at \$7.20 per share for an aggregate purchase price of \$150,000 to Phillips W. Smith.

(2) In January 1999, pursuant to an exemption under Section 4(2) of the Securities Act, we sold shares of our common stock as follows: 1,666,667 shares at \$0.60 per share for an aggregate purchase price of \$1,000,000 to Bruce R. Culver. These shares were subject to a repurchase option that was exercised by us in July 2000 at the same price (\$0.60 per share) for an aggregate purchase price of \$1,000,000.

(3) In September 1999, pursuant to an exemption under Section 4(2) of the Securities Act, we sold shares of our common stock as follows: 151,515 shares at \$3.30 per share for an aggregate purchase price of \$500,000 to Bruce R. Culver.

**Item 27. Exhibits.**

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Exhibit No.	Description
1.1	Form of Underwriting Agreement*
3.1	Registrant's Certificate of Incorporation*
3.2	Registrant's Bylaws*
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**
4.3	Form of Public Warrant*
4.4	Form of Unit Certificate**
4.5	Form of Warrant Agent Agreement**
4.6	Form of Representative's Warrant
5.1	Opinion of Tonkon Torp LLP**
10.1	Employment Agreement with Patrick W. Smith, dated July 1, 1998*
10.2	Employment Agreement with Thomas P. Smith, dated November 15, 2000*
10.3	Employment Agreement with Kathleen C. Hanrahan, dated November 15, 2000*
10.4	Form of Indemnification Agreement between the Registrant and its directors*
10.5	Form of Indemnification Agreement between the Registrant and its officers*
10.6	1999 Employee Stock Option Plan*
10.7	2001 Stock Option Plan
10.8	Form of Warrant issued to Bruce Culver and Phil Smith*
10.9	Licensing Agreement with respect to intellectual property dated October 15, 1993, as amended, by and between the Registrant and John H. Cover, Jr., and related documents (supersedes previously filed Exhibit 10.9)
10.10	Promissory Note, dated January 23, 2001 payable to Phillip Purer in the amount of \$500,000 and related security documents*
10.11	Promissory Note, dated December 31, 1998, payable to B & M Distributing, Inc., in the amount of \$189,980 and related guarantee and security documents*
10.12	Promissory Note dated October 24, 2000, payable to Bank of America in the amount of \$60,000 and related guarantee and security documents*
10.13	Form of Promissory Notes issued to stockholders*
10.14	Lease between the Registrant and Norton P. Remes and Joan A. Remes Revocable Trust, dated November 17, 2000*

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**Exhibit**

<b>No.</b>	<b>Description</b>
23.1	Consent of Tonkon, Torp LLP (included in Exhibit 5.1)
23.2	Consent of Arthur Andersen LLP, independent public accountants
24	Power of Attorney. Reference is made to the signature page.

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\* Previously filed

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\*\* To be filed by amendment.

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**Item 28. Undertakings.**

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by a director, officer or controlling person of us in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

We hereby undertake to:

(1) File, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act");

(ii) Reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement; and notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the dollar value of the securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) under the Securities Act if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and

(iii) Include any additional or changed material information on the plan of distribution.

(2) For determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) File a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

(4) For purposes of determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act as part of this registration statement as of the time it was declared effective.

(5) For determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the

registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

In addition, we hereby undertake to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

**SIGNATURES**

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In accordance with the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, in the City of Scottsdale, Arizona on February 26, 2001.

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TASER INTERNATIONAL, INC.

BY: /s/PATRICK W. SMITH

Patrick W. Smith, *Chief Executive Officer*

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In accordance with the requirements of the Securities Act of 1933, this Amendment No. 1 to the registration statement was signed by the following persons in the capacities and on the dates stated.

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Signature	Title	Date
/s/ PATRICK W. SMITH Patrick W. Smith	Chief Executive Officer (Principal Executive Officer) and Director	February 26, 2001
/s/ THOMAS P. SMITH* Thomas P. Smith	President and Director	February 26, 2001
/s/ KATHLEEN C. HANRAHAN* Kathleen C. Hanrahan	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 26, 2001
/s/ PHILLIPS W. SMITH Phillips W. Smith	Director and Chairman of the Board	February 26, 2001
/s/ BRUCE R. CULVER* Bruce R. Culver	Director	February 26, 2001
/s/ KARL F. WALTER* Karl F. Walter	Director	February 26, 2001
/s/ MATTHEW R. MCBRADY* Matthew R. McBrady	Director	February 26, 2001

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\*By /s/ PATRICK W. SMITH

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Patrick W. Smith, Attorney-in-Fact

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## EXHIBIT INDEX

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EXHIBIT 4.6

TASER INTERNATIONAL, INC.

PURCHASE WARRANT

Issued to:

PAULSON INVESTMENT COMPANY, INC.

Exercisable to Purchase

\_\_\_\_\_ UNITS

THIS WARRANT HAS NOT BEEN REGISTERED  
UNDER THE SECURITIES ACT OF 1933  
AND IS NOT TRANSFERABLE  
EXCEPT AS PROVIDED HEREIN

Void after \_\_\_\_\_, 2006

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This is to certify that, for value received and subject to the terms and conditions set forth below, the Warrantholder (hereinafter defined) is entitled to purchase, and the Company promises and agrees to sell and issue to the Warrantholder, at any time on or after \_\_\_\_\_, 2002 and on or before \_\_\_\_\_, 2006, up to \_\_\_\_\_ Units (hereinafter defined) at the Exercise Price (hereinafter defined).

This Warrant Certificate is issued subject to the following terms and conditions:

1. Definitions of Certain Terms. Except as may be otherwise clearly required by the context, the following terms have the following meanings:

- (a) "Act" means the Securities Act of 1933, as amended.
- (b) "Closing Date" means the date on which the Offering is closed.
- (c) "Commission" means the Securities and Exchange Commission.
- (d) "Common Stock" means the common stock, \$0.00001 par value, of the Company.
- (e) "Company" means TASER International, Inc., a Delaware corporation.
- (f) "Company's Expenses" means any and all expenses payable by the Company or the Warrantholder in connection with an offering described in Section 6 hereof, except Warrantholder's Expenses.
- (g) "Effective Date" means the date on which the Registration Statement is declared effective by the Commission.
- (h) "Exercise Price" means the price at which the Warrantholder may purchase one complete Unit (or Securities obtainable in lieu of one complete Unit) upon exercise of Warrants as determined from time to time pursuant to the provisions hereof. The initial Exercise Price is \$ \_\_\_\_\_ per Unit (120% of the initial public offering price of a Unit). If a Warrant is exercised for a component of a Unit or Units, then the price payable in connection with such exercise shall be determined by allocating \$0.001 to the Unit Warrant and the balance of the Exercise Price to the share of Common Stock, or, in each case, to any securities obtainable in addition to or in lieu of such Unit Warrant or share of Common Stock by virtue of the application of Section 3 of this Warrant.
- (i) "Offering" means the public offering of Units made pursuant to the Registration Statement.
- (j) "Participating Underwriter" means any underwriter participating in the sale of the Securities pursuant to a registration under Section 6 of this Warrant Certificate.
- (k) "Registration Statement" means the Company's registration statement (File No. 333-\_\_\_\_\_), as amended on the Closing Date.

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(l) "Rules and Regulations" means the rules and regulations of the Commission adopted under the Act.

(m) "Securities" means the securities obtained or obtainable upon exercise of the Warrant or securities obtained or obtainable upon exercise, exchange or conversion of such securities.

(n) "Unit" means, as the case may require, either one of the Units offered to the public pursuant to the Registration Statement or one of the Units obtainable on exercise of a Warrant, each Unit consisting of one share of Common Stock and one Unit Warrant to purchase one share of Common Stock on the terms and conditions described in the Registration Statement.

(o) "Unit Warrant" means a Common Stock purchase warrant included as a component of a Unit.

(p) "Warrant Certificate" means a certificate evidencing the Warrant.

(q) "Warrantholder" means a record holder of the Warrant or Securities. The initial Warrantholder is Paulson Investment Company, Inc.

(r) "Warrantholder's Expenses" means the sum of (i) the aggregate amount of cash payments made to an underwriter, underwriting syndicate, or agent in connection with an offering described in Section 6 hereof multiplied by a fraction, the numerator of which is the aggregate sales price of the Securities sold by such underwriter, underwriting syndicate, or agent in such offering on behalf of the Warrantholder and the denominator of which is the aggregate sales price of all of the securities sold by such underwriter, underwriting syndicate, or agent in such offering and (ii) all out-of-pocket expenses of the Warrantholder, except for the fees and disbursements of one firm retained as legal counsel for the Warrantholder on behalf of all of the Warrantholders that will be paid by the Company.

(s) "Warrant" means the warrant evidenced by this certificate, any similar certificate issued in connection with the Offering, or any certificate obtained upon transfer or partial exercise of the Warrant evidenced by any such certificate.

2. Exercise of Warrants. All or any part of the Warrant may be exercised commencing on the first anniversary of the Effective Date and ending at 5:00 p.m. (Pacific Time) on the fifth anniversary of the Effective Date by surrendering this Warrant Certificate, together with appropriate instructions, duly executed by the Warrantholder or by its duly authorized attorney, at the office of the Company, 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260, or at such other office or agency as the Company may designate. Upon receipt of notice of exercise, the Company shall immediately instruct its transfer agent to prepare certificates for the Securities to be received by the Warrantholder upon completion of the Warrant exercise. When such certificates are prepared, the Company shall notify the Warrantholder and deliver such certificates to the Warrantholder or as per the Warrantholder's instructions immediately upon payment in full by the Warrantholder, in lawful money of the United States, of the Exercise Price payable with respect to the Securities being purchased. If the Warrantholder shall represent and warrant that all applicable registration and prospectus delivery requirements for their sale have been complied with upon sale

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of the securities received upon exercise of the Warrant, such certificates shall not bear a legend with respect to the Act.

If fewer than all the Securities purchasable under the Warrant are purchased, the Company will, upon such partial exercise, execute and deliver to the Warrantholder a new Warrant Certificate (dated the date hereof), in form and tenor similar to this Warrant Certificate, evidencing that portion of the Warrant not exercised. The Securities to be obtained on exercise of the Warrant will be deemed to have been issued, and any person exercising the Warrants will be deemed to have become a holder of record of those Securities, as of the date of the payment of the Exercise Price.

3. Adjustments in Certain Events. The number, class, and price of Securities for which this Warrant Certificate may be exercised are subject to adjustment from time to time upon the happening of certain events as follows:

(a) If the outstanding shares of the Company's Common Stock are divided into a greater number of shares or a dividend in stock is paid on the Common Stock, the number of shares of Common Stock for which the Warrant is then exercisable will be proportionately increased and the Exercise Price will be proportionately reduced; and, conversely, if the outstanding shares of Common Stock are combined into a smaller number of shares of Common Stock, the number of shares of Common Stock for which the Warrant is then exercisable will be proportionately reduced and the Exercise Price will be proportionately increased. The increases and reductions provided for in this subsection 3(a) will be made with the intent and, as nearly as practicable, the effect that neither the percentage of the total equity of the Company obtainable on exercise of the Warrants nor the price payable for such percentage upon such exercise will be affected by any event described in this subsection 3(a).

(b) In case of any change in the Common Stock through merger, consolidation, reclassification, reorganization, partial or complete liquidation, purchase of substantially all the assets of the Company, or other change in the capital structure of the Company, then, as a condition of such change, lawful and adequate provision will be made so that the holder of this Warrant Certificate will have the right thereafter to receive upon the exercise of the Warrant the kind and amount of shares of stock or other securities or property to which he would have been entitled if, immediately prior to such event, he had held the number of shares of Common Stock obtainable upon the exercise of the Warrant. In any such case, appropriate adjustment will be made in the application of the provisions set forth herein with respect to the rights and interest thereafter of the Warrantholder, to the end that the provisions set forth herein will thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the exercise of the Warrant. The Company will not permit any change in its capital structure to occur unless the issuer of the shares of stock or other securities to be received by the holder of this Warrant Certificate, if not the Company, agrees to be bound by and comply with the provisions of this Warrant Certificate.

(c) When any adjustment is required to be made in the number of shares of Common Stock, other securities, or the property purchasable upon exercise of the Warrant, the Company will promptly determine the new number of such shares or other securities or property

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purchasable upon exercise of the Warrant and (i) prepare and retain on file a statement describing in reasonable detail the method used in arriving at the new number of such shares or other securities or property purchasable upon exercise of the Warrant and (ii) cause a copy of such statement to be mailed to the Warrantholder within thirty (30) days after the date of the event giving rise to the adjustment.

(d) No fractional shares of Common Stock or other securities will be issued in connection with the exercise of the Warrant, but the Company will pay, in lieu of fractional shares, a cash payment therefor on the basis of the mean between the bid and asked prices of the Common Stock in the over-the-counter market or the last sale price of the Common Stock on the Nasdaq SmallCap Market or a national securities exchange on the day immediately prior to exercise.

(e) If securities of the Company or securities of any subsidiary of the Company are distributed pro rata to holders of Common Stock, such number of securities will be distributed to the Warrantholder or his assignee upon exercise of his rights hereunder as such Warrantholder or assignee would have been entitled to if this Warrant Certificate had been exercised prior to the record date for such distribution. The provisions with respect to adjustment of the Common Stock provided in this Section 3 will also apply to the securities to which the Warrantholder or his assignee is entitled under this subsection 3(e).

(f) Notwithstanding anything herein to the contrary, there will be no adjustment made hereunder on account of the sale by the Company of the Common Stock or other Securities purchasable upon exercise of the Warrant.

4. Reservation of Securities. The Company agrees that the number of shares of Common Stock, Unit Warrants or other Securities sufficient to provide for the exercise of the Warrant upon the basis set forth above will at all times during the term of the Warrant be reserved for issuance upon exercise of the Warrant.

5. Validity of Securities. All Securities delivered upon the exercise of the Warrant will be duly and validly issued in accordance with their terms, and the Company will pay all documentary and transfer taxes, if any, in respect of the original issuance thereof upon exercise of the Warrant.

6. Registration of Securities Issuable on Exercise of Warrant Certificate.

(a) The Company will register the Securities with the Commission pursuant to the Act so as to allow the unrestricted sale of the Securities to the public from time to time commencing on the first anniversary of the Effective Date and ending at 5:00 p.m. (Pacific Time) on the fifth anniversary of the Effective Date (the "Registration Period"). The Company will also file such applications and other documents necessary to permit the sale of the Securities to the public during the Registration Period in those states designated by the Warrantholders among those in which the Units were qualified for sale in the Offering or in such other states as the Company and the Warrantholder agree to. In order to comply with the provisions of this Section 6(a), the Company is not required to file more than one registration statement in addition to the Registration Statement.

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(b) The Company will pay all of the Company's Expenses and each Warrantholder will pay its pro rata share of the Warrantholder's Expenses relating to the registration, offer and sale of the Securities.

(c) Except as specifically provided herein, the manner and conduct of the registration, including the contents of the registration statement, will be entirely in the control and at the discretion of the Company. The Company will file such post-effective amendments and supplements as may be necessary to maintain the currency of the registration statement during the Registration Period. In addition, if the Warrantholder participating in the registration is advised by counsel that the registration statement, in their opinion, is deficient in any material respect, the Company will use its best efforts to cause the registration statement to be amended to eliminate the concerns raised.

(d) The Company will furnish to the Warrantholder the number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as it may reasonably request in order to facilitate the disposition of Securities owned by it.

(e) The Company will, at the request of Warrantholders holding at least 50 percent of the then outstanding Warrants, (i) furnish an opinion of the counsel representing the Company for the purposes of the registration pursuant to this Section 6, addressed to the Warrantholders and any Participating Underwriter, (ii) in the event of an underwritten offering, furnish an appropriate letter from the independent public accountants of the Company, addressed to the Warrantholders and any Participating Underwriter, and (iii) make such representations and warranties to the Warrantholders and any Participating Underwriter as are customarily given to underwriters of public offerings of equity securities in connection with such offerings. A request pursuant to this subsection (e) may be made on three occasions. The documents required to be delivered pursuant to this subsection (e) will be dated within ten days of the request and will be, in form and substance, equivalent to similar documents furnished to the underwriters in connection with the Offering, with such changes as may be appropriate in light of changed circumstances.

7. Indemnification in Connection with Registration.

(a) If any of the Securities are registered, the Company will indemnify and hold harmless each selling Warrantholder, any person who controls any selling Warrantholder within the meaning of the Act, and any Participating Underwriter against any losses, claims, damages, or liabilities, joint or several, to which any Warrantholder, controlling person, or Participating Underwriter may be subject under the Act or otherwise; and it will reimburse each Warrantholder, each controlling person, and each Participating Underwriter for any legal or other expenses reasonably incurred by the Warrantholder, controlling person, or Participating Underwriter in connection with investigating or defending any such loss, claim, damage, liability or action, insofar as such losses, claims, damages, or liabilities, joint or several (or actions in respect thereof), arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained, on the effective date thereof, in any such registration statement or any preliminary prospectus or final prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated

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therein or necessary to make the statements therein not misleading; provided, however, that the Company will not be liable in any case to the extent that any loss, claim, damage, or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in any registration statement, preliminary prospectus, final prospectus, or any amendment or supplement thereto, in reliance upon and in conformity with written information furnished by a Warrantholder for use in the preparation thereof. The indemnity agreement contained in this subsection (a) will not apply to amounts paid to any claimant in settlement of any suit or claim unless such payment is first approved by the Company, such approval not to be unreasonably withheld.

(b) Each selling Warrantholder, as a condition of the Company's registration obligation, will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed any registration statement or other filing, or any amendment or supplement thereto, and any person who controls the Company within the meaning of the Act, against any losses, claims, damages, or liabilities to which the Company or any such director, officer, or controlling person may become subject under the Act or otherwise, and will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, or controlling person in connection with investigating or defending any such loss, claim, damage, liability, or action, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any untrue or alleged untrue statement of any material fact contained in said registration statement, any preliminary or final prospectus, or other filing or any amendment or supplement thereto, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in said registration statement, preliminary or final prospectus, or other filing, or amendment or supplement, in reliance upon and in conformity with written information furnished by such Warrantholder for use in the preparation thereof; provided, however, that the indemnity agreement contained in this subsection (b) will not apply to amounts paid to any claimant in settlement of any suit or claim unless such payment is first approved by the Warrantholder, such approval not to be unreasonably withheld.

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, notify the indemnifying party of the commencement thereof; but the omission to notify the indemnifying party will not relieve it from any liability that it may have to any indemnified party otherwise than under subsections (a) and (b).

(d) If any such action is brought against any indemnified party and it notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party; and after notice from the indemnifying party to such indemnified party of its election to assume the defense thereof, the indemnifying party will not be liable to such indemnified party for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation.

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8. Restrictions on Transfer. This Warrant Certificate and the Warrant may not be sold, transferred, assigned, pledged or hypothecated for a period of one year following the Effective Date of the Offering, except transfers to officers or partners (not directors) of the underwriters and members of the selling group and/or their officers or partners or by will or operation of law. The Warrant may be divided or combined, upon request to the Company by the Warrantholder, into a certificate or certificates evidencing the same aggregate number of Warrants.

9. No Rights as a Shareholder. Except as otherwise provided herein, the Warrantholder will not, by virtue of ownership of the Warrant, be entitled to any rights of a shareholder of the Company but will, upon written request to the Company, be entitled to receive such quarterly or annual reports as the Company distributes to its shareholders.

10. Optional Conversion.

(a) In addition to and without limiting the right of any Warrantholder under the terms of this Warrant, the Warrantholder shall have the right (the "Conversion Right") to convert this Warrant or any portion thereof into Securities as provided in this Section 10 at any time or from time-to-time after the first anniversary of the date hereof and prior to its expiration. Upon exercise of the Conversion Right with respect to a particular number of Units subject to this Warrant (the "Converted Securities"), the Company shall deliver to the holder of this Warrant, without payment by the holder of any exercise price or any cash or other consideration, that number of Units equal to the quotient obtained by dividing the Net Value (as hereinafter defined) of the Converted Securities by the sum of the fair market value (as defined in paragraph (c) below) of a single share of Common Stock plus a single Unit Warrant, determined in each case as of the close of business on the Conversion Date (as hereinafter defined). The "Net Value" of the Converted Securities shall be determined by subtracting the aggregate Exercise Price of the Converted Securities from the aggregate fair market value of the Converted Securities. Notwithstanding anything in this Section 10 to the contrary, the Conversion Right cannot be exercised with respect to a number of Converted Securities having a Net Value below \$100. No fractional shares shall be issuable upon exercise of the Conversion Right, and if the number of shares to be issued in accordance with the foregoing formula is other than a whole number, the Company shall pay to the holder of this Warrant an amount in cash equal to the fair market value of the resulting fractional share.

(b) The Conversion Right may be exercised by the holder of this Warrant by the surrender of this Warrant at the principal office of the Company together with a written statement specifying that the holder thereby intends to exercise the Conversion Right and indicating the number of Securities subject to this Warrant which are being surrendered (referred to in paragraph (a) above as the Converted Securities) in exercise of the Conversion Right. Such conversion shall be effective upon receipt by the Company of this Warrant together with the aforesaid written statement, or on such later date as is specified therein (the "Conversion Date"), but not later than the expiration date of this Warrant. Certificates for the shares of Common Stock and Unit Warrants issuable upon exercise of the Conversion Right, together with a check in payment of any fractional share and, in the case of a partial exercise, a new Warrant evidencing the Securities remaining subject to this Warrant, shall be issued as of the Conversion Date, and shall be delivered to the holder of this Warrant within seven days following the Conversion Date.

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(c) For purposes of this Section 10, the "fair market value" of a share of Common Stock or Unit Warrant as of a particular date shall be the mean between the bid and asked price of the Common Stock or Unit Warrant, as the case may be, as quoted in the over the counter market, or, if applicable, the closing sale price of the Common Stock or Unit Warrant, as the case may be, on the Nasdaq Stock Market or a national exchange.

11. Notice. Any notices required or permitted to be given hereunder will be in writing and may be served personally or by mail addressed as follows:

If to the Company:

7860 East McClain Drive, Suite 2  
Scottsdale, Arizona 85260  
Attn: Chief Executive Officer

If to the Warrantholder:

at the address furnished  
by the Warrantholder to the  
Company for the purpose of  
notice.

Any notice so given by mail will be deemed effectively given 48 hours after mailing when deposited in the United States mail, registered or certified mail, return receipt requested, postage prepaid and addressed as specified above. Any party may by written notice to the other specify a different address for notice purposes.

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12. Applicable Law. This Warrant Certificate will be governed by and construed in accordance with the laws of the State of Oregon, without reference to conflict of laws principles thereunder. All disputes relating to this Warrant Certificate shall be tried before the courts of Oregon located in Multnomah County, Oregon, to the exclusion of all other courts that might have jurisdiction.

Dated as of \_\_\_\_\_, 2001.

TASER INTERNATIONAL, INC.

By: \_\_\_\_\_  
Patrick W. Smith,  
Chief Executive Officer

Agreed and Accepted as of \_\_\_\_\_, 2001  
PAULSON INVESTMENT COMPANY, INC.

By: \_\_\_\_\_  
Authorized Officer

Purchase 9 - Purchase Warrant  
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Exhibit 10.7

TASER INTERNATIONAL, INC.  
2001 STOCK OPTION PLAN  
(EFFECTIVE JANUARY 6, 2001)

SECTION 1. INTRODUCTION

Taser International, Inc. has adopted its 2001 Stock Option Plan providing for the grant of stock options to certain eligible individuals who have or will render services to the Company. This Plan has been approved by the Board of Directors of the Company effective January 6, 2001.

The purpose of the Plan is to advance the interests of the Company and its stockholders by enhancing the Company's ability to attract and retain qualified persons to perform services for the Company, by providing incentives to such persons to put forth maximum efforts for the Company and by rewarding persons who contribute to the achievement of the Company's economic objectives. The Plan seeks to achieve this purpose by providing for Options which may contribute Incentive Stock Options or Non-qualified Stock Options.

SECTION 2. ADMINISTRATION

SECTION 2.1 COMMITTEE COMPOSITION.

The Plan shall be administered by the Board, or by a committee of the Board consisting of not less than three persons; provided, however, that from and after the date on which the Company first registers a class of its equity securities under Section 12 of the Exchange Act, the Plan shall be administered to the extent provided herein by such a committee of the Board. Members of such committee, if established, shall be appointed from time to time by the Board, shall serve at the pleasure of the Board and may resign at any time upon written notice to the Board. As used in this Plan, the term "Committee" will refer to the Board or to such committee, if established.

SECTION 2.2 COMMITTEE RESPONSIBILITIES.

(a) The Committee shall have the authority to recommend to the Board for its consideration and approval (i) the Employees, Outside Directors and Consultants who are to receive Options under the Plan, (ii) the time or times when Options will be granted, (iii) the type, number, exercise price, vesting requirements and other features and conditions of such Options, (iv) the duration of each Option, (v) the restrictions and conditions to which the exercisability of Options may be subject, and (vi) such other provisions of the Options as the Committee may deem necessary or desirable and as are consistent with the terms of the Plan. The Committee shall determine the form or forms of the Stock Option Agreements with Optionees which shall evidence the particular terms, conditions, rights and duties of the Company and the Optionees with respect to Options granted pursuant to the Plan, which agreement shall be consistent with the provisions of the Plan.

(b) With the consent of the Optionee affected thereby, and subject to the consideration and approval of the Board, the Committee may amend or modify the terms of any outstanding Option in any

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manner, provided that the amended or modified terms are permitted by the Plan as then in effect. Without limiting the generality of the foregoing sentence, the Committee may, with the consent of the Optionee affected thereby and subject to consideration and approval of the Board, modify the exercise price, number of shares, or other terms and conditions of an Option, extend the term of an Option, accelerate the exercisability or vesting or otherwise terminate any restrictions relating to an Option, accept surrender of any outstanding Option, or, to the extent not previously exercised or vested, authorize the grant of new Options in substitution for surrendered Options.

(c) The Committee shall have the authority to interpret the Plan and, subject to the provisions of the Plan, to establish, adopt and revise such rules and regulations relating to the Plan as it may deem necessary or advisable for the administration of the Plan. The Committee's decisions and determinations under the Plan need not be uniform and may be made selectively among Optionees, whether or not such Optionees are similarly situated. Each determination, interpretation, or other action made or taken by the Committee pursuant to the provisions of the Plan shall be conclusive and binding for all purposes. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted under the Plan.

### SECTION 3. SHARES AVAILABLE FOR GRANTS

#### SECTION 3.1 BASIC LIMITATION.

The Maximum number of shares of Common Stock that shall be authorized and reserved for issuance under the Plan shall be 550,000 shares, \$.00001 par value. The limitation of this Section 3.1 shall be subject to adjustment pursuant to Section 3.3.

#### SECTION 3.2 ADDITIONAL SHARES AVAILABLE FOR USE.

If Options are forfeited or terminate for any other reason before being exercised, then the corresponding Common Stock shall again become available for the grant of Options under the Plan. Also, previously acquired shares of Common Stock which are tendered by the Optionee to the Company in whole or partial satisfaction of the Exercise Price pursuant to Section 6.2, or in whole or partial satisfaction of withholding obligations pursuant to Section 10.2, shall become available for use under the Plan to the extent permitted by Rule 16b-3 of the Exchange Act. The aggregate number of shares of Common Stock that may be issued under the Plan upon the exercise of Incentive Stock Options shall in no event exceed 5,000,000 shares.

#### SECTION 3.3 ADJUSTMENT TO SHARES.

In the event of a stock split, any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend payable in Common Stock, extraordinary dividend or divestiture (including a spin-off), a combination or consolidation of the outstanding Common Stock (by reclassification or otherwise) into a lesser number of shares of Common Stock, or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) shall make appropriate adjustments (which determination shall be conclusive) as to one or more of:

(a) The number of and kind of securities subject to and reserved under the Plan;

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(b) In order to prevent dilution or enlargement of the rights of Optionees, the number, kind and Exercise Price of securities subject to outstanding Options;

(c) The limitations set forth in Section 5.2.

Without limiting the generality of the foregoing, in the event that any of such transactions are effected in such a way that holders of Common Stock shall be entitled to receive stock, securities, or assets, including cash, with respect to or in exchange for such Common Stock, all Optionees holding outstanding Options shall upon the exercise of such Options receive, in lieu of any shares of Common Stock they may be entitled to receive, such stock, securities, or assets, including cash, as would have been issued to such Optionees if their Options had been exercised and such Optionees had received Common Stock prior to such transaction.

Notwithstanding the provisions of this Section 3.3, there shall be no adjustment to the shares authorized pursuant to this Plan for an event described in Section 3.3 that occurs before or simultaneously with the effective date of this Plan.

Except as provided in this Section 3.3, an Optionee shall have no rights by reason of any issue by the Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

#### SECTION 4. ELIGIBILITY

##### SECTION 4.1 NON-QUALIFIED STOCK OPTIONS.

Only Employees, Outside Directors and Consultants shall be eligible for the grant of NSOs.

##### SECTION 4.2 INCENTIVE STOCK OPTIONS.

Only Employees who are common-law employees of the Company, a Parent or a Subsidiary shall be eligible for the grant of Incentive Stock Options. In addition, an Employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company or any of its Parents or Subsidiaries shall not be eligible for the grant of an Incentive Stock Option unless the requirements set forth in Section 422(c)(6) of the Code are satisfied.

#### SECTION 5. STOCK OPTIONS

##### SECTION 5.1 STOCK OPTION AGREEMENT.

Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan as shall be determined by the Committee in its discretion and upon consideration and approval of the Board. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. Options shall be granted for no cash consideration unless minimal cash consideration is required by applicable law.

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SECTION 5.2 NUMBER OF SHARES.

Each Stock Option Agreement shall specify the number of Common Stock subject to the Option. Options granted to any Optionee in a single fiscal year of the Company shall not cover more than 75,000 shares of Common Stock, except that Options granted to a new Employee in the fiscal year of the Company in which his or her service as an Employee first commences shall not cover more than 100,000 shares of Common Stock. The limitations set forth in the preceding sentence shall be subject to adjustment in accordance with Section 3.3.

SECTION 5.3 EXERCISE PRICE.

(a) Incentive Stock Options.

The Exercise Price per share to be paid by the Optionee at the time an Incentive Stock Option is exercised shall be determined by the Committee, in its discretion and upon consideration and approval of the Board; provided, however that the such price shall not be less than (i) 100% of the Fair Market Value of one share of Common Stock on the date the Option is granted, or (ii) 110% of the Fair Market Value of one share of Common Stock on the date the Option is granted if, at the time the Option is granted, the Optionee owns, directly or indirectly (as determined pursuant to Section 424(d) of the Code), more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary or Parent corporation of the Company (within the meaning of Sections 424(f) and 424(e), respectively, of the Code).

(b) Non-qualified Stock Options.

The Exercise Price per share to be paid by the Optionee at the time an NSO is exercised shall be determined by the Committee, in its discretion and upon consideration and approval of the Board; provided, however that the such price shall not be less than 85% of the Fair Market Value of one share of Common Stock on the date the Option is granted.

SECTION 5.4 EXERCISABILITY AND TERM.

An Option shall become exercisable at such times and in such installments (which may be cumulative) as shall be determined by the Committee in its discretion at the time the Option is granted. Upon the completion of its term, an Option, to the extent not then exercised, shall expire.

(a) Incentive Stock Options.

The period during which an Incentive Stock Option may be exercised shall be fixed by the Committee in its discretion and upon consideration and approval of the Board at the time such Option is granted; provided that the term of an Incentive Stock Option shall in no event exceed (i) 10 years from the date of grant, or (ii) 5 years from the date of grant if, at the time the Option is granted, the Optionee owns, directly or indirectly (as determined pursuant to Section 424(d) of the Code), more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary or Parent corporation of the Company (within the meaning of Sections 424(f) and 424(e), respectively, of the Code).

(a) Non-qualified Stock Options.

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The period during which an NSO may be exercised shall be fixed by the Committee in its discretion and upon consideration and approval of the Board at the time such Option is granted.

SECTION 5.5 MANNER OF EXERCISE.

An Option may be exercised by an Optionee in whole or in part from time to time, subject to the conditions contained herein and in the Stock Option Agreement, by delivery, in person or through certified or registered mail, of written notice of exercise to the Company at its principal executive office (Attention: Chief Financial Officer), and by paying in full the total Option Exercise Price for the shares of Common Stock purchased. Such notice shall be in a form satisfactory to the Committee and shall specify the particular Option (or portion thereof) that is being exercised and the number of shares with respect to which the Option is being exercised. Subject to compliance with Section 11.1 of the Plan, the exercise of the Option shall be deemed effective upon receipt of such notice and payment complying with the terms of the Plan and the Stock Option Agreement.

As soon as practicable after the effective exercise of the Option, the Optionee shall be recorded on the stock transfer books of the Company as the owner of the shares purchased, and the Company shall deliver to the Optionee one or more duly issued stock certificates evidencing such ownership. If an Optionee exercises any Option with respect to some, but not all, of the shares of Common Stock subject to such Option, the right to exercise such Option with respect to the remaining shares shall continue until it expires or terminates in accordance with its terms. An Option shall only be exercisable with respect to whole shares.

SECTION 6. PAYMENT FOR OPTION SHARES

SECTION 6.1 GENERAL RULE.

The entire Exercise Price of Common Stock issued upon exercise of Options shall be payable in cash or cash equivalents at the time when such shares of Common Stock are purchased, provided, however, that the Committee, in its discretion upon the original grant or thereafter, and upon the consideration and approval of the Board, may allow such payments to be made in any form described in this Section 6. In determining whether or upon what terms and conditions an Optionee will be permitted to pay the Exercise Price of an Option in a form other than cash, the Committee may consider all relevant facts and circumstances including, without limitation, the tax and securities law consequences to the Optionee and the Company and the financial accounting consequences to the Company.

SECTION 6.2 SURRENDER OF STOCK.

To the extent that this Section 6.2 is applicable, an Optionee may pay all or any part of the Exercise Price by surrendering, or attesting to the ownership of, shares of Common Stock that are already owned by the Optionee. Such shares of Common Stock shall be valued at their Fair Market Value on the date when the new shares of Common Stock are purchased under the Plan.

SECTION 6.3 EXERCISE/SALE.

To the extent that this Section 6.3 is applicable, an Optionee may pay all or any part of the Exercise Price and any withholding taxes by delivering (on a form prescribed by the Company) an irrevocable direction

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to a securities broker approved by the Company to sell all or part of the Common Stock being purchased under the Plan and to deliver all or part of the sales proceeds to the Company.

SECTION 6.4 EXERCISE/PLEDGE.

To the extent that this Section 6.4 is applicable, all or any part of the Exercise Price and any withholding taxes may be paid by delivering (on a form prescribed by the Company) an irrevocable direction to pledge all or part of the Common Stock being purchased under the Plan to a securities broker or lender approved by the Company, as security for a loan, and to deliver all or part of the loan proceeds to the Company.

SECTION 6.5 PROMISSORY NOTE.

To the extent that this Section 6.5 is applicable, all or any part of the Exercise Price and any withholding taxes may be paid by delivering (on a form prescribed by the Company) a full-recourse promissory note. However, the par value of the Common Stock being purchased under the Plan, if newly issued, shall be paid in cash or cash equivalents.

SECTION 6.6 OTHER FORMS OF PAYMENT.

To the extent that this Section 6.6 is applicable, all or any part of the Exercise Price and any withholding taxes may be paid in any other form that is consistent with applicable laws, regulations and rules.

SECTION 6.7 DISPOSITION OF COMMON STOCK ACQUIRED PURSUANT TO THE EXERCISE OF INCENTIVE STOCK OPTIONS.

Prior to making a disposition (as defined in Section 424(c) of the Code) of any shares of Common Stock acquired pursuant to the exercise of an Incentive Stock Option granted under the Plan before the expiration of two years after its date of grant or before the expiration of one year after its date of exercise, the Optionee shall send written notice to the Company of the proposed date of such disposition, the number of shares to be disposed of, the amount of proceeds to be received from such disposition and any other information relating to such disposition that the Company may reasonably request. The right of an Optionee to make any such disposition shall be conditioned on the receipt by the Company of all amounts necessary to satisfy any federal, state or local withholding and employment-related tax requirements attributable to such disposition. The Committee shall have the right, in its sole discretion, to endorse the certificates representing such shares with a legend restricting transfer and to cause a stop transfer order to be entered with the Company's transfer agent until such time as the Company receives the amounts necessary to satisfy such withholding and employment-related tax requirements or until the later of the expiration or two years from its date of grant or one year from its date of exercise.

SECTION 6.8 AGGREGATE LIMITATIONS OF STOCK SUBJECT TO INCENTIVE STOCK OPTIONS.

To the extent that the aggregate Fair Market Value (determined as of the date an Incentive Stock Option is granted) of the shares of Common Stock with respect to which Incentive Stock Options (within the meaning of Section 422 of the Code) are exercisable for the first time by an Optionee during any calendar year (under the Plan and any other incentive stock option plans of the Company or any Subsidiary or any parent corporation of the Company) exceeds \$100,000 (or such other amount as may be prescribed by the Code from time to time), such excess Options shall be treated as Non-qualified Stock Options. The determination shall be made by taking Incentive Options into account in the order in which they were granted. If such excess only applies to a portion of an Incentive Stock Option, the Committee, in its

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discretion, shall designate which shares shall be treated as shares acquired upon exercise of an Incentive Stock Option.

SECTION 7. EFFECT OF TERMINATION OF EMPLOYMENT OR OTHER SERVICE

SECTION 7.1 Termination of Employment or Other Service Due to Death, Disability, or Retirement.

Except as otherwise provided in the Plan, or as otherwise determined by the Committee upon consideration and approval of the Board, either at the time an Option is granted or thereafter, in the event an Optionee's employment or other service with the Company and all Subsidiaries or Parent is terminated by reason of such Optionee's death, Disability or Retirement, all outstanding Options then held by the Optionee shall become immediately exercisable in full and remain exercisable after such termination for a period of three months in the case of Retirement and one year in the case of death or Disability (but in no event after the expiration date of any such Option).

SECTION 7.2 TERMINATION OF EMPLOYMENT OF OTHER SERVICE FOR REASONS OTHER THAN DEATH, DISABILITY OR RETIREMENT.

Except as otherwise provided in the Plan, or as otherwise determined by the Committee upon consideration and approval of the Board, either at the time an Option is granted or thereafter, in the event an Optionee's employment or other service with the Company and all Subsidiaries or Parent in relation to which the Option was granted is terminated for any reason other than death, Disability or Retirement, all rights of the Optionee shall immediately terminate without notice of any kind, and no Options then held by the Optionee shall thereafter be exercisable; provided, however, that if such termination is due to any reason other than termination by the Company or any Subsidiary or Parent for "cause," all outstanding Options then held by such Optionee shall remain exercisable for a period of three months after such termination (but in no event after the expiration date of any such Option). For purposes of this Section 7.2, "cause" shall be as defined in any employment or other agreement or policy applicable to the Optionee or, if no such agreement or policy exists, shall mean (a) the unauthorized use or disclosure of the confidential information or trade secrets of the Company, which use or disclosure causes material harm to the Company, (b) any material breach of a non-competition agreement entered into with the Company, (c) conviction of, or a plea of "guilty" or "no contest" to, a felony under the laws of the United States or any state thereof, (d) gross negligence or (d) continued failure to perform assigned duties after receiving written notification from the Board. The foregoing shall not be deemed an exclusive list of all acts or omissions that the Company (or a Parent or Subsidiary) may consider grounds for the discharge of the Optionee.

SECTION 7.3 MODIFICATION OF EFFECT OF TERMINATION.

Notwithstanding the provisions of this Section 7, upon an Optionee's termination of employment or other service with the Company and all Subsidiaries or Parent with respect to which Options were granted, the Committee may, in its sole discretion upon consideration and approval of the Board (which discretion may be exercised before or following such termination), cause Options, or any portions thereof, then held by such Optionee to become exercisable and remain exercisable following such termination in the manner determined by the Committee and approved by the Board; provided, however, that no Option shall be exercisable after the expiration date thereof, and any Incentive Stock Option that remains unexercised more than three months following employment termination by reason of Retirement or more than one

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year following employment termination by reason of death or Disability shall thereafter be deemed to be a Non-qualified Stock Option.

#### SECTION 8. CHANGE OF CONTROL

##### SECTION 8.1 ACCELERATION OF VESTING.

If a Change of Control of the Company shall be about to occur or shall occur, the Committee, in its discretion and upon consideration and approval of the Board, may determine that all outstanding Options shall become immediately exercisable in full and shall remain exercisable during the remaining term thereof, regardless of whether the employment or other status of the Optionees with respect to which Options have been granted shall continue with the Company or any Subsidiary, subject to the following limitations: If the Company and the other party to the transaction constituting a Change in Control agree that such transaction is to be treated as a "pooling of interests" for financial reporting purposes, and if such transaction in fact is so treated, then the acceleration of exercisability shall not occur to the extent that the Company's independent accountants and such other party's independent accountants each determine in good faith that such acceleration would preclude the use of "pooling of interests" accounting.

##### SECTION 8.2 CASH PAYMENT.

If a Change in Control of the Company shall be about to occur or shall occur, then the Committee, in its discretion and upon consideration and approval of the Board and without the consent of any Optionee effected thereby, may determine that some or all Optionees holding outstanding Options shall receive, with respect to some or all of the shares of Common Stock subject to such Options, as of the effective date of any such Change of Control of the Company, cash in an amount equal to the excess of the Fair Market Value of such shares immediately prior to the effective date of such Change of Control over the Exercise Price of such Options.

##### SECTION 8.3 LIMITATION ON CHANGE OF CONTROL PAYMENTS.

Notwithstanding any provision of Sections 8.1 or 8.2 above to the contrary, if, with respect to an Optionee, the acceleration of the exercisability of an Option as provided for in Section 8.1 or the payment of cash in exchange for all or part of an Option as provided in Section 8.2 (which acceleration or payment could be deemed a "payment" within the meaning of Section 280G(b)(2) of the Code), together with any other payments which such Optionee has the right to receive from the Company or any corporation which is a member of an "affiliated group" (as defined in Section 1504(b) of the Code) of which the Company is a member, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), then the acceleration of exercisability and the payments to such Optionee pursuant to Sections 8.1 and 8.2 above shall be reduced to the largest extent or amount as, in the sole judgment of the Committee, will result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code.

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SECTION 9. LIMITATION ON RIGHTS

SECTION 9.1 EMPLOYMENT OR SERVICE.

Nothing in the Plan shall interfere with or limit in any way the right of the Company or any Subsidiary or Parent to terminate the employment or service of any Employee, Outside Director or Consultant at any time, or confer upon any Employee, Outside Director or Consultant any right to continue in the employ or service of the Company or any Subsidiary or Parent.

SECTION 9.2 STOCKHOLDERS' RIGHTS.

An Optionee shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Common Stock covered by his or her Option prior to the time when a stock certificate for such Common Stock is issued or, in the case of an Option, the time when he or she becomes entitled to receive such Common Stock by filing a notice of exercise and paying the Exercise Price. No adjustment shall be made for cash dividends or other rights for which the record date is prior to such time, except as expressly provided in the Plan.

SECTION 9.3 RESTRICTIONS ON TRANSFER.

Other than pursuant to a qualified domestic relations order (as defined by the Code), no right or interest of any Optionee in an Option prior to the exercise of such Option shall be assignable or transferable, or subjected to any lien, during the lifetime of the Optionee, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise, including execution, levy, garnishment, attachment, pledge, divorce, or bankruptcy. In the event of an Optionee's death, such Optionee's rights and interest in Options shall be transferable by testamentary will or the laws of descent and distribution, any payment of any amounts due under the Plan shall be made to, and exercise of any Options (to the extent permitted pursuant to Section 7 of the Plan) may be made by the Optionee's legal representatives, heirs or legatees.

If, in the opinion of the Committee, an Optionee holding an Option is disabled from caring for his or her affairs because of a mental condition, physical condition, or age, any payments due the Optionee may be made to, and any rights of the Optionee under the Plan shall be exercised by, such Optionee's guardian, conservator, or other legal personal representative upon furnishing the Committee with evidence satisfactory to the Committee of such status.

SECTION 9.4 NON-EXCLUSIVITY OF THE PLAN.

Nothing contained in the Plan is intended to amend, modify, or rescind any previously approved compensation plans or programs entered into by the Company. The Plan will be construed to be in addition to any and all other such plans or programs. Neither the adoption of the Plan nor the submission of the Plan to the stockholders of the Company for approval will be construed as creating any limitations on the power or authority of the Board to adopt such additional or other compensation arrangements as the Board may deem necessary or desirable.

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SECTION 10. WITHHOLDING TAXES

SECTION 10.1 GENERAL.

To the extent required by applicable federal, state, local or foreign law, an Optionee or his or her successor shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan. The Company shall not be required to issue any Common Stock or make any cash payment under the Plan until such obligations are satisfied.

SECTION 10.2 SHARE WITHHOLDING.

The Committee, in its discretion and upon consideration and approval of the Board, may permit an Optionee to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Common Stock that otherwise would be issued to him or her or by surrendering all or a portion of any Common Stock that he or she previously acquired. Such shares of Common Stock shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash.

SECTION 11. SECURITIES LAW RESTRICTIONS

SECTION 11.1 SHARE ISSUANCE.

Notwithstanding any other provision of the Plan or any agreements entered into pursuant hereto, the Company shall not be required to issue or deliver any certificate for shares of Common Stock under this Plan, and an Option shall not be considered to be exercised notwithstanding the tender by the Optionee of any consideration therefore, unless and until each of the following conditions has been fulfilled:

(a) (i) There has be in effect with respect to such shares a registration statement under the Securities Act and any applicable state securities laws if the Committee, in its sole discretion, shall have determined to file, cause to become effective, and maintain the effectiveness of such registration statement; or (ii) if the Committee has determined not to so register the shares of Common Stock to be issued under the Plan, (A) exemptions from registration under the Securities Act and applicable state securities laws shall be available for such issuance (as determined by counsel to the Company) and (B) there shall have been received from the Optionee (or, in the event of death or disability, the Optionee's heir(s) or legal representative(s)), any representations or agreements requested by the Company in order to permit such issuance to be made pursuant to such exemptions; and

(b) There shall have been obtained any other consent, approval, or permit from any state or federal governmental agency which the Committee shall, in its sole discretion upon the advice of counsel, deem necessary or advisable.

SECTION 11.2 SHARE TRANSFERS.

Shares of Common Stock issued pursuant to Options granted under the Plan may not be sold, assigned, transferred, pledged, encumbered, or otherwise disposed of, whether voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise, except pursuant to registration under the Securities Act and applicable state securities laws or pursuant to exemptions from such registrations. The Company may condition the sale, assignment, transfer, pledge, encumbrance, or other disposition of such shares not

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issued pursuant to an effective and current registration statement under the Securities Act and all applicable state securities laws on the receipt from the party to whom the shares of Common Stock are to be so transferred of any representations or agreements requested by the Company in order to permit such transfer to be made pursuant to exemptions from registration under the Securities Act and applicable state securities laws.

SECTION 11.3 HOLDING PERIOD REQUIREMENTS.

Any Options granted and any Common Stock acquired pursuant to the exercise of Options under this Plan may be subject to a six-month holding requirement from the grant date in order for the transaction to be exempt from the short-swing trading profits provision of Section 16(b) of the Exchange Act.

SECTION 11.4 LEGENDS.

(a) Unless a registration statement under the Securities Act and applicable state securities laws is in effect with respect to the issuance or transfer of shares of Common Stock under the Plan, each certificate representing any such shares shall be endorsed with a legend in substantially the following form, unless counsel for the Company is of the opinion as to any such certificate that such legend is unnecessary:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED ("THE ACT"), OR UNDER APPLICABLE STATE SECURITIES LAWS. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE OFFERED FOR SALE, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED, OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND SUCH STATE LAWS OR PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT AND SUCH STATE LAWS, THE AVAILABILITY OF WHICH IS TO BE SOLELY ESTABLISHED TO THE SATISFACTION OF THE COMPANY AND ITS COUNSEL.

(b) The Committee, in its sole discretion, may endorse certificates representing shares issued pursuant to the exercise of Incentive Stock Options with a legend in substantially the following form:

THE SALE, EXCHANGE, PLEDGE, ASSIGNMENT, OR OTHER DISPOSITION OF THE SHARES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TRANSFER RESTRICTIONS CONTAINED IN SECTION 5.05 OF THE BYLAWS OF THIS CORPORATION AND IN THE CORPORATION'S 2001 STOCK OPTION PLAN, AND REFERENCE SHOULD BE MADE TO THOSE DOCUMENTS FOR THE TERMS OF SUCH RESTRICTIONS.

SECTION 12. AMENDMENT, MODIFICATION AND TERMINATION

SECTION 12.1 TERM OF THE PLAN.

The Plan, as set forth herein, shall become effective on January 6, 2001. The Plan shall remain in effect until it is terminated under Section 12.2, except that no Incentive Stock Options shall be granted on or after the 10th anniversary of the later of (a) the date when the Board adopted the Plan or (b) the date when

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the Board adopted the most recent increase in the number of Common Stock available under Section 3 which was approved by the Company's stockholders.

SECTION 12.2 AMENDMENT OR TERMINATION.

The Board may, at any time and for any reason, amend, suspend or terminate the Plan or any portion thereof. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws, regulations or rules. No Options shall be granted under the Plan after the termination thereof. No termination, suspension, or amendment of the Plan shall alter or impair any outstanding Option without the consent of the Optionee affected thereby; provided, however, that this sentence shall not impair the right of the Committee to take whatever action it deems appropriate under Section 3.3 or Section 8 of the Plan.

SECTION 13. MISCELLANEOUS

SECTION 13.1 GOVERNING LAW.

The place of administration of the Plan shall be conclusively deemed to be within the State of Arizona, and the rights and obligations of any and all persons having or claiming to have had an interest under the Plan or any Stock Option Agreement shall be governed by and construed exclusively and solely in accordance with the laws of the State of Delaware without regard to the conflict of laws provisions of any jurisdictions. All parties agree to submit to the jurisdiction of the state and federal courts of Arizona with respect to matters relating to the Plan and agree not to raise or assert the defense that such forum is not convenient for such party.

SECTION 13.2 SUCCESSORS AND ASSIGNS.

This Plan shall be binding upon and inure to the benefit of the successors and permitted assigns of the Company, including, without limitation, whether by way or merger, consolidation, operation of law, assignment, purchase, or other acquisition of substantially all of the assets or business of the Company, and any and all such successors and assigns shall absolutely and unconditionally assume all of the Company's obligations under the Plan.

SECTION 13.3 SURVIVAL OF PROVISIONS.

The rights, remedies, agreements, obligations, and covenants contained in or made pursuant to the Plan, any Stock Option Agreement, and any other notices or agreements in connection therewith, including, without limitation, any notice of exercise of an Option, shall survive the execution and delivery of such notices and agreements and the delivery and receipt of shares of Common Stock and shall remain in full force and effect.

SECTION 14. DEFINITIONS

SECTION 14.1 BOARD

Board means the Company's Board of Directors, as constituted from time to time.

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SECTION 14.2 CHANGE IN CONTROL

Change in Control shall mean:

(a) The sale, lease, exchange or other transfer of all or substantially all of the Company's assets, in one transaction or in a series of related transactions;

(b) The approval by the stockholders of the Company of any plan or proposal for the liquidation or dissolution of the Company; or

(c) A change in the control of the Company of a nature that would be required to be reported (assuming such event had not been "previously reported") in response to Item 1(a) of the Current Report on Form 8-K, as in effect on the effective date of the Plan, pursuant to Section 13 or 15(d) of the Exchange Act, whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such Change in Control shall be deemed to have occurred at such time as:

- (i) any Person becomes, after the effective date of the Plan, the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 20% or more of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors, or
- (ii) individuals who constitute the Board on the effective date of the Plan cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the effective date of the Plan whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors comprising or deemed pursuant hereto to comprise the Board on the effective date of the Plan (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director) shall be, for purposes of this clause (ii) and the following sentence, considered as though such person were a member of the Board on the effective date of the Plan. Notwithstanding anything in the foregoing to the contrary, no Change of Control shall be deemed to have occurred for purposes of Section 8 by virtue of any transaction which shall have been approved by the affirmative vote of at least a majority of the members of the Board or by the stockholders of the Company on the effective date of the Plan.

SECTION 14.3 CODE

Code means the Internal Revenue Code of 1986, as amended.

SECTION 14.4 COMMITTEE

Committee means a committee of the Board, as described in Section 2.

SECTION 14.5 COMMON STOCK

Common Stock means the common stock of the Company.

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SECTION 14.6 COMPANY

Company means Taser International, Inc., a Delaware corporation.

SECTION 14.7 CONSULTANT

Consultant means a consultant or adviser who provides bona fide services to the Company, a Parent, or a Subsidiary as an independent contractor. Service as a Consultant shall be considered employment for all purposes of the Plan, except as provided in Section 4.2.

SECTION 14.8 DISABILITY

Disability means the permanent and total disability of the Optionee within the meaning of Section 22(e)(3) of the Code.

SECTION 14.9 EMPLOYEE

Employee means a common-law employee of the Company, a Parent, or Subsidiary.

SECTION 14.10 EXCHANGE ACT

Exchange Act means the Securities Exchange Act of 1934, as amended.

SECTION 14.11 EXERCISE PRICE

Exercise Price means the amount for which one share of Common Stock may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement.

SECTION 14.12 FAIR MARKET VALUE

Fair Market Value means, with respect to the Common Stock, the following:

(a) If the Common Stock is listed or admitted to unlisted trading privileges on any national securities exchange or is not so listed or admitted but transactions in the Common Stock are reported on the NasdaqK Small Cap Market, the last sale price of the Common Stock on such exchange or reported by the NasdaqK Small Cap Market System as of such date (or, if no shares were traded on such day, as of the next preceding day on which there was such a trade).

(b) If the Common Stock is not so listed or admitted to unlisted trading privileges or reported on the NasdaqK Small Cap Market System, and bid and asked prices therefore in the over-the-counter market are reported by The NasdaqK Small Cap Market, the Nasdaq Bulletin Board, or the National Quotation Bureau, Inc. (or any comparable reporting service), the mean of the closing bid and asked prices as of such date, as so reported by the applicable NasdaqX system, or, if not so reported thereon, as reported by the National Quotation Bureau, Inc. (or such comparable reporting service).

(c) In all other cases, such price as the Committee determines in good faith in the exercise of its reasonable discretion.

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SECTION 14.13 INCENTIVE STOCK OPTION

Incentive stock option means a stock option as described in Section 422(b) of the Code.

SECTION 14.14 NON-QUALIFIED STOCK OPTION

Non-qualified stock option means any option that is not an incentive stock option as described in Section 422 of the Code nor an option as described in Section 423 of the Code.

SECTION 14.15 OPTION

Option means an Incentive Stock Option or Non-qualified Stock Option granted under the Plan and entitling the holder to purchase Common Stock.

SECTION 14.16 OPTIONEE

Optionee means an individual or estate who holds an Option.

SECTION 14.17 OUTSIDE DIRECTOR

Outside Director shall mean a member of the Board who is not an Employee. Service as an Outside Director shall be considered employment for all purposes of the Plan, except as provided in Section 4.2.

SECTION 14.18 PARENT

Parent means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be considered a Parent commencing as of such date.

SECTION 14.19 PERSON

Person means any individual, corporation, partnership, group, association, or other "person" (as such term is used in Section 14(d) of the Exchange Act), other than the Company, a wholly-owned Subsidiary of the Company, or any employee benefit plan sponsored by the Company or a wholly-owned Subsidiary of the Company.

SECTION 14.20 PLAN

Plan means this Taser International, Inc. 2001 Stock Option Plan, as amended from time to time.

SECTION 14.21 RETIREMENT

Retirement means the retirement of an Optionee pursuant to and in accordance with the regular retirement plan or practice of the Company or Subsidiary then covering the Optionee, or, if approved by the Board for purposes of the Plan, any early retirement plan or practice of the Company or Subsidiary then covering the Optionee.

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SECTION 14.22 SECURITIES ACT

Securities Act means the Securities Act of 1933, as amended.

SECTION 14.23 STOCK OPTION AGREEMENT

Stock Option Agreement means the agreement between the Company and an Optionee that contains the terms, conditions and restrictions pertaining to his or her Option.

SECTION 14.24 SUBSIDIARY

Subsidiary means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

SECTION 15. EXECUTION

To record the adoption of the Plan by the Board, the Company has caused its duly authorized officer to execute this document in the name of the Company.

Taser International, Inc.

By: \_\_\_\_\_

Adoption by Board of Directors: January 6, 2001

Ratification/Adoption by Stockholders: \_\_\_\_\_, 2001

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Exhibit 10.9

[ICER CORPORATION LOGO]

THIS AGREEMENT is made this 15th day of October, 1993 between Mr. John H. Cover (hereinafter called "Mr. Cover"), and ICER Corporation (hereinafter called ICER), an Arizona Corporation.

WITNESSETH:

WHEREAS, Mr. Cover has critical skills and industry knowledge material to the development and marketing of products relating to the business of ICER

NOW, THEREFORE, the parties agree as follows:

ARTICLE I: SCOPE OF THE AGREEMENT

1. Mr. Cover agrees to join the management team of ICER Corporation as an officer and director of the company for one (1) year full time employment. His position will encompass responsibility for technology and product development, but will not be limited to such areas.
2. In accordance with his position with ICER, Mr. Cover agrees not to engage in independent business relations with competitors of ICER wherein:
  - i) Competitors of ICER are defined as companies engaged in the manufacture and/or design of electronic weapons that are less than fourteen inches in length and are non lethal.

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ICER CORPORATION

COVER AGREEMENT

- ii) Independent business relations are defined as any fee for service arrangement, or any product development work with competitors as defined in i).
  - iii) Independent business relations do not include any work or relationships conducted within the framework of Mr. Cover's representation of ICER.
  - iv) Mr. Cover is free to leave unaltered the licensing arrangements already in existence with such competitors and to pursue compensation from such competitors for the use of his existing patents at his discretion.
  - v) The provisions of this section shall remain in full force and effect for the period of Mr. Cover's employment with ICER.
  - vi) Breach of this agreement wherein Mr. Cover engages in independent business relations with competitors of ICER during the period described in iv), will result in the forfeiture of Mr. Cover's remaining stock options and the immediate termination of his employment with ICER.
3. Mr. Cover agrees to license ICER Corporation: Rights to utilize the TASER trademark in conjunction with product marketing and other business functions. Further, Mr. Cover agrees not to license the use of the TASER trademark to any company not already licensed for such use (see addendum I).
  4. Mr. Cover will provide ICER with a comprehensive listing of his existing patents and trademarks to be attached as an addendum to this document (addendum I). Such listing will include the names and addresses of all licensed entities, and all renewal rights for such licensing for said patents and trademarks.
  5. All technical designs and intellectual property generated during Mr. Cover's work with ICER will be work-made-for-hire or assigned to ICER and will be the exclusive property of the Company.
  6. Mr. Cover affirms that he has complete authority over the patents and trademarks in the agreement and that he is free to enter into this agreement without any hindrance from or violation of prior commitments. Mr. Cover further affirms that he is not bound by non-disclosure or trade secret protection clauses which would inhibit him from fully applying his knowledge to his work at ICER. Accordingly, Mr. Cover indemnifies ICER from any damages

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ICER CORPORATION

COVER AGREEMENT

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resulting from litigation regarding prior commitments which would preclude him from having entered into this agreement.

7. Mr. Cover agrees not to disclose the confidential information of ICER Corporation without clear consent from the other members of management. Such information will include any information which is clearly designated as confidential, including trade secrets developed, marketing plans, manufacturing know how, financial or other data which is designated as confidential.

ARTICLE II: COMPENSATION

1. Mr. Cover will be paid a salary of \$2,500 per month during the time of his full time employment with the Company.
2. Mr. Cover will receive stock options for 10,000 shares of ICER Corporation representing ten (10) percent of the company with the following vesting schedule:  
  
2,500 shares at initiation of this agreement  
2,500 shares upon completion of functional prototype  
2,500 shares at first shipment of product to market  
2,500 shares on Oct. 15, 1994 (1 year).
3. These options will have a strike price of \$0.36 (thirty six cents per share) and a time to expiration of 5 years during Mr. Cover's continued involvement with the company.
4. Further, Mr. Cover will receive a cash bonus in the amount of the exercise price of the stock options at the date and time of each stock option vesting that can be used only for exercising the above stock options.
5. Mr. Cover's equity position (via stock options) is guaranteed not to be diluted below ten (10) percent through the first \$250,000 of invested capital.

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ICER CORPORATION

COVER AGREEMENT

ARTICLE III: CONTINGENCIES

1. Patrick W. Smith and Phillips W. Smith may elect to discontinue the activities of the corporation upon 2 weeks' notice to Mr. Cover. Under such circumstances, Mr. Phillips W. Smith will have the right to reclaim the liquid assets of the company not to exceed the amount of his cumulative investment. Further, from date of such notice Mr. Cover will have the right to use his skills and trademarks for whatever purpose he desires.
2. Mr. Cover may elect not to continue his work with the Company with 2 weeks' notice. Mr. Cover would retain all vested options with right to exercise for 6 months from the date of departure from the company. Unvested options would be forfeited, and the corresponding shares would remain the property of the Company.
3. In the event that Mr. Cover should not be able to exercise power of attorney over the equity in his name while the company is privately held (i.e. the shares are not on the public market), the Corporation would have option to repurchase such shares within 6 months from Mr. Cover's estate or heirs for an amount equal to the greater of:
  - i) The book value of such shares calculated by standard accounting practices
  - ii) \$10 per share
  - iii) Amounts solicited from competitive bidders.

AGREED,

By: /s/ Patrick Smith  
-----  
Patrick Smith  
For ICER CORPORATION

By: /s/ John H. Cover  
-----  
John H. Cover

Dated: 10/15/93  
-----

[SEAL]

CORPORATE SEAL

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AMENDMENT TO LICENSING AGREEMENT

THIS AMENDMENT TO LICENSING AGREEMENT ("AMENDMENT") is made and entered into this 31st day of August, 1996, by and between John H. Cover, Jr. ["JACK COVER"] and Air Taser, Incorporated f/k/a/ ICER Corporation, an Arizona corporation ["AIR TASER"].

In consideration of the covenants and agreements hereinafter set forth, the amounts of money paid in accordance herewith, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, that certain Licensing Agreement dated October 15, 1993 ("LICENSE") is hereby amended as follows:

1. AIR TASER hereby agrees to pay to JACK COVER and JACK COVER hereby agrees to accept the sum of One Hundred Thousand Dollars (\$100,000) in full payment and satisfaction of any and all minimum royalties and earned royalties now due or hereinafter accruing to JACK COVER from AIR TASER pursuant to the terms of the LICENSE as originally executed or as subsequently modified or amended, in writing, prior to the date hereof. Said payment shall be made contemporaneously with the full execution and delivery of this AMENDMENT by each of the parties hereto.

2. JACK COVER, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, for: (i) himself, (ii) his heirs, (iii) his legal representatives, legatees, successors and assigns of all of the foregoing persons and entities, hereby releases and forever discharges AIR TASER, any past, present and future shareholders, successors, assigns, officers, directors, agents, attorneys and employees of AIR TASER, together with their respective heirs, legal representatives, legatees, successors, and assigns, of and from all actions, claims, demands, damages, debts, losses, liabilities, indebtedness, causes of action either at law or in equity and obligations of whatever kind or nature, whether known or unknown, direct or indirect, new or existing, by reason of any matter, cause or thing whatsoever from the beginning of the world to the date hereof concerning any minimum of earned royalties which are now due or which may hereafter accrue to JACK COVER pursuant to the terms of the LICENSE.

3. This AMENDMENT embodies the entire agreement between the parties and supersedes any prior agreements or understanding between them in connection with the subject matter hereof and the transactions contemplated hereby. There are no oral or parol agreements, representations, or inducements existing between the parties relating to this transaction which are not expressly set forth herein and covered hereby. All terms of this AMENDMENT are contractual and not mere recitals and shall be construed as if drafted by all parties hereto. The terms of this AMENDMENT are and shall be binding upon each of the parties hereto, their agents, employees successors and assigns, and upon all other persons

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claiming any interest in the subject matter hereof through any of the parties hereto.

4. To the extent that this AMENDMENT contradicts, is inconsistent or in conflict with any prior agreements between or among any or all of the parties, this AMENDMENT supersedes any conflicting or inconsistent provision of any prior agreement and is controlling to the extent necessary to resolve such conflict or inconsistency. Any and all provisions in a prior agreement not inconsistent with this AMENDMENT remain valid and binding.

5. It is acknowledged that the parties hereto have read this AMENDMENT and consulted counsel before executing same; that they have relied upon their own judgment and that of their respective counsel in executing this AMENDMENT and have not relied on or been induced by any representation, statement or act by any other party referred to in this instrument; that the parties hereto have entered into this AMENDMENT voluntarily, with full knowledge of its significance; and that this AMENDMENT is in all respects complete and final.

6. If any term or provision of this AMENDMENT or the application thereof to any person, entity or circumstance shall, to any extent, be held invalid and/or unenforceable by a court of competent jurisdiction, the remainder of this AMENDMENT, or the application of such term or provisions to persons, entities or circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby, and each term and provision of the AMENDMENT shall be valid and be enforced to the fullest extent permitted by law.

7. This AMENDMENT may not be amended, changed, or modified except by written instrument executed by all parties hereto.

8. This AMENDMENT shall be construed and enforced according to the laws of the State of Arizona.

9. This AMENDMENT may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute but one instrument.

IN WITNESS WHEREOF, the parties have caused this AMENDMENT to be duly executed as of the day and year first above written.

AIR TASER, INCORPORATED

By: /s/ Patrick Smith  
-----

/s/ John H. Cover, Jr.  
-----

John H. Cover, Jr.  
11 Half Moon Bend  
Coronado, CA 92118

Title: President  
-----

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2nd AMENDMENT TO THE AIR TASER LICENSING AGREEMENT

This 2nd Amendment to the AIR TASER licensing agreement (2nd Amendment) is made and entered into this 31st day of August, 1996, by and between John H. Cover, Jr. ["JACK COVER"] and AIR TASER, Incorporated f/k/a ICER Corporation, an Arizona Corporation ["AIR TASER"].

In consideration of the covenants and agreements hereinafter set forth, the amounts of money paid in accordance herewith, and other good and valuable considerations, the receipt and sufficiency of which are hereby acknowledged, that certain Licensing Agreement dated October 15, 1993 ["LICENSE"] is hereby amended as follows:

1. AIR TASER hereby agrees to pay to Jack Cover, and Jack Cover hereby agrees to accept the sum of FIFTEEN THOUSAND DOLLARS (\$15,000) in full payment for a limited exclusivity for rights to technology embodied in U.S. patent #5,078,117 ["The '117 Patent"]. In accordance with this limited exclusivity, Jack Cover agrees that he shall license no other company, person, or entity of any type to utilize the technology described in the '117 patent for use in electronic weapon system other than the companies licensed for such use prior to this 31st day of August, 1996. These pre-existing licenses are non transferable and shall not be transferred to any entity other than the original license holder as enumerated below. Further, Mr. Cover shall not expand or modify the rights of the existing licensees, as listed below, without written approval from AIR TASER, Inc. A comprehensive listing of such licensed companies is given below:
  - a) EESTI, Engineering, LLC, a company in Poway, CA. (Copy of license attached as Exhibit A.)
  - b) Yong Suk Park, d.b.a. Bestex, Co. (Copy of license addendum regarding '117 patent rights attached as Exhibit B.)
2. This agreement in no way binds Mr. Cover from licensing rights to utilize the '117 technology in applications which are not electronic weapons. Mr. Cover is free to license any person, company, association, agency, or entity of any type to utilize the '117 technology so long as the license contains the specific language below:

"The licensee may not use the technology embodied in U.S. Patent #5,078,117 in conjunction with any electronic weapon system. The violation of this restriction shall cause immediate cancellation of this license without notice, and may cause damages payable to John H. Cover and/or AIR TASER, Inc."
3. If any term or provision of this 2nd Amendment or the application thereof to any person entity, or circumstance shall, to any extent, be held invalid and or unenforceable by a court of competent jurisdiction, the remainder of this 2nd Amendment, or the application of such term or provisions to persons, entities, or

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circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby, and each term and provision of the 2nd Amendment shall be valid and be enforced to the fullest extent permitted by law.

4. This 2nd Amendment may not be amended, changed, or modified except by written instrument executed by all parties hereto.
5. This 2nd Amendment shall be construed and enforced according to the laws of the state of Arizona.

IN WITNESS WHEREOF, the parties have caused this 2nd Amendment to be duly executed as of the day and year first above written.

AIR TASER, INCORPORATED,

By: /s/ Patrick Smith  
\_\_\_\_\_  
President

/s/ John H. Cover, Jr.  
\_\_\_\_\_  
John H. Cover, Jr.  
11 Half Moon Bend  
Coronado, CA 92118

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EXHIBIT A.

<PAGE> 10  
ELECTROARMS, INC.  
John H. Cover, Pres. 602/529-2344  
5833 No. Kolb Rd. #10212  
Tucson, AZ 85730

December 15, 1995

LICENSE AGREEMENT BETWEEN ANTON SIMSON, EESTI Engrg, LLC, POWAY, CA, LICENSEE & JOHN H. COVER, LICENSOR - under Pat. No. 5,078,117 (generally covering the use of compressed gas capsules that are easily discharged & the gas will propell projectiles, weights, contactors, nets, etc., in a non-firearm mode of operation).

This Agreement specifically pertains to EESTI's manufacture of Taser-type cassettes designed to snap onto stun guns giving the stun gun owner the Taser stand-off range & effectiveness in stopping power over dangerous criminals.

More specifically this License relates to J.H. Cover's License with Eastex Co., Yong Park, who imports & sells the Thunder Power - and other stun guns - which will be used in conjunction with the EESTI SGA Cassettes containing the SPOGC's.

In return for this Exclusive License to EESTI, J.H. Cover will receive an Earned Royalty from Anton Simson, EESTI, of \$0.25 - or 25(cents) @ for each SGA Cassette they Make & Sell.

In summary, the Licensor, John H. Cover, hereby grants an Exclusive License under Patent #5,078,117 to Anton Simson, d.b.a. EESTI Engineering, LLC, to manufacture and sell the Stun Gun/SGA Taser Cassettes as the Exclusive Licensee.

Signatures below constitute the legal acceptance by the two Parties of the above Terms & Conditions.

/s/ Anton Simson            2-19-96  
-----  
Anton Simson, Licensee - Date

/s/ John H. Cover            12/15/95  
-----  
John H. Cover, Licensor - Date

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EXHIBIT B.

<PAGE> 12  
ELECTROARMS, INC. 619/423-0689  
11 Half Moon Bend, Coronado, CA 92118 December 1, 1998

Yong S Park, Pres. Subject: License Addendum covering  
Bestex Co., Unit B Bestex Sale of a Stun Gun  
3421 San Fernando Rd. Adaptor/SGA designed for the Thunder  
Los Angeles, CA 90065 Power Stun Gun.

ADDENDUM TO THE LICENSE AGREEMENT signed by Yong Suk Park, d.b.a. Bestex Co.,  
3/7/90 & John H. Cover, Licensor, on 2/19/90.

Licensor hereby grants an Exclusive License to distribute and sell the SGA  
Taser Cassettes designed to "snap" onto the front of the Bestex Thunder Power  
Stun Gun modified to function with the SGA -- which projects the high voltage  
electric contactors at an attacker -- such that the user does not receive a  
shock to this hand (insulation)

This License is under J.H. Cover's Patent #5,078,117 covering the  
Self-Puncturing Compressed Gas Capsule. This technology permits the use of  
compressed air to propell the contactors & is therefore not classified as a  
Firearm. EESTI, Anton Simson, Poway, CA will make the SGA under my Patent  
License & supply them to Bestex.

The Terms for Bestex's Exclusivity are: 1) \$20,000 upfront (\$10,000 upon  
execution of the License -- 1st week of March, 1996 -- and \$10,000 April 1,  
1996), 2) Bestex's Minimum Royalty will be \$2500/mos starting 4/2/96, and 3)  
Bestex will pay J.H. Cover \$2 Earned Royalty for each Thunder Power Stun Gun  
sold (or any modification or substitution thereof that fits the SGA) and  
25(cents) for each SGA Cassette sold.

It is important that Yong Park, Anton Simson & Jack Cover work as a team on  
this program. There are decisions to be made such as the Packaging of the  
Product -- the Thunder Power & (2) SGA cassettes in a box -- sales and  
advertising strategies including the name of the Product. "Public Defender" and  
ElectroStorm (stop rape & murder) are possibilities. An early meeting such as  
the first week in December is suggested. Jack Cover will consult as needed  
without compensation.

The signatures below constitute the legal acceptance of the two parties of the  
above terms & conditions.

/s/ Yong Suk Park, 12/18/95  
-----  
Yong Suk Park, Licensee - Date

/s/ John H. Cover 12/15/95  
-----  
John H. Cover, Licensor

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8/31/96

AIR TASER INCORPORATED

Rec'd \$15,000 for 2nd Amendment Compensation

/s/ J.H. Cover

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J.H. Cover

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[SPECIMEN STOCK CERTIFICATE]

[AIR TASER LOGO]  
INTELLIGENT SELF DEFENSE

Number  
00004

Shares  
50,000

AIR TASER INCORPORATED  
Share Issue Authorized by /s/ illegible /s/ illegible  
-----  
President Secretary

THIS CERTIFIES THAT John H. Cover is the registered holder of Fifty Thousand (50,000) Shares transferrable only on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this Certificate properly endorsed.

IN WITNESS WHEREOF, the said Corporation has caused this Certificate to be signed by its duly authorized officers and its Corporate Seal to be Hereunto affixed

this Seventeenth day of June A.D. 1994

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[SPECIMEN STOCK CERTIFICATE]

[SEAL]

FOR VALUE RECEIVED, I hereby sell, assign and transfer unto AIR TASER, INC.  
\_\_\_\_\_ Shares represented by the within Certificate, and do hereby  
irrevocably constitute and appoint PATRICK SMITH Attorney to transfer the said  
Shares on the books of the within named Corporation with full power of  
substitution in the premises.

Dated AUGUST 31, 1994

In presence of

/s/ illegible  
-----

/s/ John H. Cover  
-----

John H. Cover  
11 Half Moon Bend  
Coronado, CA 92118

NOTICE: THE SIGNATURE OF THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS  
WRITTEN UPON THE FACE OF THE CERTIFICATE, IN EVERY PARTICULAR, WITHOUT  
ALTERATION OR ENLARGEMENT, OR ANY CHANGE WHATEVER.

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SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT ["Settlement Agreement"] is made and entered into this 8/30/96 day of August, 1996, by and between John H. Cover, Jr. ["JACK COVER"] and Virginia A. Cover ["VIRGINIA COVER"] and Air Taser, Incorporated f/k/a ICER Corporation, an Arizona corporation ["AIR TASER"].

RECITALS

A. WHEREAS, AIR TASER, is an Arizona corporation engaged in the business of manufacturing and selling certain goods and products, including a non-lethal electronic self-defense device used to temporarily immobilize an attacker ["AIR TASER DEVICE"].

B. WHEREAS, JACK COVER, was and is the sole owner and licensor of certain U.S. patents, including:

- a. Patent #4,253,132 [the "132 Patent"] which covers generally the circuitry by which current from a battery is transformed so that an electrical charge with which a potential attacker is struck operates to temporarily immobilize a potential attacker; and
- b. Patent #5,078,117 [the "117 Patent"] which covers generally the non-explosive means of projecting electrically charged darts to deliver an immobilizing electrical charge to a potential attacker.

C. WHEREAS, VIRGINIA COVER is the spouse of JACK COVER and may have or claim certain marital property rights in and to the 132 Patent, the 117 Patent and other assets which are the subject of this Settlement Agreement.

D. WHEREAS, on or about October 15, 1993, JACK COVER, as licensor, and AIR TASER, as licensee, executed a certain written Licensing Agreement ["AIR TASER LICENSE"].

A true and correct copy of the AIR TASER LICENSE executed by and between AIR TASER and JACK COVER is attached hereto as Exhibit "A" and by reference made a part hereof.

E. WHEREAS, by written agreement executed on or about October 15, 1993, by and between AIR TASER and JACK COVER ["EMPLOYMENT AGREEMENT"], JACK COVER accepted a position of employment with AIR TASER for a period of one (1) year upon the terms and conditions set forth therein. JACK COVER asserts that on or about October 15, 1993, in accordance with Article 1, paragraph 4, of the EMPLOYMENT AGREEMENT, he tendered to AIR TASER a copy of a certain patent license with Electronic Medical Research Laboratories, Inc. d/b/a Tasertron ["TASERTRON"] covering the 132 Patent and granting certain exclusive rights relative to the U.S. law enforcement market. In or about June, 1994, JACK COVER resigned as a full time employee of AIR TASER.

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A true and correct copy of the EMPLOYMENT AGREEMENT executed by and between AIR TASER and JACK COVER is attached hereto as Exhibit "B" and by reference made a part hereof.

F. WHEREAS, pursuant to Article I, paragraph 7, of the EMPLOYMENT AGREEMENT, JACK COVER agreed not to disclose the confidential information of AIR TASER, including trade secrets, marketing plans, manufacturing know-how, and financial or other data designated as confidential.

G. WHEREAS, pursuant to Article I, paragraph 3, of the EMPLOYMENT AGREEMENT, JACK COVER agreed to license AIR TASER to utilize the "Taser" trademark in conjunction with product marketing and other business functions and further agreed not to license the use of the "Taser" trademark to any company not licensed for such use prior to October 15, 1993.

H. WHEREAS, pursuant to Article I, paragraph 5, of the EMPLOYMENT AGREEMENT, JACK COVER agreed that all technical designs and intellectual property generated during his employment with AIR TASER would be work-made-for-hire, would be assigned to AIR TASER and would be the exclusive property of AIR TASER.

I. WHEREAS, in April, 1995, after receiving a letter dated March 29, 1995 from AIR TASER's attorneys, Brown & Bain, alleging certain violations of the AIR TASER LICENSE and threatening legal action, JACK COVER and VIRGINIA COVER filed suit in the Superior Court of the State of Arizona in and for the County of Maricopa, captioned Cover, et al. v. Icer Corporation n/k/a Air Taser, Incorporated, case number CV95-06851 [the "ARIZONA LITIGATION"], seeking a declaratory judgment holding that the AIR TASER LICENSE does not include the right to sell the AIR TASER DEVICE to law enforcement agencies together with an injunctive Order prohibiting AIR TASER from selling or attempting to sell the AIR TASER DEVICE to law enforcement agencies.

J. WHEREAS, AIR TASER vigorously denies any and all liability with respect to the allegations of fact and the claims asserted in the complaint filed by JACK COVER and VIRGINIA COVER in the ARIZONA LITIGATION.

K. WHEREAS, in October, 1995, AIR TASER filed its Answer and Counterclaim in the ARIZONA LITIGATION wherein its denied, inter alia, that the AIR TASER LICENSE restricts the sale of the AIR TASER DEVICE to any particular market or user and further alleged, by way of counterclaim, various causes of action including breach of contract, breach of fiduciary duty and fraud for which it requested both money damages and injunctive and other equitable relief.  
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L. WHEREAS, JACK COVER and VIRGINIA COVER vigorously deny any and all liability with respect to the allegations and the claims asserted in the counterclaim filed by AIR TASER in the ARIZONA LITIGATION. JACK COVER affirmatively asserts that on or prior to October 15, 1993, he disclosed the terms of the TASERTRON license to AIR TASER, including the terms purporting to grant exclusivity as to the use of the 132 Patent within certain markets and geographical boundaries.

M. WHEREAS, in February, 1995, TASERTRON filed an action against AIR TASER in the Federal District Court for the Central District of California captioned Electronic Medical Research Laboratories, Inc. d/b/a/ Tasertron v. Air Taser, Inc., case number ED CV 95-53 RT (JRX) ["CALIFORNIA LITIGATION"] asserting an exclusive right to market devices utilizing the technology covered by the 132 Patent within certain markets and geographical boundaries. In September, 1995 the CALIFORNIA LITIGATION was settled and AIR TASER agreed, inter alia, to refrain from selling the AIR TASER DEVICE to U.S. law enforcement agencies for a specified period of time.

N. WHEREAS, all parties hereto desire to fully settle and compromise all matters in controversy heretofore existing between them.

O. WHEREAS, all parties have examined the benefits to be obtained under this Settlement Agreement and have considered the costs, risks and delays associated with the continued prosecution of the claims asserted in the ARIZONA LITIGATION. Each of the parties, having full knowledge of the contents hereof and after obtaining the advice of counsel, believes that, in consideration of all the circumstances and after significant investigation and settlement negotiations between and among the parties, the settlement embodied in this Settlement Agreement is fair, reasonable and in the best interests of all parties concerned.

NOW THEREFORE, in consideration of the foregoing Recitals, the representations, warranties, covenants and agreements contained in this Settlement Agreement, the sum of One Dollar (\$1.00) each to the other in hand paid and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto represent, warrant, covenant and agree as follows:

1. The foregoing Recitals and all Exhibits referred to herein and attached hereto, are incorporated in this Settlement Agreement as if set forth in full in the body hereof.

2. It is hereby stipulated and agreed that, subject only to the terms of that certain Stipulation of Settlement ("STIPULATION") executed by and between AIR TASER and Electronic Medical Research Laboratories, Inc. d/b/a/ Tasertron in the CALIFORNIA LITIGATION, in its present form or as it may hereafter be amended, the AIR TASER

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LICENSE authorizing the manufacture, use and sale of devices covered by the 132 Patent and the 117 Patent is unrestricted as to any particular market, user, geographical area, dimension or design. However, the AIR TASER LICENSE shall not encompass applications of the technology covered by the 117 Patent other than in conjunction with electronic devices. A copy of the STIPULATION is attached hereto as Exhibit "C".

3. It is hereby stipulated and agreed that paragraph 6.2 of the AIR TASER LICENSE is modified so that if, in any month, the minimum royalty exceeds the earned royalty, that excess shall be applicable as a credit to AIR TASER in the next calendar month in the following manner: if the earned royalty for the next month exceeds the minimum royalty for that month, then the excess shall apply to reduce the earned royalty dollar for dollar until that excess for the previous month is used up. However, if all the excess is not used up in that next month, then it shall no longer operate as a credit in the future. In no event shall AIR TASER be thereby relieved of the obligation to pay the agreed minimum royalty in any month.

4. AIR TASER agrees that the negative balance in JACK COVER's cumulative royalty account existing as of the date of execution of this Settlement Agreement, which negative balance constitutes a credit to AIR TASER against future earned royalties, is hereby eliminated.

5. It is hereby stipulated and agreed that the period of exclusivity relative to devices utilizing the technology covered by the 117 Patent and meeting certain specified characteristics as provided in paragraph 4.2 of the AIR TASER LICENSE has expired and that, subject to the provisions of paragraph 6 of this Settlement Agreement, JACK COVER is free to license others to utilize the technology covered by the 117 Patent on a non-exclusive basis.

6. JACK COVER hereby agrees that he shall not on his own account, nor shall he authorize in any future patent licenses he may grant to other individuals or other entities, manufacture, use or sell or license for manufacture, use or sale (a) any launchers which are compatible with the AIR TASER cartridge model number 34200 or (b) cartridges which are compatible with the AIR TASER power handle model number 34100. "Compatible" for these purposes means a device which, without modification by the user, will operate with the AIR TASER components [model numbers 34100 and 34200] to deliver an electric shock to a target. AIR TASER will not knowingly and intentionally manufacture or sell any devices [excluding model numbers 34100 and 34200] which are compatible with any launchers or cartridges manufactured by other existing patent licenses of JACK COVER. In any future patent licenses which JACK COVER may grant, and in any amendments to any existing licenses which he may in the future enter into, he shall include the following language:  
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"This license does not allow the licensee to manufacture, use or sell (a) any launchers which are compatible with the AIR TASER cartridge model number 34200 or (b) any cartridges which are compatible with the AIR TASER power handle model number 34100. "Compatible for these purposes means a device which, without modification by the user, will operate with the AIR TASER components [model numbers 34100 and 34200] to deliver an electric shock to a target. Furthermore, licensee hereby acknowledges that it has had an opportunity to inspect or is otherwise familiar with the AIR TASER air cartridge and the AIR TASER power handle prior to execution of the license.

In order to facilitate JACK COVER's compliance with this paragraph, AIR TASER shall within ten (10) days following execution and delivery of this Settlement Agreement, deliver three (3) inoperative power handles [model 34100] and three (3) inoperative cartridges [model 34200] to JACK COVER.

7. It is hereby stipulated and agreed that the last sentence of paragraph 6.3 of the AIR TASER LICENSE shall be deleted and stricken from the AIR TASER LICENSE, and the following sentence shall be inserted in its place:

"If the DEFAULT is not cured by payment of this MINIMUM ROYALTY by cashier's check or money order on or before 5:00 P.M. local Arizona time of the tenth (10th) day following written notice by Licensor to Licensee of the facts constituting the alleged default, this licensing agreement shall terminate automatically without further notice."

8. It is hereby stipulated and agreed that the last sentence of paragraph 6.4 of the AIR TASER LICENSE shall be deleted and stricken from the AIR TASER LICENSE, and the following sentence shall be inserted in its place:

"If the DEFAULT is not cured by payment of this EARNED ROYALTY by cashier's check or money order on or before 5:00 P.M. local Arizona time of the tenth (10th) day following written notice by Licensor to Licensee of the facts constituting the alleged default, this licensing agreement shall terminate automatically without further notice."

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9. AIR TASER does not know of any reason why the 132 Patent or the 117 Patent should not continue in existence until the dates set forth in the AIR TASER LICENSE. AIR TASER will not take, nor will it cause anyone else to take, any action which would impair the validity of either patent and, if AIR TASER shall in the future have any concern as to the early termination of either patent, it will notify JACK COVER of the basis for its concern so that he might take such action as he deems necessary to avoid such early termination.

10. It is hereby stipulated and agreed that upon expiration of the 132 Patent, AIR TASER's obligation to pay JACK COVER a \$2.00 per unit earned royalty for each unit which utilizes the power generation device and electric wave form described in the 132 Patent shall be terminated, notwithstanding AIR TASER's continued use of the technology covered by the 132 Patent.

11. It is hereby stipulated and agreed that upon expiration of the 117 Patent, AIR TASER's obligation to pay JACK COVER a \$0.25 per unit earned royalty for each device which utilizes compressed gasses to launch electrical contactors from the power generator shall be terminated, notwithstanding AIR TASER's continued use of the technology covered by the 117 Patent.

12. It is hereby stipulated and agreed that upon expiration of the 117 Patent, AIR TASER's obligation to make any further minimum royalty payments or earned royalty payments, as those terms are used in paragraphs 6.1 and 6.2 of the AIR TASER LICENSE, to JACK COVER shall be terminated, notwithstanding AIR TASER's continued use of the technology covered by either or both the 117 Patent and/or the 132 Patent.

13. JACK COVER hereby represents and warrants that he is the sole owner of the "Taser" registered trademark, Registration No. 1,235,685, and that of those licensees of the "Taser" trademark whose licenses came into existence on or prior to October 15, 1993, AIR TASER and Electronic Medical Research Laboratories, Inc. d/b/a Tasertron are the only licensees currently using or authorized to use the "Taser" trademark. JACK COVER hereby reaffirms his prior agreement, as originally set forth in Article I, paragraph 3, of the EMPLOYMENT AGREEMENT, that AIR TASER, as licensee, is authorized to utilize the "Taser" trademark in conjunction with product marketing and other business functions and that JACK COVER shall not license the use of the "Taser" trademark to any individual or entity not licensed for such use prior to October 15, 1993. In order to prevent abandonment of the "Taser" trademark, JACK COVER hereby agrees that AIR TASER shall have the right, jointly with JACK COVER, to police and protect the use of the "Taser" trademark by others, in his name or in the name of AIR TASER, in a reasonable manner to maintain the quality of the mark and to prevent the unauthorized use of the mark by third parties. However, other patent licensees of JACK COVER may, with his prior  
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written consent, refer to the "Taser" device for comparative purposes only [patent licensees not expressly licensed to use the "Taser" trademark on or prior to October 15, 1993 may not claim that their device is a "Taser" or incorporate the "Taser" trademark in their product name], provided that the word "Taser" is designated as a registered trademark, that the patent licensee includes a disclaimer that said patent licensee is not licensee of the "Taser" trademark and that said disclaimer appears in the same context as the word "Taser" in the same size typeface as the word "Taser", but in no event may the word "Taser" appear in a typeface larger than 12 points. JACK COVER further represents and warrants that attached hereto as Group Exhibit "D" is a full and complete list of the names and current addresses of all licensees of the "Taser" trademark together with the copies of the subject licenses and all amendments thereto.

14. JACK COVER does hereby sell, transfer and assign to AIR TASER all shares of AIR TASER stock acquired by him at any time [i.e., 50,000 shares] free and clear of all liens, claims and encumbrances. JACK COVER agrees that contemporaneously with the execution and delivery of this Settlement Agreement he shall surrender said stock, properly endorsed, to AIR TASER.

15. JACK COVER hereby represents and warrants that Exhibit "E" attached hereto is a full and complete list of the names and current addresses of all past or present licensees of the 117 Patent and the 132 Patent together with copies of the subject licenses and any and all amendments thereto.

16. JACK COVER hereby represents and warrants that, except for the ARIZONA LITIGATION, there are no law suits pending or threatened and there are no existing or potential causes of action involving the 117 Patent, the 132 Patent and/or the "Taser" trademark.

17. JACK COVER hereby reaffirms his prior agreement, as originally set forth in Article I, paragraph 5, of the EMPLOYMENT AGREEMENT that all technical designs and intellectual property generated by JACK COVER during his work with AIR TASER was work-made-for-hire, was, or upon request, will be assigned to AIR TASER and is the exclusive property of AIR TASER. JACK COVER further agrees to execute all documents and perform all acts necessary to enable AIR TASER to acquire or perfect any and all rights, titles, patents, copyrights, interests and other protection which may be available with regard to such technical designs and intellectual properties. JACK COVER agrees that contemporaneously with the execution and delivery of this Settlement Agreement he shall execute and deliver to AIR TASER the Declaration for Patent Application with Power of Attorney and the Assignment attached hereto as Exhibits "F" and "G", respectively. AIR TASER warrants and agrees that the Declaration for Patent, Exhibit "F", covers both a method of manufacturing compressed fluid containers and a  
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double walled compressed gas cylinder, and that patent, should it be granted, would not, to the best of its knowledge, replace or conflict with the 117 Patent, and even if the patent should be granted, it would not allow AIR TASER to utilize the technology covered by the 117 patent without paying JACK COVER the royalties required by the AIR TASER LICENSE. Attached hereto as Exhibit "H" is a schedule of intellectual property generated by JACK COVER during his work with AIR TASER which the parties agree was either work-made-for-hire or assigned to AIR TASER and which is the exclusive property of AIR TASER.

18. JACK COVER hereby reaffirms his continuing contractual obligation not to disclose confidential information of AIR TASER, as originally set forth in Article I, paragraph 7, of the EMPLOYMENT AGREEMENT. The term "confidential information" shall mean any information or material which is proprietary to AIR TASER, whether owned or developed by AIR TASER, which is not generally known other than by AIR TASER, and which JACK COVER may have obtained through any direct or indirect contact with AIR TASER. Confidential information includes, without limitation, business records and plans, financial statements and projections, marketing plans, manufacturing know-how, pricing structure, costs, appraisals, customer lists, the identity of suppliers of AIR TASER whose identities became known to JACK COVER as a result of his employment by AIR TASER and other proprietary information which is designated as confidential.

The parties hereto acknowledge and agree that damages at law may not be a measurable or adequate remedy for a breach of JACK COVER's continuing obligation not to disclose the confidential information of AIR TASER, and, accordingly, consent to the entry by any court of competent jurisdiction in Arizona, or, if jurisdiction is not appropriate in Arizona, such other court of competent jurisdiction, of an order enjoining the violation of such agreement should the requirements for an injunction be met and further agree that the entry of such order would be an appropriate remedy for the breach of this obligation.

19. JACK COVER and AIR TASER agree that contemporaneously with the execution and delivery of this Settlement Agreement, they shall execute and exchange Releases in the form attached hereto as Exhibits "I" and "J".

20. Except as otherwise provided herein and notwithstanding the execution of the Releases executed and exchanged pursuant to paragraph 19 hereof, the terms of the AIR TASER LICENSE, as modified by this Settlement Agreement, including without limitation the terms governing the duration of the AIR TASER LICENSE, the specified minimum royalty and the per unit earned royalties applicable to both the 117 Patent and the 132 Patent, shall hereafter remain in full force and effect.  
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21. Within five (5) business days following the execution of this Settlement Agreement by all parties hereto, JACK COVER and VIRGINIA COVER, by and through their attorney of record, shall prepare and file with the Court wherein the ARIZONA LITIGATION is now pending an appropriate Motion and Agreed Order providing for the dismissal of the ARIZONA LITIGATION on its merits, with prejudice and without costs or attorneys' fees, all matters in controversy having been fully settled, compromised and adjourned.

22. VIRGINIA COVER hereby consents to each and every term and provision of the Settlement Agreement as set forth herein and hereby sells, transfers and assigns to AIR TASER any right, title and interest she may have in or to the property hereby transferred by JACK COVER to AIR TASER.

23. The parties hereto acknowledge that it is their intent to consummate this Settlement Agreement and agree to execute all documents and to perform all acts reasonably necessary to effectuate and implement all terms and conditions of this Settlement Agreement.

24. This Settlement Agreement shall be preserved as confidential by the parties hereto. The parties hereto, and each of them, agree (i) to take all precautions necessary to safeguard the information contained in this Settlement Agreement and any and all information furnished in connection herewith from disclosure to any person or entity other than employees, officers, directors and agents (including legal counsel and financial advisors) and, in addition, those individuals who otherwise normally have access to information of such nature under the parties' established confidentiality procedures; (ii) not to use this Settlement Agreement or any information contained herein or furnished in connection herewith for any purpose other than to resolve the issues and controversies as may exist between the parties. The parties hereto, and each of them, further agree that if any of them are requested or required by law to disclose the contents of this Settlement Agreement or any information contained herein or furnished in connection herewith, the party so requested will provide all other parties with prompt written notice of the request so that any party may seek an appropriate protective order or consent to the waiver of compliance with this confidentiality provision of the Settlement Agreement. If in the absence of a protective order or such waiver, any party is, nonetheless, compelled to disclose any or the contents of this Settlement Agreement to a Court or other tribunal under circumstances where such party would be liable for contempt or other penalty if disclosure is not made, said party shall disclose to such Court or other tribunal only that limited portion of the information which is legally required to be disclosed.

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25. Unless expressly provided otherwise in this Settlement Agreement, any notice, request, demand or other communication required to be given under this Settlement Agreement or any document or instrument executed and delivered pursuant to this Settlement Agreement shall be in writing, shall be deemed to be given or delivered (a) on the date of personal or facsimile delivery of the notice, request, demand or other communication at or before 2:00 p.m. local Arizona time, (b) on the second business day after the day of mailing of such notice, request, demand or other communication by United States Registered Mail or United States Certified Mail, postage prepaid, or (c) on the next business day after mailing of such notice, request, demand or other communication by express next-day courier, freight charges prepaid, to the parties (including any person or entity designated for receipt of a photocopy thereof) at the following addresses or at such other address as any of the parties may hereafter specify in the aforementioned manner:

if to JACK COVER: John H. Cover, Jr.  
5855 North Kolb Road  
Apt. 10212  
Tucson, AZ 85750  
  
(Facsimile: )

with a copy to: Gary F. Howard, Esq.  
Howard & Rouse, P.C.  
3800 North Central Avenue  
Suite 280  
Phoenix, AZ 85012  
  
(Facsimile: 602-263-6005)

if to VIRGINIA COVER: Virginia A. Cover  
11 Half Moon Bend  
Coronado, CA 92118  
  
(Facsimile: )

with a copy to: Gary F. Howard, Esq.  
Howard & Rouse, P.C.  
3800 North Central Avenue  
Suite 280  
Phoenix, AZ 85012  
  
(Facsimile: 602-263-6005)

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if to AIR TASER: Patrick W. Smith  
Air Taser, Inc.  
7339 E. Evans Road, Suite 1  
Scottsdale, AZ 85260

(Facsimile: 602-991-0791)

with a copy to: Joel H. Shapiro, Esq.  
Kamenear, Kadison & Anderson  
20 North Wacker Drive  
Suite 4100  
Chicago, IL 60606

(Facsimile: 312-332-6163)

26. This Settlement Agreement embodies the entire agreement between the parties and supersedes any prior agreements or understanding between them in connection with the subject matter hereof and the transactions contemplated hereby. There are no oral or parol agreements, representations, or inducements existing between the parties relating to this transaction which are not expressly set forth herein and covered hereby. All terms of this Settlement Agreement are contractual and not mere recitals and shall be construed as if drafted by all parties hereto. The terms of this Settlement Agreement are and shall be binding upon each of the parties hereto, their agents, employees successors and assigns, and upon all other persons claiming any interest in the subject matter hereof through any of the parties hereto.

27. To the extent that this Settlement Agreement contradicts, is inconsistent or in conflict with any prior agreements between or among any or all of the parties, this Settlement Agreement supersedes any conflicting or inconsistent provision of any prior agreement and is controlling to the extent necessary to resolve such conflict or inconsistency. Any and all provisions in a prior agreement not inconsistent with this Settlement Agreement remain valid and binding.

28. This Settlement Agreement may not be amended, changed, or modified except by written instrument executed by all parties to this Settlement Agreement.

29. The place of business of AIR TASER, the place of negotiation, execution and delivery of this Settlement Agreement and the other documents and instruments to be executed and delivered pursuant to this Settlement Agreement, and the place of performance under this Settlement Agreement being the State of Arizona, this Settlement Agreement shall be construed and enforced according to the laws of the State of Arizona.

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30. This Settlement Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute but one instrument.

IN WITNESS WHEREOF, the parties have caused this Settlement Agreement to be duly executed as of the day and year first above written.

AIR TASER, INCORPORATED

By: /s/ Patrick Smith	/s/ John H. Cover, Jr.
-----	-----
Title: President	John H. Cover, Jr.
-----	-----
	/s/ Virginia A. Cover
	-----
	Virginia A. Cover

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LICENSING AGREEMENT

1. CONSIDERATION; EFFECTIVE DATE

1.1 The effective date of this agreement shall be Oct. 15, 1993.

2. PARTIES

2.1 John H. Cover is an individual with business located at Box 404, 4725 Sunrise Drive, Tucson, Arizona 85718 (LICENSOR)

2.2 ICER Corporation is an Arizona Corporation engaged in the development of non lethal electronic weapons for sale to the general consumer market (LICENSEE).

3. BACKGROUND

3.1 Licensor represents and warrants that he owns several patent rights, both domestic and foreign as listed on Exhibit "A" though not in every country of the world, and specifically U.S. Patent Number 4,254,132 and 5,078,117, (the Licensed Patents) concerning a power supply and ballistics launching mechanism for weapons or other devices utilizing electricity for immobilization purposes.

3.2 Licensor is not aware of any ownership of another of inventions or patent rights or trade secret or know-how rights in conflict with his own; and Licensor believes that he possesses such right, title and interest in and to the electronic immobilization devices and equipment useful therein as is necessary and appropriate to the terms of this agreement.

3.3 Licensee is a company seeking to develop such technology for manufacture and marketing an alternative non lethal self defense device to firearms.

3.4 Any other concepts, advanced technologies or other patents Licensor now possesses or might obtain in the future are specifically excluded from this agreement. HOWEVER, SUCH TECHNOLOGIES MAY BE COVERED IN SEPARATE ARRANGEMENTS SPECIFYING CONTRACT AND SALARIED WORK.

4. LICENSE

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ICER CORPORATION

COVER AGREEMENT

4.1 Licensor hereby grants Licensee a non exclusive license for use of patent number 4,254,132 and the electric wave form and power generator described therein. Under said licensed patent to manufacture, use and sell devices, with and without launching mechanisms covered by patent number 4,254,132.

4.2. LICENSOR HEREBY GRANTS LICENSEE LICENSE FOR PATENT 5,078,117. LICENSOR IS LICENSED UNDER SAID PATENT TO MANUFACTURE, USE AND SELL DEVICES COVERED BY PATENT 5,078,117. THIS LICENSE WILL BE EXCLUSIVE FOR DEVICES WHICH MEET ALL OF THE FOLLOWING CHARACTERISTICS:

- i) ELECTRONIC WEAPONRY DESIGNED TO IMMOBILIZE
- ii) WEAPON AS IN i) WHEREIN THE GREATEST DIMENSION OF THE WEAPON IS OF LESS THAN FOURTEEN INCHES.
- iii) A WEAPON WHICH IS DESIGNED TO BE NON LETHAL
- iv) A WEAPON DESIGNED FOR USE AGAINST HUMANS

THIS EXCLUSIVITY BINDS LICENSEE TO ENSURE THAT ANY FURTHER LICENSING OF PATENT 5,078,117 DESCRIBES CLEARLY THAT THE LICENSING OF PATENT 5,078,117 DESCRIBES CLEARLY THAT THE LICENSE MAY NOT BE USED FOR MANUFACTURE OF DEVICES WHICH MEET THOSE FOUR CHARACTERISTICS. THIS EXCLUSIVITY WILL BE BINDING FOR TWENTY FOUR MONTHS (24). AFTER TWENTY FOUR MONTHS, THIS EXCLUSIVITY CLAUSE WILL REMAIN IN EFFECT IF THE TOTAL EARNED ROYALTIES PAID BY LICENSEE TO LICENSOR EXCEEDS \$100,000 PER YEAR, USING MONTHS 12-24 AS THE FIRST YEAR FOR SUCH CALCULATION. SHOULD THE EARNED ROYALTIES FALL BELOW \$100,000 PER YEAR, LICENSOR WILL BE FREE TO LICENSE PATENT 5,078,117 FOR SIMILAR USE.

4.3. No party shall enter into any contracts or make any warranties on behalf of the other party.

4.4. Licensee shall not negotiate sub license or assign this license unless specifically authorized in writing by Licensor. Bona fide sales by Licensee to bona fide third parties for resale are not sub licensing so long as these sales are not in violation of Paragraph 6.12 below.

#### 5. TERM OF LICENSE

5.1. The license will be for the period of validity of patent 4,254,132 on devices utilizing the technology described therein

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ICER CORPORATION

COVER AGREEMENT

and for the PERIOD OF VALIDITY of patent 5,078,117 for mechanisms utilizing the technology described therein.

5.2 Licensee's obligation to pay royalties, as set forth in Paragraph 6, runs in favor of Licensor's heirs, successors and assigns.

6. ROYALTIES

6.1 From Oct. 15, 1993 until the expiration of the above described patents, unless Licensee ceases to make, use, or sell devices covered by the Licensed Patents, Licensee agrees to pay Licensor a MINIMUM ROYALTY of Two thousand five hundred and no/100 Dollars (\$2,500) per month payable on the 15th and on the 15th of each and every month thereafter during the term of this license. Payment of the MINIMUM ROYALTY shall be delinquent if not paid within 5 days after the due date.

6.2 LICENSEE ALSO AGREES TO PAY AN EARNED ROYALTY TO BE COMPUTED MONTHLY AND, AFTER REDUCTION BY THE AMOUNT PAID IN CUMULATIVE MINIMUM ROYALTIES ABOVE CUMULATIVE EARNED ROYALTIES, SAID EARNED ROYALTIES SHALL BE EQUAL TO TWO DOLLARS PER UNIT (\$2.00) FOR EACH UNIT WHICH UTILIZES THE POWER GENERATION DEVICE AND ELECTRIC WAVE FORM DESCRIBED IN PATENT 4,254,132 AND \$0.25 PER UNIT FOR EACH DEVICE WHICH UTILIZES COMPRESSED GASSES TO LAUNCH ELECTRICAL CONTACTORS FROM THE POWER GENERATOR. THIS \$0.25 EARNED ROYALTY SHALL REMAIN IN EFFECT FOR THE LIFE OF PATENT 4,254,132 IF IT DOES NOT UTILIZE THE TECHNOLOGY DESCRIBED IN PATENT NUMBER 5,078,117. IF IT DOES UTILIZE THE TECHNOLOGY DESCRIBED IN PATENT NUMBER 5,078,117, THEN THE EARNED ROYALTY SHALL REMAIN IN EFFECT FOR THE LIFE OF SAID PATENT 5,078,117. AN EARNED ROYALTY OF \$0.10 WILL BE PAID FOR "PRACTICE CASSETTES" WHICH UTILIZE THE TECHNOLOGY IN PATENT 5,078,117, WHEREIN "PRACTICE CASSETTES" ARE DEFINED AS DEVICES WHICH SIMULATE THE ACTION OF PROPELLING ELECTRICAL CONTACTORS TO A TARGET BUT WHICH ARE NON-FUNCTIONAL--I.E. ARE NOT RELIABLE CONTACTORS FOR USE IN COMBAT SITUATIONS.

6.3 Licensee's MINIMUM ROYALTY payment is due on the 15th of each month. MINIMUM ROYALTY payments are past due five days thereafter. If MINIMUM ROYALTY payments are not made within five days of the due date, then a DEFAULT of this agreement occurs automatically and without notice. Licensee has

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ICER CORPORATION

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payment with a cashier's check or money order for the full amount of the MINIMUM ROYALTY due. If the DEFAULT is not cured by payment of this MINIMUM ROYALTY by cashier's check or money order by 5:00 P.M. on the tenth day after which it is due, this licensing agreement is automatically terminated without notice.

6.4. Licensee's EARNED ROYALTY payment is due on the fifteenth day of the month following the month in which the REVENUES FROM SALES WERE RECEIVED. EARNED ROYALTY payments are past due and delinquent if not paid by 5:00 P.M. on the twentieth day of SAID MONTH. If EARNED ROYALTY payments are not made by the twentieth of the month, then a DEFAULT of this agreement occurs automatically and without notice. Licensee has until the thirtieth of the month to cure the DEFAULT by payment with a cashier's check or money order for the full amount of the EARNED ROYALTY due. If the DEFAULT is not cured by payment of this EARNED ROYALTY by cashier's check or money order by 5:00 P.M. on the thirtieth day of the month in which it is due, this licensing agreement is automatically terminated without notice.

6.5. Royalties are payable by Licensee to Licensor at the address of the Licensor.

6.6. Royalties are payable in U.S. Dollars

6.7. Accompanying each EARNED ROYALTY payment, Licensee will provide to Licensor the accounting data on the sales of the licensed devices, including any daily summaries and the monthly summary from which the gross sales figures for the month are determined.

6.8. Licensee will keep books, accounts, and records that reflect all revenues and expenditures incurred in connection with the operation of its business. The books, accounts, and records shall be maintained at the regular place of business of Licensee. Licensee, during regular business hours, shall make the books, accounts, and records required to be maintained herein available to Licensor and/or his designated legal representative for examination and audit by appointment upon reasonable request and during normal business hours. Licensor agrees to pay for said examination and audit, however, if said examination and audit reveals a discrepancy of more than 5% of reported figures, Licensee shall pay for an examination and audit

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ICR CORPORATION

COVER AGREEMENT

6.9. Within sixty days after the end of each calendar year, Licensee shall prepare and deliver to Licensor a detailed statement of sales during the calendar year that result from the operations of Licensee's business.

6.10. Licensor agrees that all such information shall be held by its legal representatives, agents, trustees, attorneys, and accountants in confidence.

6.11. Licensee will mark each of the subject devices with the following notice: "Licensed under U.S. Patent No. 4,253,132" Or: "Licensed under U.S. Patent No. 5,078,117" Or both.

6.12. DELETED.

7. INFRINGEMENT OF LICENSOR'S PATENTS

7.1. In the event that any party shall become aware of any perceived infringement or any appropriation of Licensor's patents, trade secrets, or know how rights in the electronic immobilization devices or equipment, products or materials useful therein, the party shall give notice thereof to the other party hereto.

7.2. Licensee agrees to cooperate with any lawful efforts that Licensor may undertake to seek legal remedies for any such infringements or misappropriations.

8. INDEMNITIES FOR MALFEANCE, LIABILITY FOR PERSONAL INJURY OR PROPERTY DAMAGE

8.1. The License herein granted to Licensee is primarily in the nature of a sharing of information and a covenant not to sue for infringements of the Licensor's rights and is not in the nature of a specification of activities required of the Licensee or of equipment or process of details required to be used by the Licensee.

8.2. The manufacture, use, and sale of Licensee's products shall be the sole responsibility of Licensee and/or its agents.

8.3. Accordingly, Licensor shall not be liable for any personal injury or property damage resulting from the design, construction, or use of the licensed technology or of the equipment or products used in connection with the technology, if such injury or damage arises from the activities of Licensee.

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ICER CORPORATION

COVER AGREEMENT

8.4 In no event shall Licensor be liable for any direct, special, incidental, or consequential damages, or any damages whatsoever, whether in an action for contract, negligence, or other tortious action arising out of, or in connection with, the use of any of the products covered by this license.

8.5 Licensee shall protect, save, indemnify, and hold Licensor harmless from all claims, demands, charges, or litigation arising out of the making, using, or selling of the merchandise and devices produced and sold by Licensee and arising, directly or indirectly, out of, or by reason of, any business activities of Licensee. Licensee shall reimburse Licensor for all loss, damage, or expense, including reasonable attorney's fees (should such a creature exist), which he may suffer or incur, directly or indirectly, by reason of any such claims, demands, charges, or litigation. This indemnity shall extend to and include any claims for personal injuries or damage caused to persons using the merchandise or devices made or sold by Licensee.

9. CONTROLLING LAWS

9.1 All questions relating to the validity, interpretation, performance, or enforcement of this agreement, whether by arbitration or otherwise, shall be determined in a court with the laws applicable to the State of Arizona, U.S.A.

10. BINDING EFFECT

10.1 Each and every provision on this license shall bind and shall inure to the benefit of the parties hereto and their legal representatives.

10.2 The term "legal representatives" means in addition to executors and administrators, every person, partnership, corporation, or association succeeding to the interest or to any part of the interest in or to this license or in the subject matter of this license, of either Licensor or Licensee, whether such succession results from the act of a party interest, occurs by operation of law, or is the effect of the operation of the law together with the act of such a party. Each and every covenant, agreement, and condition of this agreement to be performed by the Licensee shall be binding upon all successors in the interest to Licensee.

11. NOTICES

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ICER CORPORATION

COVER AGREEMENT

- 11.1. All notices required herein shall be in writing.
- 11.2. Written notices may be delivered personally to the president of the subject party or to the officer or person specified below.
- 11.3. Written notices shall be deemed to have been effective three days following the date of mailing by certified mail, postage prepaid, return receipt requested, addressed to John H. Cover, Licensor, as follows:

BOX 404  
4725 Sunrise Dr.  
Tucson, Arizona 85718

Licensee addressed to:

4601 East Indian Bend Road  
Scottsdale, Arizona 85253

- 11.4. Each party shall have the right to change the effective address for a notice by a notice in writing directed to the other party above.

12. ENTIRE AGREEMENT; AMENDMENTS; HEADINGS

12.1 This agreement together with its appendices constitutes the entire agreement between the parties REGARDING LICENSING OF TECHNOLOGY, and SUPERSEDES any prior communications ON THE SUBJECT whether written or oral.

12.2 This agreement may be amended or modified only by an instrument in writing, signed by duly constituted officers of both parties.

12.3 No waiver, no matter how long continuing or how many times extended, shall be construed as a permanent waiver or as an amendment to this instrument.

12.4 The marginal headings herein are for purposes of convenient reference only and shall not be used to construe or modify the terms written in the text of this instrument.

13. FAILURE TO PERFORM

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ICER CORPORATION

COVER AGREEMENT

13.1. Licensee, as well as its successors in interest and or assigns, agrees that failure to perform in accordance with the terms of this license, terminates this license and any manufactures, use, or sale of devices covered by the Licensed Patents, with or without launching mechanisms, thereafter is without license.

AGREED,

By: /s/ Patrick Smith

By: /s/ John H. Cover

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Patrick Smith  
For ICER CORPORATION

-----  
John H. Cover

Dated: 10/15/93

CORPORATE SEAL

[SEAL]

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<FILENAME> p64567a1ex23-2.txt  
<DESCRIPTION> EX-23.2  
<TEXT>

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Exhibit 23.2

[AA LETTERHEAD]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

<R>  
As independent public accountants, we hereby consent to the use of our report dated February 12, 2001 (and to all references to our firm) included in or made a part of Amendment #1 of the Registration Statement on Form SB-2.  
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Phoenix, Arizona  
February 23, 2001  
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</TEXT>  
</DOCUMENT>

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[TONKON TORP LLP Letterhead]

JEFFREY S. CRONN

(503) 802-2048  
FAX (503) 972-3748  
jeffc@tonkon.com

May 9, 2001

VIA EDGAR  
AND AIR COURIER

Securities and Exchange Commission  
Division of Corporate Finance, Judiciary Plaza  
450 Fifth Street, NW  
Washington, DC 20549

Attn: Filing Desk

Re: TASER International, Inc.  
Registration Statement on Form SB-2  
Registration No. 333-55658

On behalf of TASER International, Inc., a Delaware corporation (the "Company"), and with reference to the above Registration Statement on Form SB-2, I enclose for filing pursuant to Rule 424(b)(1) of the Securities Act of 1933, as amended, ten copies of the final Prospectus prepared in connection with the underwritten offering of up to 920,000 units of the Company (including 120,000 units to cover overallocments, if any). Each unit consists of one and one-half shares of common stock and one and one-half redeemable public warrants, each whole warrant to purchase one share of common stock. In accordance with Rule 424(e), each such copy has been marked to indicate that it is being filed pursuant to Rule 424(b)(1).

Please acknowledge receipt of the enclosures by stamping the enclosed copy of this letter and returning it to me in the enclosed self-addressed stamped envelope.

<PAGE> 2  
Securities and Exchange Commission  
May 9, 2001  
Page 2

                  Please telephone me at the number above if you have any  
questions.

Very truly yours,  
  
/s/ Jeffrey S. Cronn  
Jeffrey S. Cronn

JSC/clh  
Enclosure

Copy: Mr. Mark Austin  
      Mr. Alan E. Rowland  
</TEXT>  
</DOCUMENT>

**PROSPECTUS**

FILED PURSUANT TO RULE 424(b)(1)  
REGISTRATION NO. 333-55658

800,000 Units



This is an initial public offering of units by TASER International, Inc. Each unit consists of one and one-half shares of common stock and one and one-half redeemable public warrants, each whole warrant to purchase one share of common stock. The initial public offering price is \$13.00 per unit. Prior to this offering, there has been no public market for our securities. Our units, common stock and public warrants have been approved for trading on The Nasdaq SmallCap Market under the symbols "TASRU," "TASR" and "TASRW," respectively.

The common stock and warrants will trade only as a unit for at least 30 days following this offering. The underwriter will then determine when the units separate, after which the common stock and the public warrants will trade separately. The underwriter intends to separate the units 30 days after this offering absent unforeseen circumstances.

**Investing in these units involves significant risks. See "Risk Factors" beginning on page 4.**

	<u>Per Unit</u>	<u>Total</u>
Initial public offering price	\$13.00	\$10,400,000
Underwriting discount	\$ 1.04	\$ 832,000
Proceeds to TASER International, Inc	\$11.96	\$ 9,568,000

**The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

Paulson Investment Company, Inc. is the underwriter. We have granted the underwriter the option for a period of 45 days to purchase up to an additional 120,000 units to cover over-allotments.

**PAULSON INVESTMENT COMPANY, INC.**

The date of this prospectus is May 8, 2001.

## PROSPECTUS SUMMARY

*The following summary highlights material information which is presented in more detail elsewhere in this prospectus. Before making an investment decision, you should read the entire prospectus carefully, including the "Risk Factors" section, the financial statements and the notes to the financial statements.*

*Historical information regarding our securities has been adjusted to reflect a 1-for-6 reverse stock split effected in connection with our reincorporation in Delaware on February 12, 2001. Except as otherwise indicated, all information in this prospectus assumes no exercise of the underwriter's over-allotment option or the underwriter's warrants. References to "we," "us," the "company" or "TASER" mean TASER International, Inc., unless otherwise indicated.*

### Our Company

TASER International, Inc. develops, assembles and markets less-lethal, conducted energy weapons primarily for use in the law enforcement and corrections market. Our ADVANCED TASER weapon offers improved performance over other less-lethal force options used by law enforcement agencies. It can temporarily incapacitate virtually any individual regardless of pain tolerance, drug use, or body size — factors that cause other less-lethal options to have decreased effectiveness. The ADVANCED TASER also has a comparable or lower injury rate than other less-lethal weapons and has had no reported long-term, adverse after-effects.

The ADVANCED TASER uses compressed nitrogen to shoot two small probes up to 21 feet. These barbed probes are connected to the weapon by high-voltage insulated wires. When the probes make contact with the target, the ADVANCED TASER transmits powerful electrical pulses along the wires and into the body of the target through up to two inches of clothing. These electrical pulses impair voluntary muscle control so that the subject cannot perform coordinated action.

Nearly all law enforcement agencies authorize the use of less-lethal weapons, including pepper sprays, impact devices, and conducted energy weapons such as TASERS. Effective less-lethal weapons may increase the safety of law enforcement officers, decrease suspect injuries, improve community relations, reduce litigation and police department medical and liability insurance costs, and potentially save lives.

Since December 1999, over 400 police departments in the United States have made initial purchases of our products, and 15 police departments, including San Diego, Sacramento and Albuquerque, have purchased our products for every patrol officer. In addition, at February 1, 2001, more than 200 other police departments were evaluating the use of the ADVANCED TASER.

The key elements of our growth strategy are:

- To expand sales in the law enforcement and corrections market, which we believe to be the opinion leader for all other markets for less-lethal weapons;
- To expand into the related private security and military markets;
- To expand into the consumer market;
- To develop enhanced less-lethal weapons and technologies, such as longer-range TASERS and TASERS with multiple shot capabilities; and
- To acquire related businesses that enhance our strategic position.

Our corporate headquarters is located at 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260 and our telephone number is (480) 991-0797. Our website address is [www.eTASER.com](http://www.eTASER.com). Information contained on our website or any other website does not constitute a part of this prospectus.

### This Offering

Securities offered 800,000 units. Each unit consists of one and one-half shares of common stock and one and one-half public warrants, each whole warrant to purchase an additional share of common stock. See "Description of Securities."

The common stock and public warrants will trade only as a unit for at least 30 days following this offering. The underwriter will then determine when the units separate, after which the common stock and the public warrants will trade separately.

Public warrants The public warrants included in the units will be exercisable commencing 30 days after this offering. The exercise price of a public warrant is \$9.53. The public warrants expire on the fifth anniversary of the closing of this offering.

We have the right to redeem the public warrants issued in this offering at a redemption price of \$0.25 per public warrant, after providing 30 days prior written notice to the public warrant holders, if at the time of the notice, the basic net income per share of our common stock as confirmed by audit for a 12-month period preceding the date of the notice is equal to or greater than \$1.00.

Common stock outstanding after this offering 2,710,754 shares

Use of proceeds Sales and marketing, purchases of inventory, repayment of stockholder and other debt, working capital, research and development, and production tooling. See "Use of Proceeds."

Nasdaq SmallCap Market symbols

Common stock	TASR
Units offered in this offering	TASRU
Public warrants included in the units	TASRW

The number of shares of common stock outstanding after this offering is based on 1,510,754 shares outstanding as of March 15, 2001. The number of shares of common stock outstanding after this offering assumes no exercise of the underwriter's over-allotment option and does not include an aggregate of 1,927,049 shares of common stock that may become outstanding as follows:

- 434,322 shares of common stock issuable upon exercise of stock options outstanding as of March 15, 2001, with a weighted average exercise price of \$4.94;
- 52,727 shares of common stock issuable upon exercise of warrants outstanding as of March 15, 2001, with a weighted average exercise price of \$4.71;
- 1,200,000 shares of common stock issuable upon exercise of the public warrants; and
- 120,000 shares of common stock issuable upon exercise of the underwriter's warrants and 120,000 shares of common stock issuable upon exercise of the public warrants underlying the underwriter's warrants.

**SUMMARY FINANCIAL INFORMATION**

	<b>Years Ended December 31,</b>	
	<b>1999</b>	<b>2000</b>
<b>Statements of Operations Data:</b>		
Net sales	\$ 2,208,488	\$3,412,620
Gross margin	120,002	1,574,231
Loss from operations	(1,386,838)	(46,885)
Net loss	(1,666,733)	(473,247)
Basic and diluted net loss per share of common stock	\$ (0.54)	\$ (0.19)
Basic and diluted shares of common stock	3,076,410	2,482,976
<b>December 31, 2000</b>		
	<b>Actual</b>	<b>As adjusted</b>
<b>Balance Sheet Data:</b>		
Working capital (deficiency)	\$(1,069,344)	\$6,580,656
Property and equipment, net	274,273	1,024,273
Total assets	1,039,066	8,737,212
Total long-term debt	2,822,144	2,822,144
Stockholders' equity (deficit)	\$(3,617,215)	\$4,782,785

The as adjusted balance sheet data reflects:

- the receipt of approximately \$8,556,000 as the estimated net proceeds from the sale of 800,000 units offered by us in this offering at a public offering price of \$13.00 per unit, after deducting the underwriting discount, expense allowance and estimated offering expenses; and
- our planned use of the net proceeds of this offering.

*Notice to New Jersey investors:* Offers and sales in this offering in New Jersey may only be made to accredited investors as defined in Rule 501(a) of Regulation D under the Securities Act of 1933. Under Rule 501(a), to be an accredited investor an individual must have (i) a net worth or joint net worth with the individual's spouse of more than \$1,000,000 or (ii) income of more than \$200,000 in each of the two most recent years or joint income with the individual's spouse of more than \$300,000 in each of those years and a reasonable expectation of reaching the same income level in the current year. Other standards apply to investors who are not individuals. There will be no secondary sales of the securities to persons who are not accredited investors for 90 days after the date of this offering in New Jersey by the underwriters and selected dealers.

*Notice to California investors.* Each purchaser of units in California, and each transferee of units or components thereof in California, must meet, alone or with their spouse, one of the following suitability standards: (i) gross annual income of \$60,000 and a minimum net worth of \$250,000 (exclusive of home, home furnishings and automobile), or (ii) a minimum net worth (exclusive of home, home furnishings and automobile) of at least \$500,000.

*We have rights to 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 prospectus belongs to its respective holder.*

## RISK FACTORS

*This offering involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this prospectus before purchasing any units. Any of the following risks could materially harm our business, operating results and financial condition, and could result in a decrease in the trading price of our units, common stock or public warrants, or in a complete loss of your investment.*

### **Risks Related to Our Business**

*We have no history of profitable operations and may incur future losses.*

Since our inception in 1993, we have incurred significant losses. Our net losses for the years ended December 31, 1999 and 2000 were \$1.7 million and \$473,000, respectively. We may never achieve or sustain profitability. At December 31, 2000, we had an accumulated deficit of approximately \$6.8 million and negative stockholders' equity of \$3.6 million. We also had a net working capital deficit of \$2.4 million and \$1.1 million at December 31, 1999 and 2000, respectively. In addition, we expect our operating expenses to increase significantly as we expand our sales and marketing efforts and otherwise support our expected growth. Given these planned expenditures, we may incur additional losses in the near future.

*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 approximately one and one-half 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.

*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 2000, we derived the majority of our revenues from sales of ADVANCED TASERs and related cartridges, and expect to depend on sales of 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.

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***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, 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 operational, 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 which 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 with 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” implement 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. While we have a history of timely obtaining DOC export licenses for sales of our weapons to the majority of our international customers, unforeseen changes in U.S. export regulations could significantly and adversely affect our international sales.

*State and local regulation.* Our weapons are currently 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, Rhode Island and Hawaii. 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 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 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 our 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 which we incurred expenses of approximately \$9,000 and recorded an additional charge of approximately \$41,000 to account for related future expenses. 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 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 and other factors, we believe that period-to-period comparisons of our operating results may not be meaningful in the near term and that you should not rely upon our performance in a particular period as indicative 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 subassemblies. Specifically, we depend on suppliers of sub-assemblies, machined parts, injection molded plastic parts, printed circuit boards, custom wire fabrications and other miscellaneous custom parts for 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 supply 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.

***If we were to default under our revolving credit agreement, the bank could proceed against substantially all of our assets, making it impossible for us to continue operations.***

We have recently entered into a revolving credit agreement with a bank and pledged substantially all of our assets, other than our intellectual property, to secure such indebtedness. If for any reason we were unable to meet our payment obligations, we would be in default under such agreement and the bank could declare our debt immediately due and payable and proceed against its collateral. In such event, much of our equipment and inventory would likely be sold to others, and we would be unable to continue operations.

***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. In March 2001, the former distributor appealed the dismissal. In addition, in early April 2001, a patent licensee 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 the licensee holds 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.

#### **Risks Related to This Offering**

***We may use the proceeds of this offering in ways that do not improve our operating results or the market value of our securities.***

We intend to use the net proceeds from this offering for increased sales and marketing efforts, purchases of inventory, repayment of a portion of our stockholder and other debt, general corporate purposes, research and development, and purchases of production tooling and equipment. Repayment of our debt will not directly improve our operating results. Our management will retain broad discretion and significant flexibility in applying the net proceeds from this offering. If our management does not apply the proceeds effectively, our business will be harmed.

***You will suffer immediate and substantial dilution of your investment.***

We anticipate that the initial public offering price of the units will be substantially higher than the net tangible book value per share of our common stock after this offering. As a result, you will incur immediate dilution of approximately \$6.91, or 81%, in net tangible book value for each share of our common stock included in the units you purchase.

***There has been no prior market for our securities and a public market for our securities may not develop or be sustained.***

Prior to this offering, you could not buy or sell our securities publicly. If an active public market for our securities does not develop after this offering, the market price of our securities may fall below their initial public offering price, and the liquidity of your investment may be significantly limited.

***The initial public offering price of our units may not accurately reflect their future market performance.***

The initial public offering price of the units has been determined based on negotiations between the underwriter and us. The initial public offering price may not be indicative of future market performance and may bear no relationship to the price at which our units, common stock or public warrants will trade.

***The price of our securities may be volatile, which may lead to losses by investors.***

The stock market has recently experienced significant price and volume fluctuations. You may not be able to resell our securities at or above the initial public offering price. The price of our securities may fluctuate significantly in response to a number of factors, including:

- Our quarterly operating results;
- Changes in earnings estimates by analysts and whether our earnings meet or exceed such estimates;
- Announcements of technological innovations by us or our competitors;
- Additions or departures of key personnel; and
- Other events or factors that may be beyond our control.

Volatility in the market price of our securities could lead to claims against us. Defending these claims could result in significant litigation costs and a diversion of our management's attention and resources.

***Future sales of our common stock by our existing stockholders could decrease the trading price of our common stock.***

Sales of a large number of shares of our common stock in the public markets after this offering, or the potential for such sales, could decrease the trading price of our common stock and could impair our ability to raise capital through future sales of our common stock. Upon completion of this offering, there will be 2,710,754 shares of our common stock outstanding. The 1,200,000 shares of common stock sold in this offering and the 1,200,000 shares of common stock reserved for issuance upon exercise of the public warrants sold in this offering will be freely tradeable without restriction or further registration under the Securities Act of 1933, unless such shares are purchased by our "affiliates," as that term is defined in such act. An additional 1,927,049 shares of common stock, including shares issuable upon exercise of the underwriter's warrants, may become outstanding upon exercise or conversion of options or warrants currently outstanding or sold in this offering, subject to various lock-up agreements prohibiting the sale of such shares for one year following completion of this offering.

***The exercise of previously issued options and warrants may dilute your investment in our shares and impair our ability to obtain equity financing.***

As of March 15, 2001, in addition to the 1,510,754 shares outstanding, there were currently outstanding options to purchase 434,322 shares of our common stock, 119,055 of which were currently exercisable. We have reserved an additional 259,000 shares of our common stock for issuance pursuant to options that may be granted in the future to key employees, and others, under our 2001 Stock Option Plan. In addition, we have issued warrants to acquire up to 52,727 shares of our common stock. While such options and warrants are outstanding, the holders of such securities have the opportunity to profit from a rise in the value or market price of our common stock, and the exercise of these options and warrants could dilute the then book value per share of our common stock. The existence of these options and warrants could adversely affect the terms at which we could obtain additional equity financing. Moreover, the holders of the options and warrants may be expected to exercise them at a time when we could obtain equity capital on terms more favorable than those provided by the options and warrants.

***We will need to comply with federal and state securities laws to maintain the tradeability of our securities.***

We must maintain in effect the registration statement filed with the Securities and Exchange Commission with respect to the units and must also comply with the securities laws of a state for the units, common stock and public warrants to be tradeable in that state. If we do not comply with federal or state securities laws, your ability to sell the securities offered by this prospectus may be significantly reduced.

***Certain of our directors or investors will personally benefit from the use of the proceeds of this offering.***

We will use the proceeds from this offering to repay approximately \$100,000 of unreimbursed business expenses to our chairman and to retire the interest accrued through March 1, 2001 on our outstanding stockholder notes. In addition, if the over-allotment option granted to the underwriter is exercised in full, approximately \$1.3 million in stockholder notes, including a note issued to our chairman, will be retired. This debt matures July 1, 2002, unless extended.

***Our directors and executive officers will continue to control us after this offering, which may lead to conflicts with stockholders over corporate governance.***

Following completion of this offering, our directors and executive officers will beneficially own approximately 53% of our outstanding common stock. These stockholders, acting together, would be able to significantly influence all matters requiring approval by our stockholders, including the election of directors and significant corporate transactions, such as mergers or other business combination transactions. This control may have the effect of delaying or preventing a third party from acquiring or merging with us. In addition, prior to the appointment of disinterested, independent directors to our board of directors in January 2001, certain past transactions, including issuances of stock and options to and borrowings from officers and directors, were not approved by two disinterested, independent directors at the time of the transaction.

***We do not intend to pay cash dividends in the foreseeable future.***

Any investors who have or anticipate any need for immediate income from their investment should not purchase any of the units offered hereby.

***Provisions of our charter documents and Delaware law may have anti-takeover effects that could hinder a change in our corporate control, which may cause the market price of our securities to decline.***

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable. These provisions include:

- authorizing our board of directors to issue preferred stock without stockholder approval;
- providing for a classified board of directors with staggered, three-year terms; and
- allowing written stockholder actions only by unanimous consent.

Provisions of Delaware law, including provisions that prohibit business combinations with entities holding greater than a threshold amount of voting stock, also may discourage, delay or prevent someone from acquiring or merging with us, which may cause the market price of our securities to decline.

***You should not rely upon our forward-looking statements.***

Some of the statements made in this prospectus discuss future events and developments, including our future business strategy and our ability to generate revenue, income and cash flow. In some cases, you can identify forward-looking statements by words or phrases such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue,” “our future success depends,” “seek to continue,” or the negative of these words or phrases, or comparable words or phrases. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various facts, including the risks outlined under “Risk Factors.” These factors may cause our actual results to differ materially from any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results.

## USE OF PROCEEDS

We estimate that the net proceeds from the sale of the 800,000 units that we are selling in this offering will be approximately \$8,556,000, or \$9,991,200 if the underwriter exercises its over-allotment option in full, based on a public offering price of \$13.00 per unit, and after deducting the underwriting discount, expense allowance, and estimated offering expenses of \$752,000 payable by us.

We expect to allocate the net proceeds of this offering as follows:

	Approximate Amount	Approximate Percentage
Payment of note payable to stockholder	\$ 100,000	1%
Accrued interest on notes payable to stockholders	300,000	4
Payment of notes due to unrelated private lender, including accrued interest	612,000	7
Payment of note to third party vendor	190,000	2
Purchases of inventory	1,700,000	20
Sales and marketing programs	2,820,000	33
Research and development	750,000	9
Production tooling and equipment	750,000	9
Other working capital/general corporate purposes	1,334,000	15
 Total	 \$8,556,000	 100%

The debt we intend to repay includes:

- a \$99,794 note at an interest rate of 10% payable to Phillips Smith, our chairman and a stockholder, for unreimbursed business expenses;
- \$300,400 of accrued interest on notes payable to Bruce Culver, a director and stockholder, and Phillips Smith, consisting of \$268,300 outstanding at December 31, 2000 and accrued interest for the period from January 1, 2001 through March 31, 2001 of approximately \$32,100;
- \$611,500 of notes and accrued interest at interest rates ranging from 11% to 18%, payable to an unrelated private lender; and
- a \$189,980 note at an interest rate of 10% payable to a third-party vendor.

Further, if the underwriter exercises its over-allotment option in full, we will repay the principal on other outstanding stockholder notes of approximately \$1.3 million which currently mature in July 2002.

We intend to use the portion of the net proceeds of this offering allocated to sales and marketing programs in the next two years to develop a national and international program to educate law enforcement, corrections and government agencies about our products. We also intend to dedicate such proceeds in 2002 and 2003 to the development of a consumer market through activities including the addition of a customer service department and the sponsorship of new consumer advertising campaigns.

We may use the portion of the net proceeds of this offering currently allocated to other working capital/general corporate purposes to take advantage of early payment discounts which may be available from our suppliers, prepay some of our capital leases or reduce our current liabilities other than amounts owing to related parties. Although we currently have no agreements or commitments to do so, we may also use a portion of the net proceeds to license or acquire new products, technologies or intellectual property or to acquire or invest in businesses complimentary to ours. We have no current plans or proposals pending for any such acquisitions or investments. Pending application of the net proceeds, we intend to invest the net proceeds in interest-bearing, investment grade securities.

The foregoing discussion is merely an estimate based on our current business plan. Our actual expenditures may vary depending upon circumstances not yet known, such as the time actually required to reach a positive cash flow or to successfully expand the market for our products.

## DIVIDEND POLICY

We have never declared or paid any cash dividends on our shares of common stock and do not anticipate paying any cash dividends in the foreseeable future. Currently, we intend to retain any future earnings for use in the operation and expansion of our business. Any future decision to pay cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, capital requirements and other factors our board of directors may deem relevant.

## CAPITALIZATION

The following table sets forth our capitalization at December 31, 2000 on an actual basis and on a pro forma basis, after giving effect to our reincorporation in Delaware, our related 1-for-6 reverse stock split, and the sale of 800,000 units offered hereby at a public offering price of \$13.00 per unit and the proposed application of the estimated net proceeds therefrom. This table should be read in conjunction with, and is qualified by, the financial statements and notes thereto included elsewhere in this prospectus.

	December 31, 2000	
	Actual	Pro Forma
	(dollars in thousands)	
Current portion of note payable(1)	\$ 100	\$ —
Current portion of notes payable to stockholders	125	—
Accounts payable	300	—
Note payable to a third party vendor	190	—
Accrued interest on notes payable to stockholders	268	—
	\$ 983	\$ —
Long-term notes payable to stockholders and others, and capital lease obligations, excluding current portion	\$ 2,822	\$ 2,822
Stockholders' equity (deficit)		
Preferred stock \$0.00001 par value, 25,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock \$0.00001 par value, 50,000,000 shares authorized; 3,177,421 shares issued and outstanding actual, 4,377,421 shares issued and outstanding pro forma(2)	—	—
Additional paid-in capital	4,257	5,863
Common Stock held in treasury, at cost, 1,666,667 shares as of December 31, 2000	(1,000)	(1,000)
Deferred compensation	(80)	(80)
Retained earnings (deficit)(3)	(6,794)	—
Total stockholders' equity (deficit)	(3,617)	4,783
Total capitalization (deficiency)	\$ (795)	\$ 7,605

- (1) Subsequent to December 31, 2000, an unrelated private lender loaned us \$500,000, which is due to be repaid, with accrued interest, from proceeds from this offering upon its closing or by July 1, 2002, whichever is earlier.
- (2) Does not include (i) 434,322 shares of common stock issuable upon exercise of stock options issued pursuant to our stock option plans, which have a weighted average exercise price of \$4.94 per share, (ii) an additional 52,727 shares of common stock issuable upon exercise of warrants outstanding, which have a weighted average exercise price of \$4.71, (iii) the shares of common stock exercisable upon exercise of the public warrants, and (iv) the shares of common stock underlying the units issuable upon exercise of the underwriter's over-allotment option or the underwriter's warrants.
- (3) Our accumulated deficit, which was \$6.8 million at December 31, 2000, was reclassified into additional paid-in capital upon the termination of our S-corporation tax status in the first quarter of 2001.

## DILUTION

If you invest in our units, your interest will be diluted to the extent of the difference between the public offering price per share of our common stock and the as adjusted net tangible book value per share of our common stock after this offering. For purposes of the dilution computation and the following tables, we have allocated the full purchase price of a unit to the share of common stock included in the unit and nothing to the warrant included in the unit. As of December 31, 2000, our net tangible book value was a negative \$3,617,215, or a deficiency of \$2.39 per share of common stock. Net tangible book value per share represents the amount of our total tangible assets reduced by the amount of our total liabilities, divided by the total number of shares of common stock outstanding. Dilution in net tangible book value per share represents the difference between the amount per share paid by the purchasers of our units in this offering and the net tangible book value per share of our common stock immediately afterwards. Without taking into effect any changes in the net tangible book value after December 31, 2000, other than to give effect to the sale of 800,000 units, 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, in this offering at the initial public offering price of \$13.00 per unit, in the aggregate, or \$8.67 per one share of common stock and one warrant to purchase one share of common stock, and the application of the net proceeds of this offering, the net tangible book value of TASER as of December 31, 2000 would have been \$4,782,785, or \$1.76 per share. This represents an immediate increase of \$4.15 per share of common stock to existing stockholders and an immediate dilution of \$6.91 per share of common stock to the new investors who purchase units in this offering. The following table illustrates this per share dilution:

Initial public offering price per one share of common stock and one warrant to purchase one share of common stock		\$8.67
Net tangible book value (deficiency) per share before this offering	\$(2.39)	
Increase in net tangible book value per share attributable to new investors	\$ 4.15	
	<u>          </u>	
As adjusted net tangible book value per share after this offering		\$1.76
		<u>          </u>
Dilution in net tangible book value per share to new investors		\$6.91
		<u>          </u>

The following table summarizes as of December 31, 2000 the differences between the existing stockholders and the new investors with respect to the number of shares of common stock purchased, the total consideration paid, and the average price per share paid:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	1,510,754	56%	\$ 3,189,548	23%	\$2.11
New investors	1,200,000	44%	10,400,000	77%	\$8.67
	<u>2,710,754</u>	<u>100%</u>	<u>\$13,589,548</u>	<u>100%</u>	

The above computations assume no exercise of outstanding options to purchase 434,322 shares of our common stock as of March 15, 2001, which have a weighted average exercise price of \$4.94 per share, or outstanding warrants to purchase 52,727 shares of our common stock as of March 15, 2001, which have a weighted average exercise price of \$4.71 per share, the underwriter's over-allotment option, the public warrants included in units sold in this offering or the underwriter's warrants, as the exercise of such securities would be anti-dilutive. If the underwriter's over-allotment option is exercised in full, dilution per share to new investors would be \$6.54 per share of common stock.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and related notes to the financial statements included elsewhere in this prospectus. This discussion contains forward-looking statements that relate to future events or our future financial performance. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include, among others, those listed under "Risk Factors" and those included elsewhere in this prospectus.*

### Overview

We began operations in Arizona in 1993 for the purpose of developing and manufacturing less-lethal self-defense devices. From inception until the introduction of our first product, the AIR TASER, in 1994, we were in the development 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 focused 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 prohibiting the company from marketing or selling 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.

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. 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.

The non-compete agreement that had precluded sales to the law enforcement and military markets expired in 1998. During this year, we focused our development efforts on the ADVANCED TASER product line, a redesigned and enhanced version of the AIR TASER, targeted primarily to the U.S. law enforcement and corrections market. During 1998, in addition to \$66,000 paid to outside research and development consultants, we also incurred substantial internal unallocated expenses associated with the development of the ADVANCED TASER. Further, end-user sales of the AUTO TASER continued to decline, and product returns remained higher than expectations.

In August 1999, the AUTO TASER product line was discontinued and we closed our production facility in Mexico. We sold all remaining finished goods associated with the AUTO TASER product line by the end of the first quarter of 2000. Following closure of our Mexican facility, we outsourced the production of the AIR TASER and certain non-proprietary assemblies to a third-party assembler. We shifted our focus to completion of the ADVANCED TASER development project and introduced the first ADVANCED TASER units for sale to law enforcement customers in December 1999. As a result of these activities and product development expenses, we had accumulated a deficit of \$6.3 million by December 31, 1999.

The first full year of the ADVANCED TASER product line sales was 2000. We spent the year focusing on 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.

In the first quarter of 2001, we discontinued the outsourcing of the final assembly of our products and moved such final assembly to our facility in Scottsdale, Arizona. As a result of this change, we anticipate

that our direct labor costs will represent a larger portion of our total costs of products sold, but that our total costs of products sold, including direct material and labor and overhead costs, will be slightly lower as a percentage of our net sales in 2001.

**Results of Operations**

*Years ended December 31, 1999 and 2000*

The following table shows the percentage of total revenues represented by selected items included in our statements of operations:

	<b>Year Ended December 31,</b>	
	<b>1999</b>	<b>2000</b>
Net Sales	100%	100%
Less Costs of Products Sold:		
Direct Manufacturing Expense	45.3%	39.6%
Indirect Manufacturing Expense	49.3%	14.3%
Total Cost of Products Sold	94.6%	53.9%
Gross Margin	5.4%	46.1%
Sales, General and Administrative Expense	65.3%	47.3%
Research and Development Expense	2.9%	0.2%
Loss from Operations	(62.8)%	(1.4)%
Interest Expense	12.7%	12.5%
Net Loss	(75.5)%	(13.9)%

*Net sales.* Net sales increased \$1.2 million, or 54.5%, from \$2.2 million for the year ended December 31, 1999 to \$3.4 million for the year ended December 31, 2000. The increase was due almost entirely to the first full year of sales of the ADVANCED TASER, primarily to law enforcement agencies. The increase in sales was partially offset by the decline in AUTO TASER sales due to the discontinuation of this product line and somewhat lower sales of the AIR TASER to consumers.

For the years ended December 31, 1999 and 2000, sales by product line were as follows:

<b>Product Line</b>	<b>1999</b>	<b>%</b>	<b>2000</b>	<b>%</b>
ADVANCED TASER (including cartridges and accessories)	\$ 80,000	4%	\$2,099,000	62%
AIR TASER (including cartridges and accessories)	1,311,000	59%	1,241,000	36%
AUTO TASER (including accessories)	601,000	27%	24,000	1%
Miscellaneous sales (components, freight, services, equipment)	216,000	10%	49,000	1%
Net sales	\$2,208,000	100%	\$3,413,000	100%

*Cost of products sold.* Cost of products sold decreased from \$2.1 million in 1999, or 94.5% of net sales, to \$1.8 million in 2000, or 53.9% of net sales. The decrease in cost of products sold as a percentage of net sales was due primarily to the lower direct production costs associated with the AIR and ADVANCED TASERs, which averaged 29.8% of gross sales as compared to 59.8% of gross sales for the AUTO TASER, and a one-time charge related to the phase out of the AUTO TASER product line of approximately \$355,000 in 1999 included in indirect manufacturing expense. In 2001, we anticipate our cost of products sold will decrease as a percentage of net sales due to lower labor costs, greater labor productivity, lower materials cost and greater operating control, all in connection with the transfer of our product assembly operations from Mexico to the United States.

For the two years ended December 31, 2000, our principal product costs included the following:

- **Direct materials:** For the first eight months of 1999, direct materials included raw materials as well as supplies used in production. From September 1999 through February 2001, direct materials included our purchase price of finished goods from our contract manufacturer and raw materials. Direct materials represented the majority of our direct manufacturing expense.
- **Direct labor:** Direct labor represented the expenses incurred in our Scottsdale, Arizona facility for the assembly and packaging of sub-assemblies. Once finished, these sub-assemblies were transferred to our contract manufacturer for insertion into our finished products. In the first eight months of 1999, direct labor included wages paid to employees in our Mexican production facility.
- **Shipping expense:** Shipping expense included those costs associated with shipping finished products to our customers. These costs included freight paid to ship orders, special handling charges and related transaction fees.
- **Indirect manufacturing expense:** Indirect manufacturing expense included the indirect costs associated with producing our products, such as rent on production facilities, depreciation on production equipment and tooling, engineering and support salaries and other indirect manufacturing costs.

In 2001, our product cost structure will be significantly different than in 1999 and 2000 primarily due to the discontinuation of our use of our contract assembler. Specifically, our cost of direct materials will include only the cost of components and supplies required to manufacture our finished goods. Our direct labor and manufacturing costs will continue to be allocated to cost of products sold, but should be lower than in 2000 due to the consolidation of our product manufacturing and assembly operations at our new facility in Scottsdale, Arizona.

*Gross margin.* Gross margin increased \$1.5 million, or 1211.8%, from \$120,000 in 1999 to \$1.6 million in 2000. Our gross profit margin was 5.4% of net sales in 1999 compared to 46.1% in 2000 due to increased sales of higher margin ADVANCED TASER products and the one-time write off of \$355,000 taken in 1999 as a result of the phase out of the AUTO TASER. We anticipate our gross margin will increase to approximately 60% of net sales in 2001 primarily due to increased sales of higher margin ADVANCED TASER products, partially offset by relocation costs associated with the transfer of our product assembly operations from Mexico to the United States.

*Sales, general and administrative expenses.* Sales, general and administrative expenses increased by \$171,000, or 11.9%, from \$1.4 million in 1999 to \$1.6 million in 2000. Sales, general and administrative expenses were 65.3% of net sales in 1999 compared to 47.3% of net sales in 2000. These costs increased to support the sales of the ADVANCED TASER and include sales commissions and product demonstration costs. However, sales, general and administrative expenses declined as a percentage of sales in 2000 due to the fixed nature of certain of these costs and increased gross margins attributable to the ADVANCED TASER product line.

*Interest expense.* Interest expense increased by \$146,000, or 52.3%, from \$280,000 in 1999 to \$426,000 in 2000. The increase reflects the cost of the higher level of related party debt in 2000 over 1999, primarily used to fund working capital. In addition, we issued warrants and options in 2000 valued at \$93,907 to certain stockholders in return for providing loans to us.

*Corporate tax status.* Prior to our reincorporation in Delaware in February 2001, we were an S-corporation, which allowed all the tax attributes to flow through to the stockholders. In February 2001, we changed our tax reporting status 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, there are also no net operating loss carry forwards available to us.

*Net loss.* Our net loss decreased \$1.2 million, or 71.6%, from \$1.7 million in 1999 to \$473,000 in 2000. Basic and diluted net loss per common share was \$0.54 in 1999 compared to \$0.19 in 2000. The

reduced net loss in 2000 resulted primarily from increased sales volume and increased gross margins attributable to sales of the ADVANCED TASER line.

### **Liquidity and Capital Resources**

We have sustained significant operating losses since our inception. In 1999 and 2000, we financed our operations through advances from and investments by major stockholders, and bank financing guaranteed by major stockholders.

*Liquidity.* We had a working capital deficiency of \$2.4 million at December 31, 1999 and \$1.0 million at December 31, 2000. The improvement in working capital from 1999 to 2000 was largely due to the extension of short-term related party debt in 1999 to long-term debt in 2000. In both 1999 and 2000, cash was used primarily to fund operating losses and for investment in property and equipment.

In 2000 we generated cash from operations of \$8,000, primarily as a result of a significant customer deposit of \$440,000 received in December 2000. In 1999, operations consumed \$704,000 in cash. We have not historically generated sufficient cash from operations to fund future growth or to repay our long-term debt that principally comes due July 1, 2002. However, we anticipate that our cash flow from operations will be at least break-even in 2001 because we expect our sales will increase and our cost of products sold will decrease as a percentage of our total revenues, generating both positive cash flow and net income. We believe that, with anticipated cash flow from operations for 2001 and the completion of this offering, our cash resources will be adequate to meet our expected future liquidity needs for approximately the next two years.

*Capital resources.* We have funded our operating deficits primarily through loans from two major stockholders, Phillips Smith and Bruce Culver. Our indebtedness to these stockholders totaled \$2.9 million at December 31, 2000. \$1.3 million of this debt matures in July 2002 and bears interest at a rate of 10%.

In the event this offering is not completed, we have an agreement with Messrs. Smith and Culver whereby we may extend the maturity date of their outstanding notes for a period not to exceed 24 months. We also may retire the debt at any time without penalty. In addition, Mr. Culver has established a non-revocable letter of credit in the amount of \$500,000 on our behalf that we can use to fund any shortfalls in our monthly capital requirements. This letter of credit expires on the earlier of the closing of this offering or December 31, 2001.

Subsequent to December 31, 2000, an unrelated private lender loaned us \$500,000 to fund working capital. The related promissory note carries interest at 18% and matures at the earlier of the completion of this offering or July 2002. In return for his loan, we granted him 5,000 ten-year warrants with an exercise price of \$10 per share. The fair value of these warrants is approximately \$9,600.

Also subsequent to December 31, 2000, we obtained a revolving line of credit with a bank with a total commitment of up to \$1.5 million. The line was fully used to repay a \$1.5 million promissory note to Bruce Culver, is secured by assets of Mr. Culver and substantially all of our assets other than our intellectual property, and has an interest rate of bank prime plus 1%. The line matures on April 30, 2002 and requires us to make monthly interest payments until such date.

*Capital commitments.* At December 31, 2000, we had no material commitments for capital expenditures. Other commitments include rental payments under operating leases for office space and equipment, and commitments under employment contracts with our chief executive officer, president, and chief financial officer.

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## BUSINESS

### Company overview

We develop, assemble and market less-lethal, conducted energy weapons primarily for use in the law enforcement and corrections market. Over 400 police departments in the United States have made initial purchases of our products and 15 police departments, including San Diego, Sacramento, and Albuquerque, have purchased our products for every patrol officer. As of February 1, 2001, more than 200 additional police departments were evaluating our newest product, the ADVANCED TASER.

We sell two principal products. We introduced the AIR TASER in 1994 and targeted it primarily at the consumer market. We designed the AIR TASER to look like a cellular telephone or other consumer electronic item, rather than a weapon. The terms of an agreement we signed with Electronic Medical Laboratories, Inc., doing business as Tasertron, the original licensee of a patent on certain technology used in our weapons, precluded us from selling our products to United States law enforcement, corrections and military agencies until February 1998. After expiration of this agreement, we introduced the ADVANCED TASER, an upgraded and redesigned version of the AIR TASER, to appeal to the law enforcement and corrections market. It uses the same basic operating principle as the AIR TASER but produces four times the AIR TASER's power output. It is also pistol-shaped to make it easier for police officers to use. The ADVANCED TASER can be sold with an integrated laser sight and a built-in memory option to record the time and date of up to 585 firings. We believe the ADVANCED TASER will also appeal to the private security, military and consumer markets, and intend to pursue sales in these markets after further penetrating the law enforcement and corrections market.

### Industry background

The market for less-lethal weapons includes law enforcement agencies, correctional facilities, military agencies, private security guard companies and retail consumers. We believe law enforcement officials are the opinion leaders regarding market acceptance of new security products. In recent years, successful new security products — such as the GLOCK handgun and the Mag-Lite flashlight — were first marketed to and accepted by police departments. We therefore focus on the law enforcement agency segment of the market for less-lethal weapons.

According to a 1997 report issued by a unit of the United States Department of Justice, nearly all local police departments and all federal law enforcement agencies have a use-of-force policy that dictates the level of force its officers can use to respond to various situations. A police officer is trained to use only the minimum force necessary to overcome the threat of injury or violence posed by a suspect. For example, under most policies, an officer may not use lethal force unless a subject poses a threat of significant bodily injury or fatality to the officer or other persons.

In fact, studies by the Associated Press have concluded that most police officers never deploy lethal force in the course of their careers. While the vast majority of law enforcement officers around the world are armed with firearms, only a small percentage will actually ever use them. A 1996 study jointly published by the United States Department of Justice and the National Institute of Justice, however, indicates that police officers use less-lethal force on a regular basis. Less-lethal force can range from a control hold to the use of a baton, chemical spray, or other means to control a subject that is actively resisting the officer.

Police officers are often injured while trying to subdue a suspect with less-lethal force. Traditional tactics such as using a baton or fist to control a suspect result not only in a significant risk of injury to the suspect, but also a significant risk that the officer will be injured. If an officer can subdue a suspect from a safe distance using effective less-lethal weapons, he greatly reduces the probability that he or the suspect, as well as bystanders, will be injured during a confrontation.

A variety of new less-lethal weapons have been developed to address the need to temporarily incapacitate an attacker without causing permanent injury or fatality. These weapons vary in approach, but

generally include stun guns, batons and clubs, chemical sprays, rubber bullets, pepper balls and other impact munitions. Each weapon has distinct advantages and disadvantages, and law enforcement agencies require different tools for different situations. We believe that the following characteristics of less-lethal weapons are the most important to law enforcement agencies:

- *Effectiveness: temporary incapacitation of aggressive suspects;*
- *Range: variable distance over which the weapon is effective;*
- *Safety: low risk of injury or death;*
- *Ease of use: simple operation, low maintenance and no contamination;*
- *Dependability: reliability in many environments, product durability;*
- *Accountability: tracking to reduce misuse of the weapon; and*
- *Cost: low cost per use and possible reduction of litigation expense.*

### **The ADVANCED TASER solution**

All our products are designed to perform well in terms of the above characteristics. We believe the ADVANCED TASER, however, offers the best combination of these characteristics currently available in a less-lethal weapon. In our opinion, this superior performance could make the ADVANCED TASER the less-lethal weapon of choice in many situations for law enforcement agencies and other security services.

- *Effectiveness*

Most less-lethal weapons rely upon a pain response for effect. A less-lethal weapon that inflicts only pain may not stop the most dangerous and aggressive suspects. The ADVANCED TASER is designed to cause complete yet temporary physical incapacitation, not just discomfort or distraction. In volunteer testing and field use, the ADVANCED TASER has incapacitated even highly focused individuals who have demonstrated the ability to fight through other less-lethal weapons that rely only on pain.

- *Range*

Batons and chemical sprays can only be used from close distances, usually less than five feet. Rubber bullets, beanbag rounds, and similar less-lethal impact weapons must be used at distances greater than 30 feet to minimize suspects' injuries. Therefore, we believe that other less-lethal weapons as a group are generally ineffective between five and thirty feet. The ADVANCED TASER is designed to operate within this range. Since it is equally effective between zero and five feet, we believe the ADVANCED TASER represents a more versatile less-lethal weapon for encounters taking place within 21 feet.

- *Safety*

In tests involving over 1,000 human volunteers and in hundreds of field applications, the ADVANCED TASER has had no reported long-term, adverse after-effects. In field uses, our technology has been found to have a comparable or lower risk of injury to officers and suspects than other less-lethal technologies. Further, the recovery time from an application of the ADVANCED TASER is generally less than one minute. In contrast, recovery time from the application of chemical sprays can range from ten minutes to one hour. Recovery time from the effect of impact rounds can vary from hours to weeks, depending on bruising and bone breakage.

- *Ease of Use*

The ADVANCED TASER is shaped and designed to function like a standard handgun. Accordingly, it is easy for law enforcement officers to use during stressful situations, since their firearms training familiarizes them with the muscle movements required for its operation. It can be reloaded and fired again as quickly as a spent cartridge can be removed and a replacement cartridge inserted, typically in less than five seconds. Further, the weapon requires no maintenance other than a periodic battery check. The

ADVANCED TASER also does not leave contaminating residues, unlike chemical sprays that may contaminate buildings, vehicles or other closed facilities or officer uniforms.

- *Dependability*

The ADVANCED TASER operates effectively under a variety of unfavorable conditions, such as wind and rain, that render chemical sprays less effective. The ADVANCED TASER housing is constructed of high tensile-strength polycarbonate to withstand the rigors of typical police use.

- *Accountability*

The ADVANCED TASER incorporates features designed to reduce inappropriate use. Our cartridges contain numerous confetti-like Anti-Felon Identification tags, or AFIDs, which are scattered when the unit is fired. AFID tags recovered from usage sites can thus help identify the owner of the cartridge used. The ADVANCED TASER we market to law enforcement and corrections agencies also comes with a data port that records the exact time, date and duration of up to 585 firings.

- *Cost*

The ADVANCED TASER is sold to law enforcement agencies for approximately \$400 per unit. The air cartridge ammunition is priced under \$18 per shot. These prices are competitive with impact munitions and most other specialized less-lethal weapons, with the exception of the least expensive chemical sprays. However, the indirect costs of decontaminating buildings, vehicles, and uniforms resulting from the use of chemical sprays can place the ADVANCED TASER at an overall cost advantage per use.

In addition, litigation costs for law enforcement agencies can be significant. Reducing the number of injuries and fatalities caused by law enforcement officers may reduce the number of suits filed against agencies for excessive use of force, wrongful death and injury. Further, reducing officer injuries minimizes medical claims and lost time for work-related injuries.

As with other less-lethal weapons, we believe that these characteristics, particularly safety, may also have the benefit of increasing goodwill between law enforcement agencies and their communities. Community relations considerations can be particularly important at a time when almost any interaction with police can be videotaped and scrutinized by the media and the public.

## **Our strategy**

Key elements of our strategy for growth include the following:

- *Fully exploit the expanding law enforcement and corrections market.*

Our goal is to make the ADVANCED TASER the dominant less-lethal weapon for use by law enforcement and corrections agencies. Law enforcement officials are often viewed as experts with regard to weapons and other security products. As a result, we believe that widespread acceptance of the ADVANCED TASER in this market will enhance its credibility and represent a necessary first step toward expanding sales of our products in additional markets.

- *Expand into private security, military, and consumer markets.*

After increasing our presence in the law enforcement and corrections market, we intend to expand our penetration in the private security, military and consumer self-defense markets. We believe the same performance characteristics that will enable our products to succeed in the law enforcement and corrections market will also appeal to potential customers in these additional markets.

- *Develop enhanced less-lethal weapon technologies.*

We intend to improve our less-lethal weapons technology to provide further growth and market opportunities. Among other things, we intend to develop multiple shot capability and greater effective range. These innovations may increase our revenues by allowing us to sell upgraded less-lethal weapons and accessories, both to existing and potential new customers.

- *Acquire businesses that enhance our strategic position.*

We may acquire businesses that will complement our growth strategy and enhance our competitive position in our markets. However, we have no current plans for such acquisitions.

## 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. According to United States Bureau of Justice statistics, there were nearly 19,000 of these agencies in the United States in 1996 that employed about 740,000 full-time, sworn law enforcement officers. In 1999, the United States Bureau of the Census estimated that there were more than 450,000 correctional officers in the United States.

Acceptance of the ADVANCED TASER by United States police departments has been fairly rapid since its introduction in December 1999. We believe it could prove equally suitable for use in correctional facilities. The ADVANCED TASER is particularly useful in these confined and crowded settings since it provides a means of bringing virtually any individual under control without requiring the use of lethal force. We anticipate that some correctional officers will be armed with ADVANCED TASERS, particularly as its performance attributes become more familiar to the wider law enforcement community.

In the law enforcement market, over 400 police departments have made initial purchases of the ADVANCED TASER for testing or deployment. In addition, 15 police departments, including San Diego, Sacramento, and Albuquerque, purchased enough of our weapons to issue one to each of their patrol officers.

### *Private security firms and guard services*

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. We believe that security personnel armed with ADVANCED TASERS could be as effective in many circumstances as those armed with conventional firearms. At the same time, arming guards with ADVANCED TASERS may reduce the potential liability of private security companies and personnel.

A number of environments can prove problematic for the use of conventional firearms. The use of conventional firearms in airplanes, for example, poses a significant threat to the integrity of the aircraft and the safety of the passengers. Conventional firearms may also be inappropriate in subways, buses, transit systems, banks and casinos. In many of these crowded environments, the contamination associated with the use of chemical sprays could also pose significant problems.

One large private security force overseas has ordered over 1,000 ADVANCED TASERS for delivery in Spring 2001. We are 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.

### *Consumer/personal protection*

A 1997 survey sponsored by the National Institute of Justice found that, in 1994, 44 million Americans owned 192 million firearms, 65 million of which were handguns. We believe these handgun owners represent one segment of a potentially large consumer market for our products.

As a result of our shift in focus, the share of our sales made to consumer markets fell sharply from 1999 to 2000. In 1999, sales to consumers represented 88% of total sales while these sales dropped to only 32% of total sales in 2000. We expect the relative share of sales to consumer markets to remain small in the next few years. Given the size of the potential consumer market, however, we believe consumer sales

could contribute a substantial portion of our revenues in the future, particularly if the ADVANCED TASER becomes more established in the law enforcement and corrections market.

### *Military*

Military police forces may use the ADVANCED TASER for purposes similar to those of civilian police units. Military peace-keeping forces also perform policing functions, and the ADVANCED TASER may prove an effective tool for these operations. The ADVANCED TASER may also be used by armed forces to reduce the possibility of civilian casualties resulting from combat operations on battlefields consisting of both civilians and combatants. We have yet to pursue sales opportunities in the military market.

### **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.

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 M26 is our primary product in this market and is sold exclusively to law enforcement and corrections agencies. The ADVANCED TASER M26 offers the following improvements over the AIR TASER:

- Increased effectiveness: the ADVANCED TASER has four times the power of the AIR TASER and has proven effective in incapacitating over 99% of volunteers tested.
- Better accountability: the ADVANCED TASER's memory system records the time, date, and duration of up to 585 firings. By downloading this information periodically, law enforcement and corrections agencies can track every use of the ADVANCED TASER. These agencies can use this data to investigate potential misuse.
- Ease of use: law enforcement and corrections officers have reported to us that the ADVANCED TASER's familiar pistol shape and integrated laser sight minimize the training required for officers and make it easier to use.

Our products are sold primarily through our network of distributors at a wide range of prices. Our most inexpensive consumer product is the entry-level consumer AIR TASER, with a retail price of \$99. 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. Distributors sell the M26 to law enforcement and corrections agencies for \$400. Retail cartridge prices range from \$16 to \$30 per unit.

In addition to weapons and cartridges, we sell holsters, attachments, cases and other accessories that complement our core products. Although to date these accessories have generated limited sales, they offer additional revenue opportunities and attractive margins.

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 users 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. Historically, approximately 2% of the AIR TASERS sold by us have been returned by end users in connection with a warranty claim. Warranty costs under the AIR TASER replacement policy have been minimal to date.

We offer a no-questions-asked lifetime replacement policy on the ADVANCED TASER. If the weapon fails to operate properly for any reason, we will replace it for a fee of \$25. The 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. Due to our recent introduction of the ADVANCED TASER, we have created a reserve for product returns based on a 7% return rate. In 2000, we recalled a series of ADVANCED TASERS due to a defective component in connection with which we incurred expenses of approximately \$9,000 and recorded an additional charge of approximately \$41,000 to account for related future expenses.

## 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 independent regional police equipment distributors. To service these distributors and assist us in expanding sales to new ones, we retain two manufacturer's representatives that call on potential distributors. We compensate our manufacturer's representatives solely on a commission basis, calculated as a percentage of the sales they complete. Sales in the consumer market are made through different independent distributors, dealers, and retailers. We provide our distributors with performance-based incentive programs.

*International distribution.* As a result of our shift in focus to the United States law enforcement and corrections market, our international sales efforts are currently limited to presentations and training seminars conducted by TASER personnel. We recently began introducing the ADVANCED TASER in Europe and parts of the Middle East, South America and Asia, but have yet to devote significant resources to these markets. Sales outside the United States and Canada accounted for 48% and 18% of total revenues in 1999 and 2000, respectively. In 2001, we expect international sales to account for approximately 10% of our total sales.

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 over 2,500 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.

Fifty 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. Twenty-five 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 area TASER experts, and assist our distributors in conducting TASER demonstrations at other police departments within their regions. Through the end of 2000, we did not charge for attendance at these classes but now charge \$195 per attendee. We pay master instructors a per-session training fee and a share of the attendance fees collected at each session that they conduct. These training sessions have led directly to the sale of ADVANCED TASERs to a number of police departments.

*Communications.* In addition to our training programs, we regularly participate in a variety of trade shows and conferences. Our marketing efforts also benefit from significant free news coverage. Other marketing communications include video e-mails, press releases, and conventional print advertising in law enforcement trade publications. Our website also contains similar marketing information.

## **Manufacturing**

We have installed a new production line in our facility in Scottsdale, Arizona, where we have historically assembled the compressed nitrogen containers used in our air cartridges. After a review of our operating costs and changes in regulations pertaining to the export of the technology used to produce our weapons, we elected to move assembly operations from our subcontractor in Guaymas, Mexico to our new facility in Scottsdale. We own all of the additional production equipment used for the final assembly of our products in the Guaymas facility, and expect to move it to Scottsdale no later than May 2001.

Our Scottsdale facility has approximately 6,000 square feet of assembly and warehouse space. We plan to employ between 15 and 25 assembly personnel by the end of 2001. After the move, our production capabilities will support the assembly of 2,000 ADVANCED TASERs, 1,000 AIR TASERs, and 24,000 cartridges per month on a single shift. We can expand our production capabilities by adding additional personnel and a second shift with negligible new investment in tooling and equipment. We expect our Scottsdale facility and tooling to be sufficient to support our current growth projections at least through 2003.

We currently purchase finished circuit boards from First Electronics, Inc. and injection-molded plastic components from Frontier Tool & Mold, Inc., each located in Phoenix. 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 Asia Sourcing of Taiwan, China, and custom cartridge assemblies from MC Davis Company of Arizona City, 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 relations with our suppliers are good.

## Competition

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 1970s. At March 31, 2001, over 430 police departments had purchased, in the aggregate, over 4,000 ADVANCED TASERs. We believe that approximately 400 police departments actively deploy the Tasertron weapon.

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.

*Law enforcement and corrections market.* Tasertron had an exclusive license to sell TASER products in the North American law enforcement and corrections market until February 1998. Compared to the Tasertron unit, our ADVANCED TASER offers reduced size, additional power, and a more convenient pistol-shaped design. We believe agencies choosing to employ a conducted energy weapon will prefer to adopt a single weapon system. Since its introduction, the ADVANCED TASER has competed successfully against the Tasertron unit, even in agencies that had previously purchased Tasertron units.

Other less-lethal weapons, sold by companies such as Armor Holdings, Inc. and Jaycor, Inc., compete with our ADVANCED TASER indirectly. Many law enforcement and corrections personnel consider less-lethal weapons to be distinct tools, each best-suited to a particular set of circumstances. Consistent with this tool kit approach, purchasing any given tool does not preclude the purchase of one or several more. In other cases, budgetary considerations and limited space on officers' belts dictate that only a limited number of less-lethal weapons will be purchased and carried. 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, its effectiveness, and its ease of use. The widespread adoption of the ADVANCED TASER by 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 are subject to the same regulations. Neither weapon is considered 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 market 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	Prohibited	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	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. In addition, export regulations prohibit the further shipment of our products from foreign markets in which we hold an export license for the products to foreign markets in which we do not hold an export license for the products.

In addition, in the fall of 2000, the Department of Commerce introduced new regulations restricting the export of the 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. After moving our final assembly to our Scottsdale facility, these technology export regulations will no longer apply to us but will still apply to certain of our suppliers located outside of the United States.

*Foreign regulation.* Foreign regulations are numerous and often unclear. We prefer to work with an exclusive distributor who is familiar with applicable 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. In

Australia, Canada, and India, we are also aware that sales of our products are permitted to law enforcement and corrections agencies but prohibited to consumers.

### **Intellectual property**

We protect our intellectual property with a variety of patents and trademarks. In addition, we use confidentiality agreements with employees and some suppliers to ensure the safety 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 covering the energy wave form we developed for the ADVANCED TASER.

We own the AIR TASER and TASER registered trademarks. We also have several unregistered trademarks.

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 have no material adverse effect on our business, operating results or financial condition.

### **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 as well as electrical and mechanical engineering design. Future development projects will focus on reducing the size, extending the range, and improving the functionality of our weapons. Total research and development expenditures were \$64,000 in 1999 and \$7,100 in 2000.

### **Employees**

As of December 31, 2000, we had 16 full-time employees. Six employees were involved in sales, marketing and training. Two were employed in research, development and engineering. We also employed four administrative personnel and four in production support. 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.

### **Facilities**

We conduct our operations from a modern 11,800-square-foot facility located in Scottsdale, Arizona. The monthly rent for this facility is approximately \$11,000. Our lease expires on January 1, 2006. 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 require additional space.

### **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 contracts 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 affect on our business, operating results or financial condition. Mr. Hennigan's suit was dismissed in February 2001 for lack of personal jurisdiction of the New York court. In March 2001, he appealed the dismissal.

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 have no material adverse effect on our business, operating results or financial condition.

### **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.

**MANAGEMENT**

**Directors and executive officers**

Our directors and executive officers are as follows:

Name	Age	Position
Phillips W. Smith	63	Chairman
Patrick W. Smith	30	Chief Executive Officer and Director
Thomas P. Smith	33	President and Director
Bruce R. Culver	55	Director
Matthew R. McBrady	30	Director
Karl F. Walter	54	Director
Kathleen C. Hanrahan	37	Chief Financial Officer

**Phillips W. Smith** is the chairman of our board of directors. Dr. Smith has served as a director since 1993. Since August 1997, Dr. Smith has served on the board of directors of Pentawave, Inc., a developer of cross-media publishing software. Dr. Smith was chairman of the board of Pentawave from January 1999 through October 2000 and its chief executive officer from January through March 1999. From June 1990 to September 1997, Dr. Smith served as the president and chief executive officer of Zycad Corporation, a developer of engineering and manufacturing applications software. Dr. Smith holds a B.S.E. degree from West Point, an M.B.A. degree from Michigan State University, and a Ph.D. in Business Administration from St. Louis University.

**Patrick W. Smith** is the chief executive officer and a co-founder of TASER. Mr. Smith has served as our chief executive officer and as a director since 1993. Mr. Smith holds a B.S. degree in Biology and Neurobiology from Harvard University, an M.B.A. degree from the University of Chicago, and a Masters Degree in International Finance from the University of Leuven in Leuven, Belgium.

**Thomas P. Smith** is the president and a co-founder of TASER. Mr. Smith has served as our president since April 1994 and as a director since 1993. Mr. Smith holds a B.S. degree in Ecology and Evolutionary Biology from the University of Arizona and an M.B.A. degree from Northern Arizona University.

**Bruce R. Culver** has served as a director of TASER since January 1994. Mr. Culver co-founded Professional Staff, P.L.C., a human resource management company, and has served on its board of directors since April 1990. In March 1993, Mr. Culver organized and has since remained the chief executive officer of Culver Distributions, Inc., doing business as California Distribution Company, providing warehouse and distribution services to internet companies. Since April 1997, Mr. Culver has served on the board of Pentawave, Inc., becoming its chairman in October 2000.

**Matthew R. McBrady** has served as a director of TASER since January 2001. From August 1998 through July 1999, Mr. McBrady served as a member of the staff of President Clinton’s Council of Economic Advisers. In December 1997, Mr. McBrady began working as a financial and analytical consultant for Avenue A, Inc, an internet marketing company, and served as its vice president of analytics from June 1999 through October 1999. Mr. McBrady taught corporate finance courses at the University of Southern California during the summer terms of 1997 and 1998, at Harvard College from September 1996 through May 1997, and at Harvard Business School during the spring term of 1998. Mr. McBrady holds a B.S. in Economics from Harvard University, an M.S. in International Economics from Oxford University, and expects to receive a Ph.D. in Corporate and International Finance from Harvard University in June 2001.

**Karl F. Walter** has served as a director of TASER since January 2001. Mr. Walter was a co-founder of Glock, Inc., a subsidiary of GLOCK GmbH, an Austrian semi-automatic pistols manufacturer. From January 1994 through February 1997, Mr. Walter worked as a director of law enforcement sales for Sturm

Ruger Co., a firearms manufacturer. Since March 1997, Mr. Walter has worked as the program manager for AV Technology International, LLC, a builder of armored vehicles.

**Kathleen C. Hanrahan** is our chief financial officer, serving in that position since November 2000. Ms. Hanrahan first joined TASER in January 1996 as an internal controls consultant and became our controller in March 1996.

Our certificate of incorporation provides that we have no less than three and no more than nine directors divided into three classes (Class 1, Class 2, and Class 3), with members of each class serving for staggered three-year terms. As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms. Messrs. Phillips Smith and Bruce Culver have been designated as Class 1 directors, whose term expires at the 2001 annual meeting; Messrs. Patrick Smith and Karl Walter have been designated as Class 2 directors, whose term expires at the 2002 annual meeting; and Messrs. Thomas Smith and Matthew McBrady have been designated as Class 3 directors, whose term expires at the 2003 annual meeting.

Each officer serves at the discretion of our board of directors. No officer is subject to an agreement that requires the officer to serve TASER for a specified number of years. Mr. Thomas Smith and Mr. Patrick Smith are Dr. Phillips Smith's sons. No other family relationships exist among our directors and executive officers.

**Director compensation**

Prior to 2001, directors were not compensated for their service on the board. Beginning in 2001, independent directors will receive \$1,250 per quarter. In addition, in December 2000, Messrs. McBrady and Walter each received options to purchase 6,667 shares vesting ratably over four years at an exercise price of \$3.30 per share. Directors are also reimbursed for expenses incurred in connection with attendance at meetings.

**Committees of the board of directors**

Our board of directors has an Audit Committee consisting of Mr. McBrady and Mr. Walter, and a Compensation Committee consisting of Mr. Culver and Mr. Walter. The Audit Committee meets with management and our independent public accountants to determine the adequacy of our internal controls and other financial reporting matters. The Compensation Committee reviews and recommends to the board of directors the compensation and benefits of our officers, reviews general policy matters relating to compensation and benefits of our employees and administers the issuance of stock options and discretionary cash bonuses to our officers, employees, directors and consultants. We intend to appoint only independent directors to the Audit and Compensation Committees.

**Executive compensation**

The following table sets forth information regarding compensation awarded to, earned by or paid to our chief executive officer for all services rendered to us during 1998, 1999 and 2000. None of our executive officers earned in excess of \$100,000 in 2000.

**Summary Compensation Table**

Name and Principal Position	Annual Compensation			Long Term Compensation Securities Underlying Options (#)
	Year	Salary	Bonus	
Patrick W. Smith Chief Executive Officer	2000	\$65,208	\$2,500	—
	1999	\$49,161	—	10,000
	1998	\$43,205	—	—

**Option grants in last fiscal year**

We did not grant any options to our chief executive officer during the year ended December 31, 2000.

**Fiscal year end option values**

The following table sets forth information regarding the number and value of unexercised options held by our chief executive officer on December 31, 2000. He did not exercise any options to purchase common stock during 2000.

Name	Number of Securities Underlying Options at Fiscal Year End(#)		Value of Unexercised In-the-Money Options at Fiscal Year End\$(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Patrick W. Smith	6,672	3,328	\$46,895	\$26,505

(1) Based on the estimated fair value of our common stock as of December 31, 2000, determined by our board of directors to be \$8.00 per share.

**Stock option plans**

We have two stock option plans: the 1999 stock option plan and the 2001 stock option plan.

The 1999 stock option plan authorized us to issue options to purchase up to 833,333 shares of our common stock. Under this plan, we have issued options to purchase 143,322 shares at \$0.22 to \$7.20 per share, including 10,000 options to Patrick W. Smith. We will issue no further options under the plan. The plan is administered by our board of directors. Subject to the provisions of this plan, the board determines who will receive options, the number of options granted, the manner of exercise and the exercise price of the options. The term of incentive stock options granted under the plan may not exceed ten years, or five years for options granted to an optionee owning more than 10% of our voting stock. The exercise price of an incentive stock option granted under this plan must be equal to or greater than the fair market value of the shares of our common stock on the date the option is granted. The exercise price of a non-qualified option granted under this plan must be equal to or greater than 85% of the fair market value of the shares of our common stock on the date the option is granted. An incentive stock option granted to an optionee owning more than 10% of our voting stock must have an exercise price equal to or greater than 110% of the fair market value of our common stock on the date the option is granted.

The 2001 stock option plan authorizes us to issue options to purchase up to 550,000 shares of our common stock. Under this plan, as of April 30, 2001, we had granted options to purchase 291,000 shares at an exercise price equal or greater than the value of the common stock portion of the initial per unit public offering price in this offering, including 60,000 options to Patrick W. Smith. The plan is administered by our board of directors. Subject to the provisions of this plan, the board determines who will receive options, the number of options granted, the manner of exercise and the exercise price of the options. The term of incentive stock options granted under the plan may not exceed ten years, or five years for incentive stock options granted to an optionee owning more than 10% of our voting stock. The exercise price of an incentive stock option granted under this plan must be equal to or greater than the fair market value of the shares of our common stock on the date the option is granted. The exercise price of a non-qualified option granted under this plan must be equal to or greater than 85% of the fair market value of the shares of our common stock on the date the option is granted. An incentive stock option granted to an optionee owning more than 10% of our voting stock must have an exercise price equal to or greater than 110% of the fair market value of our common stock on the date the option is granted.

**Employment agreements**

In July 1998, we entered into an employment agreement with Patrick W. Smith pursuant to which he agreed to serve as our chief executive officer. The agreement is for an initial three-year term ending June 30, 2001, and is automatically renewed for a two-year term on such date and every two years

thereafter unless we give Mr. Smith one-year prior notice of termination, if the termination is without cause. The agreement provides for annual base compensation in the amount of \$65,000, which amount may be increased based on performance. In 2000, Mr. Smith's salary was increased to \$90,000. We may terminate this agreement with or without cause. Should we terminate the agreement without cause, upon a change of control or upon his death or disability, our chief executive officer is entitled to compensation equal to 12, 24 or 18 months of salary, respectively.

### CERTAIN TRANSACTIONS

In 1998, Mr. Bruce R. Culver, a director of TASER, loaned us \$622,525. In March 1998, \$150,000 of such amount was converted into 20,833 shares of our common stock at an estimated value of \$7.20 per share. In December 1998, we issued Mr. Culver a promissory note for \$472,525, the remaining amount due. The note bears interest at a rate of 10% per year and matures July 1, 2002.

In 1999, Mr. Culver loaned us \$1,500,000. In return, in April 1999, we issued him a promissory note for \$500,000 at an effective interest rate of 27.1% per year to mature October 31, 2000, and 1,666,667 shares of our common stock at a price of \$0.60 per share. These shares were subject to a repurchase agreement between Mr. Culver and us that allowed us to repurchase the shares if we met certain operating performance criteria. We met the criteria and repurchased the shares from Mr. Culver in July 2000 in exchange for a promissory note in the amount of \$1,000,000. We consolidated this note and the April 1999 note into a new note for \$1,500,000 which carried interest at bank prime, which was 9.5% at December 31, 2000, plus 1%. We repaid the new note in full in April 2001 with the proceeds of a loan from a commercial bank.

In March 1999, Mr. Culver loaned us \$100,000, and in July 1999, Mr. Culver loaned us \$50,000. The related notes carry interest at a rate of 10% and mature July 2002. In May 2000, Mr. Culver loaned us an additional \$200,000 at an interest rate of 10%, due July 1, 2002.

We have used all amounts loaned to us by Mr. Culver to fund our working capital needs. As of April 30, 2001, the aggregate principal amount due to Mr. Culver under the above notes outstanding on such date was \$822,525 plus accrued interest of \$166,637. Under certain circumstances, Mr. Culver has agreed to extend the maturity of these notes.

In September 1999, we sold Mr. Culver 151,515 shares of our common stock for \$3.30 per share for an aggregate purchase price of \$500,000.

In July 2000, we issued Mr. Culver a warrant to purchase 22,727 shares of our common stock at a price of \$3.30 per share in connection with his provision of a \$1,500,000 loan to us in such month. These warrants expire July 31, 2005.

In 1998, Mr. Phillips W. Smith, our chairman, loaned us \$725,691 to fund our working capital needs. 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, we issued a promissory note for \$455,691, the remaining amount due. The note bears interest at a rate of 10% per year and matures July 1, 2002. Further, Mr. Smith has deferred expenses in the amount of \$99,794, which has been formalized in a note bearing 10% interest, which matured December 31, 2000. Under certain circumstances, Mr. Smith has agreed to extend the maturity of these notes. As of April 30, 2001, the aggregate principal amount due to Mr. Smith under these notes was \$555,485 plus accrued interest of \$136,042.

In the event this offering is not completed, we have an agreement with Mr. Smith and Mr. Culver whereby we may extend the maturity date of their outstanding notes for a period not to exceed 24 months. We may retire the debt at any time without penalty. In addition, Mr. Culver has established a non-revocable letter of credit in the amount of \$500,000 on our behalf that we may use to fund any shortfalls in monthly working capital requirements until we can make other financing arrangements, and provided us a related letter of support.

In 1999, Mr. Smith worked as a full-time advisor to us and was compensated solely by a five-year option on 16,667 shares of our common stock with an exercise price of \$0.66 per share.

In July 1999, Malcolm W. Sherman, a stockholder, loaned us \$75,000 to acquire production equipment. The related note carries interest at 9.18% and matures July 1, 2001. In May 2000, we issued Mr. Sherman an option to purchase 3,333 shares of our common stock at an exercise price of \$0.22 per share in connection with his continuing provision of services to us following his retirement as a full-time employee and in consideration of his provision of the loan.

Our board of directors has approved all transactions that we have entered into with related parties. However, until January 2001, we did not have any disinterested, independent directors serving on our board of directors. Consequently, none of our related party transactions effected prior to such date were approved by disinterested, independent directors at the time of the transaction. Our two disinterested, independent directors have since determined that our related party transactions that were entered into prior to such date and continue in effect, including the outstanding loans from Messrs. Culver and Smith to us, are on terms no less favorable to us than we could obtain from unaffiliated parties, and have ratified these transactions. We derived no revenue from related party transactions during the fiscal year ended December 31, 2000.

On an ongoing basis, all related party transactions will be reviewed by our board of directors. It is the policy of our board of directors that all proposed transactions by us with our directors, officers, five-percent stockholders and their affiliates, including forgiveness of any loan from us to any such person, be entered into or approved only if such transactions are on terms no less favorable to us than we could obtain from unaffiliated parties, are reasonably expected to benefit us and are approved by a majority of the disinterested, independent members of our Board of Directors. Such independent directors are authorized to consult with independent legal counsel at our expense in determining whether to approve any such transaction.

**PRINCIPAL STOCKHOLDERS**

The following table sets forth certain information regarding the beneficial ownership of our common stock as of March 15, 2001, and as adjusted to reflect the sale of 800,000 units in this offering, by:

- each person or group of affiliated persons known to be the beneficial owner of more than 5% of our outstanding common stock;
- each of our directors;
- our chief executive officer; and
- all of our directors and executive officers as a group.

As of such date, there were 1,510,754 shares of common stock outstanding before giving effect to the sale of units in this offering. We believe that, except as otherwise described below, each named beneficial owner has sole voting and investment power with respect to the shares listed.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage Beneficially Owned Before This Offering	Percentage Beneficially Owned After This Offering
Bruce R. Culver(1)	491,146	31.9%	17.9%
Phillips W. Smith(2)	388,943	25.4%	14.2%
Patrick W. Smith(3)	363,118	23.8%	13.3%
Thomas P. Smith(4)	219,208	14.4%	8.0%
Malcolm W. Sherman(5)	123,796	8.2%	4.6%
Karl F. Walter(6)	417	*	*
Matthew R. McBrady(7)	417	*	*
All directors and executive officers as a group (7 persons)(8)	1,478,921	92.1%	52.7%

The address of each person identified in this table is c/o 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260.

As of March 15, 2001, we had nine stockholders.

\* less than 1%

- (1) Includes 31,061 shares subject to warrants that are exercisable within 60 days.
- (2) Includes 21,297 shares subject to options or warrants that are exercisable within 60 days.
- (3) Includes 12,784 shares subject to options that are exercisable within 60 days.
- (4) Includes 12,784 shares subject to options that are exercisable within 60 days.
- (5) Includes 3,333 shares subject to options that are exercisable within 60 days.
- (6) Includes 417 shares subject to options that are exercisable within 60 days.
- (7) Includes 417 shares subject to options that are exercisable within 60 days.
- (8) Includes 94,432 shares subject to options or warrants that are exercisable within 60 days.

## DESCRIPTION OF SECURITIES

Upon completion of the offering, our authorized capital stock will consist of 50,000,000 shares of common stock, \$0.00001 par value, and 25,000,000 shares of preferred stock, \$0.00001 par value, of which there will be 2,710,754 shares of common stock and no shares of preferred stock outstanding. Our certificate of incorporation and bylaws provide further information about our capital stock.

### Units

Each unit consists of one and one-half shares of common stock and one and one-half public warrants, each whole warrant to purchase one additional share of common stock. The common stock and warrants will trade only as a unit for at least 30 days following this offering. The underwriter will then determine when the units separate, after which the common stock and the public warrants will trade separately.

### Common stock

Holders of our common stock are entitled to one vote for each share on all matters submitted to a stockholder vote and may not cumulate their votes. Holders of common stock are entitled to share in all dividends that the board of directors, in its discretion, declares from legally available funds. In the event of our liquidation, dissolution or winding up, each outstanding share entitles its holder to participate pro rata in all assets that remain after payment of liabilities and after providing for each class of stock, if any, having preference over the common stock.

Holders of our common stock have no conversion, preemptive or other subscription rights, and there are no redemption provisions applicable to our common stock. The rights of the holders of common stock are subject to any rights that may be fixed for holders of preferred stock. All outstanding shares of common stock are, and the shares underlying all options and public warrants will be, duly authorized, validly issued, fully paid and non-assessable upon our issuance of these shares.

### Preferred stock

Our certificate of incorporation provides for the issuance of up to 25,000,000 shares of preferred stock. As of the date of this prospectus, there are no outstanding shares of preferred stock. Subject to certain limitations prescribed by law and the rights and preferences of the preferred stock, our board of directors is authorized, without further stockholder approval, from time-to-time to issue up to an aggregate of 25,000,000 shares of our preferred stock, in one or more additional series. Each new series of preferred stock may have different rights and preferences that may be established by our board of directors. A majority of our disinterested, independent directors must approve any issuance by us of our preferred stock.

The rights and preferences of future series of preferred stock may include:

- number of shares to be issued;
- dividend rights and dividend rates;
- right to convert the preferred stock into a different type of security;
- voting rights attributable to the preferred stock;
- right to receive preferential payments upon a liquidation of the company;
- right to set aside a certain amount of assets for payments relating to the preferred stock; and
- prices to be paid upon redemption of the preferred stock.

## Public warrants

### *General*

Each public warrant entitles the holder to purchase one share of our common stock at an exercise price per share of 110% of two-thirds of the initial public offering price of the units. The exercise price is subject to adjustment upon the occurrence of certain events as provided in the public warrant certificate and summarized below. Our public warrants may be exercised at any time during the period commencing 30 days after this offering and ending on the fifth anniversary date of the closing of this offering, which is the expiration date. Those of our public warrants which have not previously been exercised will expire on the expiration date. A public warrant holder will not be deemed to be a holder of the underlying common stock for any purpose until the public warrant has been properly exercised.

### *Separate transferability*

Our common stock and public warrants will trade only as a unit for at least 30 days following this offering. The underwriter will then determine when the units separate, after which the common stock and the public warrants will trade separately. The underwriter intends to separate the units 30 days after this offering absent unforeseen circumstances. We will announce in advance the separation of the units by a public press release. Upon separation, unit holders will receive certificates for the common stock and public warrants in exchange for their unit certificates. Unit holders will receive cash in the place of any fractional shares of common stock or fractional warrants created in connection with the separation of the units. The amount of cash paid for any fractional interest in common stock or warrants will be equal to 50% of the closing price of our common stock and warrants, respectively, on the date of separation of the units.

### *Redemption*

We have the right to redeem the public warrants issued in this offering at a redemption price of \$0.25 per public warrant after providing 30 days prior written notice to the public warrant holders, if at the time of the notice, the basic net income per share of our common stock as confirmed by audit for a 12-month period preceding the date of the notice is equal to or greater than \$1.00. We will send the written notice of redemption by first class mail to public warrant holders at their last known addresses appearing on the registration records maintained by the transfer agent for our public warrants. No other form of notice by publication or otherwise will be required. If we call the public warrants for redemption, they will be exercisable until the close of business on the business day next preceding the specified redemption date.

### *Exercise*

A public warrant holder may exercise our public warrants only if an appropriate registration statement is then in effect with the Securities and Exchange Commission and if the shares of common stock underlying our public warrants are qualified for sale under the securities laws of the state in which the holder resides.

Our public warrants may be exercised by delivering to our transfer agent the applicable public warrant certificate on or prior to the expiration date or the redemption date, as applicable, with the form on the reverse side of the certificate executed as indicated, accompanied by payment of the full exercise price for the whole number of public warrants being exercised. Warrants may only be exercised to purchase whole shares. Public warrant holders will receive cash equal to the current market value of any fractional interest, which will be the value of one whole interest multiplied by the fraction thereof, in the place of fractional warrants that remain after exercise if they would then hold warrants to purchase less than one whole share. Fractional shares will not be issued upon exercise of our public warrants.

### *Adjustments of exercise price*

The exercise price is subject to adjustment if we declare any stock dividend to stockholders or effect any split or reverse split with respect to our common stock. Therefore, if we effect any stock split or reverse split with respect to our common stock, the exercise price in effect immediately prior to such stock split or reverse split will be proportionately reduced or increased, respectively. Any adjustment of the exercise price will also result in an adjustment of the number of shares purchasable upon exercise of a public warrant or, if we elect, an adjustment of the number of public warrants outstanding.

### **Prior warrants**

As of the date of this prospectus, we had issued and outstanding warrants to purchase 52,727 shares of our common stock at a weighted average exercise price of \$4.71, the forms of which have been filed as exhibits to the registration statement of which this prospectus is a part.

### **Registration rights**

All holders of registration rights contained in agreements with us have waived such rights in connection with this offering. In connection with this offering, we have granted the underwriter of this offering warrants to purchase shares of our common stock. These underwriter's warrants, as well as the shares of common stock and warrants included in the units issuable upon exercise of the underwriter's warrants, are being registered on the registration statement of which this prospectus is a part. We will cause the registration statement to remain effective until the earlier of the time that all of the underwriter's warrants have been exercised and the date which is five years after the effective date of this offering. The common stock and warrants issued to the underwriter upon exercise of these warrants will be freely tradeable. We will bear all expenses incurred in connection with the registration of the shares of common stock and warrants included in the units issuable upon the exercise of the underwriter's warrants.

### **Federal income tax considerations**

The following discussion sets forth the material federal income tax consequences, under current law, relating to the purchase and sale of the units and the underlying common stock and warrants. The discussion is a summary and does not deal with all aspects of federal taxation that may be applicable to an investor. It does not consider specific facts and circumstances that may be relevant to a particular investor's tax position. Some holders, such as dealers in securities, insurance companies, tax exempt organizations, foreign persons and those holding common stock or warrants as part of a straddle or hedge transaction, may be subject to special rules that are not addressed in this discussion. This discussion is based only on current provisions of the Internal Revenue Code of 1986, as amended, and on administrative and judicial interpretations as of the date of this prospectus, all of which are subject to change. You should consult your own tax advisor as to the specific tax consequences to you of this offering, including the applicability of federal, state, local and foreign tax laws.

### *Allocation of Purchase Price*

Each unit as a whole will have a tax basis equal to the cost of the unit. The measure of income or loss from some of the transactions described below depends on the tax basis in each of the warrant and the share of common stock comprising the unit. We have allocated the purchase price between the warrant and the common stock so that the tax basis for the warrant will be equal to 20% of the price of the unit and the tax basis for the common stock will be equal to 80% of the price of the unit. If you disagree with the allocation, please see your tax advisor for advice on how to notify the Internal Revenue Service that you disagree with the allocation and claim a different basis.

### *Exercise or Sale of Warrants*

No gain or loss will be recognized by a holder of a warrant on the purchase of shares of common stock for cash on an exercise of a warrant, except that gain will be recognized to the extent cash is received in the place of fractional shares or warrants. The tax basis of common stock received upon exercise of a warrant will equal the sum of the tax basis of the exercised warrant and the exercise price. The holding period of the common stock acquired will begin on the date the warrant is exercised. It does not include the period during which the warrant was held.

Gain or loss from the sale or other disposition of a warrant will be capital gain or loss to its holder if the common stock to which the warrant relates would have been a capital asset in the holder's hands. This capital gain or loss will be long-term capital gain or loss if the holder has held the warrant for more than one year at the time of the sale, disposition or lapse. If we redeem a warrant, the holder generally will realize capital gain or loss. Individuals generally have a maximum federal income tax of 20% on long term capital gains. The deduction of capital losses is subject to limitations.

### *Sale of Common Stock*

A holder who sells common stock other than in connection with a tax free reorganization of involving us will recognize gain or loss in an amount equal to the difference between the amount realized and the holder's tax basis in the common stock. Generally, the holder's tax basis in the common stock will equal the portion of the unit price that was allocable to the common stock. If the common stock is a capital asset in the holder's hands, gain or loss upon the sale of the common stock will be a long-term or short-term capital gain or loss, depending on whether the common stock has been held for more than one year. Individuals generally have a maximum federal income tax of 20% on long-term capital gains. The deduction of capital losses is subject to limitations.

### *Expiration of Warrants Without Exercise*

If a holder of a warrant allows it to expire or lapse without exercise, the expiration or lapse will be treated as a sale or exchange of the warrant on the expiration date. The holder will have a loss equal to the amount of such holder's tax basis in the lapsed warrant. If the warrant is a capital asset in the hands of the holder, the loss will be a long-term or short-term capital loss, depending on whether the warrant was held for more than one year. The deduction of capital losses is subject to limitations.

### **Anti-takeover provisions of our charter documents**

Our certificate of incorporation and bylaws include a number of provisions that may have the effect of delaying or preventing a change of control of TASER:

- Our board is divided into three classes, with each class serving a three-year staggered term, so that one-third of the board is elected each year;
- The authorized number of our directors can be changed only by resolution of the board of directors;
- We can issue preferred stock without any vote or further action by stockholders;
- Any action required or permitted to be taken by our stockholders at an annual or a special meeting is valid only if it is properly brought before the meeting, and written stockholder action is valid only if unanimous; and
- Our bylaws limit persons who may call a special meeting of our stockholders.

These provisions may deter hostile takeovers or delay changes in control of our management, which could depress the market price of our securities.

### **Transfer agent and public warrant agent**

The transfer agent for our common stock and public warrants is US Stock Transfer Corporation, Glendale, California.

## SHARES ELIGIBLE FOR FUTURE SALE

### This offering

Upon completion of this offering, we expect to have 2,710,754 shares of common stock outstanding, assuming no exercise of outstanding options or warrants, or 2,890,754 shares if the underwriter's over-allotment is exercised in full. Of these shares, the 1,200,000 shares of common stock issued as part of the units sold in this offering will be freely tradeable without restrictions or further registration under the Securities Act of 1933, except that any shares purchased by our "affiliates," as that term is defined under the Securities Act, may generally only be sold in compliance with the limitations of Rule 144 under the Securities Act. The 1,200,000 shares of common stock underlying the public warrants issued as part of the units sold in this offering will also be freely tradeable after exercise of the warrants, except for shares held by our affiliates.

### Outstanding restricted stock

The 1,510,754 outstanding shares of common stock held by our existing stockholders are restricted securities within the meaning of Rule 144 and may not be sold in the absence of registration under the Securities Act unless an exemption from registration is available, including the exemption from registration offered by Rule 144. Holders of all of our outstanding restricted shares of common stock have agreed not to sell or otherwise dispose of any of their shares of common stock for a period of one year after completion of this offering, without the underwriter's prior written consent, subject to certain limited exceptions. Prior to the expiration of this lock-up period, no shares of our outstanding restricted common stock may be sold in the public market pursuant to Rule 144. After the expiration of this lock-up period, or earlier with the underwriter's prior written consent, all 1,510,754 of these outstanding restricted shares may be sold in the public market pursuant to Rule 144.

In general, under Rule 144, as currently in effect, beginning 90 days after the date of this prospectus, a person who has beneficially owned restricted shares for at least one year, including a person who may be deemed to be our affiliate, may sell within any three-month period a number of shares of common stock that does not exceed a specified maximum number of shares. This maximum is equal to the greater of 1% of the then outstanding shares of our common stock or the average weekly trading volume in the common stock during the four calendar weeks immediately preceding the sale. Sales under Rule 144 are also subject to restrictions relating to manner of sale, notice and availability of current public information about us. In addition, under Rule 144(k) of the Securities Act, a person who is not our affiliate, has not been an affiliate of ours within three months prior to the sale and has beneficially owned shares for at least two years would be entitled to sell such shares immediately without regard to volume limitations, manner of sale provisions, notice or other requirements of Rule 144.

### Preferred stock

As of March 15, 2001, we had no shares of preferred stock outstanding.

### Options

Beginning 90 days after the date of this prospectus, certain shares issued or issuable upon the exercise of options granted by us prior to the date of this prospectus will also be eligible for sale in the public market pursuant to Rule 701 under the Securities Act, except that 1,927,032 of these shares are subject to the lock-up agreements discussed above. Pursuant to Rule 701, persons who purchase shares upon exercise of options granted under a written compensatory plan or contract may sell such shares in reliance on Rule 144 without having to comply with the holding period requirements of Rule 144, and in the case of non-affiliates, without having to comply with the public information, volume limitation or notice provisions of Rule 144. As of March 15, 2001, we had options outstanding to purchase 434,322 shares of common stock which have not been exercised and which become exercisable at various times in the future. Any shares issued upon the exercise of these options will be eligible for sale pursuant to Rule 701.

We intend to file registration statements on Form S-8 under the Securities Act to register approximately 434,322 shares of our common stock issuable under our stock option plans. These registration statements are expected to be filed within three to six months after the completion of this offering. Shares of our common stock issued upon the exercise of stock options after the effective date of the Form S-8 registration statements will be eligible for resale in the public market without restriction, subject to Rule 144 limitations and the lock-up agreements discussed above.

### **Warrants**

As of March 15, 2001, we had warrants outstanding to purchase 52,727 shares of common stock which have not been exercised and which are currently exercisable. Any shares issued upon the exercise of these warrants will be eligible for sale pursuant to Rule 144, except that these shares are also subject to the lock-up agreements discussed above.

### **Underwriter's warrants**

In connection with this offering, we have agreed to issue to the underwriter warrants to purchase 80,000 units. The underwriter's warrants will be exercisable for units at any time during the four-year period commencing one year after the effective date of this offering. We will cause the registration statement to remain effective until the earlier of the time that all of the underwriter's warrants have been exercised and the date which is five years after the effective date of this offering. The common stock and warrants issued to the underwriter upon exercise of these warrants will be freely tradeable.

**UNDERWRITING**

Paulson Investment Company, Inc. is the underwriter of this offering. We and the underwriter have entered into an underwriting agreement with respect to the units being offered. In connection with this offering and subject to certain conditions, the underwriter named below has agreed to purchase, and we have agreed to sell, the number of units set forth opposite its name.

Underwriter	Number of Units
Paulson Investment Company, Inc.	800,000
Total	800,000

The underwriting agreement provides that the underwriter is obligated to purchase all of the units offered by this prospectus, other than those covered by the over-allotment option, if any units are purchased. The underwriting agreement also provides that the obligations of the underwriter to pay for and accept delivery of the units are subject to the approval of certain legal matters by counsel and certain other conditions. These conditions include the requirements that no stop order suspending the effectiveness of the registration statement be in effect and that no proceedings for such purpose have been instituted or threatened by the Securities and Exchange Commission.

The underwriter has advised us that it proposes to offer our units to the public initially at the offering price set forth on the cover page of this prospectus and to selected dealers at such price less a concession of not more than \$0.60 per unit. The underwriter and selected dealers may reallocate a concession to other dealers, including the underwriter, of not more than \$0.10 per unit. After completion of the initial public offering of the units, the offering price, the concessions to selected dealers and the reallocation to their dealers may be changed by the underwriter.

A limited number of units, not to exceed four percent of the units sold in this offering, will be allocated and sold to certain of our employees, friends and family members and to selected law enforcement officers as part of this offering. No specific number of units have been reserved for this purpose. The units sold to these purchasers will be sold at the initial public offering price of the units and will not be subject to a lock-up agreement.

The underwriter has informed us that it does not expect to confirm sales of our units offered by this prospectus to any accounts over which it exercises discretionary authority.

**Over-allotment option**

Pursuant to the underwriting agreement, we have granted the underwriter an option, exercisable for 45 days from the date of this prospectus, to purchase up to an additional 120,000 units on the same terms as the units being purchased by the underwriter from us. The underwriter may exercise the option solely to cover over-allotments, if any, in the sale of the units that the underwriter has agreed to purchase. If the over-allotment option is exercised in full, the total public offering price, underwriting discounts and commissions, and proceeds to us before offering expenses will be \$11,960,000, \$956,800 and \$11,003,200, respectively.

**Stabilization**

Until the distribution of the units offered by this prospectus is completed, rules of the Securities and Exchange Commission may limit the ability of the underwriter to bid for and to purchase units. As an exception to these rules, the underwriter may engage in transactions that stabilize the price of the units. The underwriter may engage in over-allotment sales, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934.

- Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Syndicate covering transactions involve purchases of the common stock and public warrants in the open market after the distribution has been completed in order to cover syndicate short positions. The underwriter may also elect to reduce any short position by exercising all or part of the over-allotment option to purchase additional units as described above.
- Penalty bids permit the underwriter to reclaim a selling concession from a syndicate member when the units originally sold by the syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions.

Short sales involve the sale by the underwriter of a greater number of shares than it is required to purchase in this offering. Covered short sales are sales made in an amount not greater than the underwriter's over-allotment option to purchase additional shares in this offering. In determining the source of shares to close out the covered short position, the underwriter will consider, among other things, the price of shares available for purchase in the open market as compared with the price at which it may purchase shares through the over-allotment option. Naked short sales are sales in excess of the over-allotment option. A naked short position is more likely to be created if the underwriter is concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in this offering.

In general, the purchase of a security to stabilize or to reduce a short position could cause the price of the security to be higher than it might be otherwise. These transactions may be effected on The Nasdaq SmallCap Market or otherwise. Neither we nor the underwriter can predict the direction or magnitude of any effect that the transactions described above may have on the price of the units. In addition, neither we nor the underwriter can represent that the underwriter will engage in these types of transactions or that these types of transactions, once commenced, will not be discontinued without notice.

### **Indemnification**

The underwriting agreement provides for indemnification between us and the underwriter against specified liabilities, including liabilities under the Securities Act, and for contribution by us and the underwriter to payments that may be required to be made with respect to those liabilities. We have been advised that, in the opinion of the Securities and Exchange Commission, indemnification for liabilities under the Securities Act is against public policy as expressed in the Securities Act and is therefore unenforceable.

### **Underwriter's compensation**

We have agreed to sell the units to the underwriter at the initial offering price of \$13.00, less the 8.0% underwriting discount. The underwriting agreement also provides that upon the closing of the sale of the units offered, the underwriter will be paid a nonaccountable expense allowance equal to 2.5 percent of the gross proceeds from the sale of the units offered by this prospectus, including the over-allotment option.

We have also agreed to issue warrants to the underwriter to purchase from us up to 80,000 units at an exercise price per unit equal to 120% of the offering price per unit. These warrants are exercisable during the four-year period beginning one year from the date of effectiveness of the registration statement. These warrants, and the securities underlying the warrants, are not transferable for one year following the effective date of the registration, except to an individual who is an officer or partner of the underwriter, by will or by the laws of descent and distribution, and are not redeemable. These warrants will have registration rights. We will cause the registration statement to remain effective until the earlier of the time that all of the underwriter's warrants have been exercised and the date which is five years after the

effective date of this offering. The common stock and warrants issued to the underwriter upon exercise of these warrants will be freely tradeable.

The holders of the underwriter's warrants will have, in that capacity, no voting, dividend or other stockholder rights. Any profit realized by the underwriter on the sale of the securities issuable upon exercise of the underwriter's warrants may be deemed to be additional underwriting compensation. The securities underlying the underwriter's warrants are being registered on the registration statement. During the term of the underwriter's warrants, the holders thereof are given the opportunity to profit from a rise in the market price of our common stock. We may find it more difficult to raise additional equity capital while the underwriter's warrants are outstanding. At any time at which the underwriter's warrants are likely to be exercised, we may be able to obtain additional equity capital on more favorable terms.

### **Lock-up agreements**

Our officers, directors and other stockholders have agreed that for a period of one year from the date this registration statement becomes effective that they will not sell, contract to sell, grant any option for the sale or otherwise dispose of any of our equity securities, or any securities convertible into or exercisable or exchangeable for our equity securities, other than through intra-family transfers or transfers to trusts for estate planning purposes, without the consent of the underwriter, which consent will not be unreasonably withheld. The underwriter may consent to an early release from the one-year lock-up period if in its opinion the market for the common stock would not be adversely impacted by such sales and in cases of an officer, director or other stockholder's financial emergency. We are unaware of any officer, director or current stockholder who intends to ask for consent to dispose of any of our equity securities during the lock-up period.

### **Determination of offering price**

Before this offering, there has been no public market for the units and the common stock and public warrants contained in the units. Accordingly, the initial public offering price of the units offered by this prospectus and the exercise price of the public warrants were determined by negotiation between us and the underwriter. Among the factors considered in determining the initial public offering price of the units and the exercise price of the public warrants were:

- our history and our prospects;
- the industry in which we operate;
- the status and development prospects for our proposed products and services;
- our past and present operating results;
- the previous experience of our executive officers; and
- the general condition of the securities markets at the time of this offering.

The offering price stated on the cover page of this prospectus should not be considered an indication of the actual value of the units. That price is subject to change as a result of market conditions and other factors, and we cannot assure you that the units, or the common stock and public warrants contained in the units, can be resold at or above the initial public offering price.

### **LEGAL MATTERS**

The validity of the securities being offered hereby will be passed upon on our behalf by Tonkon Torp LLP, Portland, Oregon. Certain legal matters will be passed upon for the underwriter by Weiss Jensen Ellis & Howard, P.C., Portland, Oregon.

## EXPERTS

The financial statements as of and for the years ended December 31, 1999 and 2000 included in this prospectus have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in auditing and accounting and in giving said reports.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form SB-2 under the Securities Act with the Securities and Exchange Commission with respect to the units offered hereby. This prospectus filed as part of the registration statement does not contain all of the information contained in the registration statement and exhibits thereto and reference is hereby made to such omitted information. Statements made in this registration statement are summaries of the terms of such referenced contracts, agreements or documents and are not necessarily complete. Reference is made to each such exhibit for a more complete description of the matters involved and such statements shall be deemed qualified in their entirety by such reference. The registration statement and the exhibits and schedules thereto filed with the Securities and Exchange Commission may be inspected by you at the Securities and Exchange Commission's principal office in Washington, D.C. Copies of all or any part of the registration statement may be obtained from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, (202) 942-8090, and at the Commission's regional offices located at Seven World Trade Center, 13th Floor, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 11400, Chicago, Illinois 60661. The Commission also maintains a website at <http://www.sec.gov> that contains reports, proxy statements and information statements and other information regarding registrants that file electronically with the Commission. For further information pertaining to us and the units offered by this prospectus, reference is made to the registration statement.

We intend to furnish our stockholders with annual reports containing financial statements audited by our independent public accountants.



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**TASER INTERNATIONAL, INC.**

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## 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, 1999 and 2000, and the related statements of operations, stockholders' deficit and cash flows for each of the two years in the period ended December 31, 2000. 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, 1999 and 2000, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Phoenix, Arizona  
April 30, 2001

**TASER INTERNATIONAL, INC.**

**BALANCE SHEETS  
 December 31, 1999 and 2000**

	<u>1999</u>	<u>2000</u>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 54,905	\$ 206,408
Accounts receivable, net of allowance of \$48,000 in 1999 and \$55,000 in 2000	121,921	312,681
Inventory	158,167	221,169
Prepays and other	14,043	24,535
	<hr/>	<hr/>
Total current assets	349,036	764,793
Property and Equipment, net	256,110	274,273
	<hr/>	<hr/>
Total assets	\$ 605,146	\$ 1,039,066
	<hr/>	<hr/>
<b>Liabilities and Stockholders' Deficit</b>		
Current Liabilities:		
Current portion of note payable	\$ 112,000	\$ 100,000
Current portion of notes payable to related parties	1,664,774	124,574
Current portion of capital lease obligations	19,176	22,171
Accounts payable and accrued liabilities	574,989	589,949
Customer deposits	62,317	539,329
Inventory financing payable	189,980	189,980
Accrued interest, primarily to related parties	138,942	268,134
	<hr/>	<hr/>
Total current liabilities	2,762,178	1,834,137
Notes Payable to Related Parties, net of current portion	74,781	2,778,219
Capital Lease Obligations, net of current portion	19,979	43,925
	<hr/>	<hr/>
Total liabilities	2,856,938	4,656,281
	<hr/>	<hr/>
Commitments and Contingencies		
Stockholders' Deficit:		
Preferred Stock, 0.00001 par value per share; 25 million shares authorized; 0 shares issued and outstanding at December 31, 1999 and 2000	—	—
Common stock, 0.00001 par value per share; 50 million shares authorized; 3,177,421 and 1,510,754 shares issued and outstanding at December 31, 1999 and 2000	32	32
Additional paid-in capital	4,068,814	4,256,558
Deferred compensation	—	(79,920)
Common Stock held in treasury, at cost, 0 and 1,666,667 shares at December 31, 1999 and 2000	—	(1,000,000)
Accumulated deficit	(6,320,638)	(6,793,885)
	<hr/>	<hr/>
Total stockholders' deficit	(2,251,792)	(3,617,215)
	<hr/>	<hr/>
Total liabilities and stockholders' deficit	\$ 605,146	\$ 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, 1999 and 2000**

	<b>1999</b>	<b>2000</b>
Net Sales	\$ 2,208,488	\$3,412,620
Cost of Products Sold:		
Direct manufacturing expense	1,001,082	1,350,175
Indirect manufacturing expense	1,087,404	488,214
	<hr/>	<hr/>
Gross margin	120,002	1,574,231
Sales, general and administrative expenses	1,442,613	1,613,979
Research and development expenses	64,227	7,137
	<hr/>	<hr/>
Loss from operations	(1,386,838)	(46,885)
Interest Expense	279,895	426,362
	<hr/>	<hr/>
Net Loss	\$(1,666,733)	\$ (473,247)
	<hr/>	<hr/>
Net losses per common and common equivalent share:		
Basic	\$ (0.54)	\$ (0.19)
Diluted	(0.54)	(0.19)
Weighted average number of common and common equivalent shares outstanding:		
Basic	3,076,410	2,482,976
Diluted	3,076,410	2,482,976

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

**TASER INTERNATIONAL, INC.**

**STATEMENTS OF STOCKHOLDERS' DEFICIT  
 For the Years Ended December 31, 1999 and 2000**

	Common Stock		Additional Paid-in Capital	Treasury Stock	
	Shares	Amount		Shares	Amount
Balance, December 31, 1998	1,359,239	\$ 14	\$2,567,432	—	\$ —
Shares sold for cash to stockholder	1,666,667	17	999,983	—	—
Issuance of common stock	151,515	1	499,999	—	—
Stock options granted for payment of consulting fees	—	—	1,400	—	—
Net loss	—	—	—	—	—
Balance, December 31, 1999	3,177,421	32	4,068,814	—	—
Repurchase of shares from Stockholder for note Payable	—	—	—	(1,666,667)	(1,000,000)
Stock options granted for payment of Board fee	—	—	79,920	—	—
Stock options granted for payment of consulting fee	—	—	13,917	—	—
Stock options and warrants granted for loan guarantees	—	—	93,907	—	—
Net loss	—	—	—	—	—
Balance, December 31, 2000	3,177,421	\$ 32	\$4,256,558	(1,666,667)	\$(1,000,000)

[Additional columns below]

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

	Deferred Compensation	Accumulated Deficit	Total Stockholders' Deficit
Balance, December 31, 1998	\$ —	\$(4,653,905)	\$(2,086,459)
Shares sold for cash to stockholder	—	—	1,000,000
Issuance of common stock	—	—	500,000
Stock options granted for payment of consulting fees	—	—	1,400
Net loss	—	(1,666,733)	(1,666,733)
Balance, December 31, 1999	—	(6,320,638)	(2,251,792)
Repurchase of shares from Stockholder for note Payable	—	—	(1,000,000)
Stock options granted for payment of Board fee	(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)	(473,247)
Balance, December 31, 2000	\$(79,920)	\$(6,793,885)	\$(3,617,215)

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

**TASER INTERNATIONAL, INC.**

**STATEMENTS OF CASH FLOWS  
 For the Years Ended December 31, 1999 and 2000**

	<u>1999</u>	<u>2000</u>
Cash Flows from Operating Activities:		
Net loss	\$(1,666,733)	\$ (473,247)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities —		
Depreciation	179,453	124,803
Change in assets and liabilities:		
Accounts receivable	90,474	(190,760)
Inventory	607,165	(63,002)
Prepays and other	16,598	(10,492)
Accounts payable and accrued liabilities	(95,150)	14,960
Customer deposits	62,317	477,012
Accrued interest	101,650	129,192
	<u>(704,226)</u>	<u>8,466</u>
Net cash (used in) provided by operating activities		
Cash Flows from Investing Activities:		
Purchases of property and equipment, net	(133,760)	(99,759)
Cash Flows from Financing Activities:		
Net payments under capital leases	(19,195)	(16,266)
Payments on note payable	—	(12,000)
Net proceeds from notes payable to related parties	728,344	163,238
Net borrowings (payments) under line of credit	(1,329,635)	—
Issuance of common stock	1,500,000	—
Deferred compensation	—	(79,920)
Compensatory stock options	1,400	187,744
	<u>880,914</u>	<u>242,796</u>
Net cash provided by financing activities		
Net Increase in Cash and Cash Equivalents	42,928	151,503
Cash and Cash Equivalents, beginning of year	11,977	54,905
	<u>\$ 54,905</u>	<u>\$ 206,408</u>
Cash and Cash Equivalents, end of year		
Supplemental Disclosure:		
Cash paid for interest	\$ 179,171	\$ 239,552
Noncash Investing and Financing Activities:		
Acquisition of property and equipment under capital leases	\$ 33,635	\$ 43,207
Exchange of shares from related party for note payable	\$ —	\$1,000,000
Fair value of stock options issued for payment of consulting fees	\$ 1,400	\$ 13,917
Fair value of stock options and warrants issued for loan guarantees	\$ 0	\$ 93,907
Fair value of stock options and warrants issued for Board fees	\$ 0	\$ 79,920

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

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 1999 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. During the period leading up to the start of production, the Company's activities included raising capital, hiring key personnel and obtaining the necessary licenses. All production costs during the period from inception through December 31, 1995, consisting of research and development activities and limited product manufacturing, were expensed as incurred.

Through 1996, the Company was developing its signature product, the AIR TASER, and establishing the marketing channels to promote retail sales. Significant nonrecurring expenditures were incurred, including research and development costs, the development of marketing and sales materials, the purchase of the licensing rights to the TASER technology and trademark, and the relocation of the manufacturing operations to Mexico, which resulted in significant operating losses.

In 1997, the Company introduced a new product, the AUTO TASER. As a result of significant expenditures for research and development, manufacturing difficulties, scrap, engineering changes and other costs associated with the start up of this product line, the Company continued to experience operating losses in 1997, 1998 and 1999. This product line was discontinued August 1, 1999.

In 1998, the Company formally changed its name from Air Taser, Inc. to TASER International, Inc. and began development of its ADVANCED TASER product, which was introduced for sale in December 1999.

*b. Financing*

The Company has been financed primarily from advances from and investments by major stockholders and bank financing guaranteed by major stockholders. Since inception, the Company has sustained significant operating losses and has, at December 31, 2000, a deficit in working capital of approximately \$1,069,000. In addition, new capital will be required to fund further product development, market penetration, working capital and future operations. The Company believes that additional financing will be available under terms and conditions that are acceptable to it. However, there can be no assurance that additional financing will be available.

Subsequent to year end, the Company closed a loan for \$500,000 from an unrelated private lender, and management believes its operating cash flow throughout 2001 will be positive. In addition, in the event the Company's contemplated initial public offering is not completed, the Company has an agreement with two major stockholders whereby the Company may, at the Company's sole option, extend the maturity date of the stockholders' outstanding notes for a period not to exceed 24 months. The Company may also, at the Company's sole option, retire such debt at any time without penalty. In addition, a major stockholder has established a non-revocable letter of credit in the amount of \$500,000 on the Company's behalf that the Company can use to fund any shortfalls in the Company's monthly capital requirements. The letter of credit expires at the earlier of the closing of this offering or December 31, 2001.

*c. Initial Public Offering*

The Company is contemplating an initial public offering (IPO) of 800,000 units at an estimated 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 (Note 11).

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*d. 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.

*b. Inventory*

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

	1999	2000
Raw materials and work-in-process	\$131,007	\$153,506
Finished goods	27,160	67,663
	\$158,167	\$221,169

Inventory cost in 1999 and 2000 includes primarily the cost paid to an outsourced manufacturer, which included charges for material, labor and overhead.

*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, 2000.

*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.

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*f. Cost of Products Sold*

During 2000, 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. Prior to August 1999, 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.

At December 31, 1999, included within cost of products sold is a one-time charge related to the phase-out of the AUTO TASER product line of approximately \$355,000.

*g. Revenue Recognition*

The Company recognizes revenues when products are shipped 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 \$24,652 and \$35,035 in 1999 and 2000, respectively. Advertising costs are included in sales, general and administrative expenses in the statements of operations.

*j. Warranty Costs*

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

*k. Research and Development Expenses*

The Company expenses research and development costs as incurred. The Company incurred product development expense of \$64,227 and \$7,137 in 1999 and 2000, respectively.

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*l. Income Taxes*

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

Subsequent to December 31, 2000, 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 are not available to reduce future taxes payable by the Company as a C corporation.

Upon termination of the S status, the Company is 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. Management does not expect such implementation to have a significant impact on the Company.

Had the Company been a C corporation in 1999 and 2000, no federal or state income tax benefit would have been recorded for the NOLs discussed above because their realizability could not be determined as more likely than not. 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 will be 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. Provision for bad debts was \$32,250 and \$72,905 at December 31, 1999 and 2000, respectively.

For the years ended December 31, 1999 and 2000, sales by product were as follows:

	<u>1999</u>	<u>2000</u>
	(000s omitted)	
Sales by product line:		
AIR TASER	\$1,311	\$1,241
AUTO TASER	601	24
ADVANCED TASER	80	2,099
Other	216	49
	<u>\$2,208</u>	<u>\$3,413</u>
Geographic:		
United States	52%	82%
Other countries	48	18
	<u>100%</u>	<u>100%</u>

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

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*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 does not have any financial instruments with off-balance sheet risk.

The Company has notes payable to stockholders at varying terms which, based on the short-term nature of the notes and financing obtained from outside sources, the Company believes are stated at their estimated fair market value.

*o. Segment Information*

The Company has 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 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, 1999 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 144,875 and 186,049 options and warrants were not included in the computation of diluted earnings per share for 1999 and 2000, respectively, as their effect would be anti-dilutive.

*s. Recent Accounting Pronouncements*

In June 1998, the Financial 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

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

derivative instruments nor does it engage in hedging activities. The Company does not believe the new standard will impact its financial statements.

**3. Property and Equipment**

Property and equipment consist of the following at December 31, 1999 and 2000:

	Estimated Useful Lives	1999	2000
Leasehold improvements	5 years	\$ —	\$ 5,000
Production equipment	5 years	335,050	380,326
Telephone and office equipment	5 years	31,535	31,535
Computer equipment	3-5 years	332,460	383,492
Furniture and fixtures	5-7 years	22,767	57,542
		721,812	857,895
Less: accumulated depreciation		(465,702)	(583,622)
		<u>\$ 256,110</u>	<u>\$ 274,273</u>

**4. 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, 1999 and 2000, was \$147,655 and \$93,241, respectively. Future minimum lease payments under operating leases as of December 31, 2000, are as follows:

2001	\$144,481
2002	142,643
2003	146,362
2004	150,193
2005	154,139
Thereafter	143,156
Total	<u>\$880,974</u>

*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 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.

In February 2000, the Company was named a defendant in a suit with a former distributor in the state of New York. The suit was dismissed in February 2001 for lack of jurisdiction of the New York

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

court. In March 2001, the former distributor appealed the dismissal. Management believes this matter will be resolved without a material 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 remaining amounts under the contract upon termination which could total \$510,000.

**5. Income Taxes**

Concurrently with the change in tax status as discussed in Note 2, the Company will adopt 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 the deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Management believes that the following estimated deferred tax assets and liabilities would exist at December 31, 2000, if the date of tax status change was effective on December 31, 2000. The Company would provide a full valuation reserve for the deferred tax asset because the Company has not sustained taxable net income in any periods at sufficient levels to assure realization:

Deferred tax assets:	
Nondeductible reserves for bad debts, sales returns and other	\$ 42,171
Depreciation	26,646
Valuation reserve	(68,817)
	—————
	\$ —
	—————

**6. Lines of Credit**

During 1999, the Company had a line of credit with a bank with a total commitment of up to \$1,500,000. The line was used to fund the Company's working capital needs, and was personally guaranteed by two stockholders, had an interest rate of 10% and was secured by virtually all of the assets of the Company. At December 31, 1998, borrowings under the line were \$1,329,600. The line matured and was paid in full on February 15, 1999.

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 our assets other than our intellectual property, and has an interest rate of bank prime plus 1%. The line matures on April 30, 2002 and requires the Company to make monthly interest payments only until such date.

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**7. 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 bears interest at 10% and is paid monthly and matured March 31, 2000. As of December 31, 2000, no amounts of principal have been paid on this note and the balance is recorded as a current payable.

**8. Notes Payable**

At December 31, 1999 and 2000 debt obligations were as follows:

	1999	2000
Notes payable to stockholders, interest at varying rates of 9% to 27%, principal and interest due through July 1, 2002	\$ 1,678,010	\$2,878,010
Note payable to stockholder, interest at 9.18% payable monthly, principal matures July 15, 2001	61,545	24,783
Note payable to unrelated private lender, interest at 11%, payable monthly, principal matured December 31, 2000	112,000	100,000
Capital leases, interest at varying rates of 7% to 23%, due in monthly installments through December 2005, secured by equipment	39,155	66,096
	1,890,710	3,068,889
Less: Current portion	(1,795,950)	(246,745)
Total	\$ 94,760	\$2,822,144

At December 31, 2000, aggregate annual maturities of long-term debt and capital leases were as follows:

2001	\$ 246,745
2002	2,809,359
2003	5,308
2004	3,589
2005	3,888
	\$3,068,889

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 amounts 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 amounts 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

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**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

1,666,667 shares of common stock to Mr. Culver at a fair market value of \$0.60 per share. The stock issued 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.

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.

In the event the planned IPO is not completed, the Company has an agreement with Mr. Smith and Mr. Culver whereby the Company may at the Company's sole option, extend the maturity date of the outstanding notes for a period not to exceed 24 months. The Company, at the Company's sole option, may retire the debt at any time without penalty.

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

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 matures June 30, 2002.

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 matures the earlier of the close of the IPO or July 1, 2002.

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. Culver, is secured by assets of Mr. Culver and substantially all of our assets other than our intellectual property, and has an interest rate of bank prime plus 1%. The line matures on April 30, 2002 and requires the Company to make monthly interest payments only until such date.

## **9. 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 \$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.

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

*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, 2000, the Company has warrants outstanding to purchase 42,747 shares of common stock at prices ranging from \$0.22 to \$21.00 per share with an average exercise price of \$3.48 per share and a weighted average useful life of 3.58 years. A summary of warrants outstanding and exercisable at December 31, 2000 is presented in the table below:

Weighted Average Exercise Price	Outstanding	
	Warrants	Expiration Date
\$21.00	3,333	7/31/05
0.22	8,334	1/1/03
0.22	8,333	1/1/03
3.30	22,727	7/31/05
<u>\$ 3.48</u>	<u>42,727</u>	

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 as additional paid-in capital and the related 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 \$9,650 will be recorded as additional paid-in capital and the related expense recorded in the year in which the service is provided or ratably over the life of the debt.

*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, 13,333 options at an exercise price of \$3.30 per share. These options have been recorded at their estimated fair value of \$79,920 as deferred compensation in the accompanying balance sheets and will be amortized into expense over the next four years.

*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.

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

The directors of the Company adopted the Company's 1998-1999 Stock Option Plan. The 1998-1999 Plan was administered by the Board of Directors which determined the employees, directors or consultants which will be granted options and the terms of the options, including the vesting provision which typically is over a three-year period.

The 1998-1999 Plan was terminated by the Company and options granted under it were voluntarily canceled by the recipients or terminated in connection with termination of the recipients' employment.

The 1999 Plan provides for officers, key employees and consultants to receive nontransferable stock options to purchase up to 833,333 shares of the Company's common stock. The term of the options may not exceed ten years although most options granted had an initial expiration period of between five and seven years. In 1998, the Company had a similar plan which was cancelled in 1999.

In 1999, the Company issued 16,667 five-year options to Mr. Phillips W. Smith at an exercise price of \$0.66 per share for consulting services, and 3,958 ten-year options to an unrelated private lender at an exercise price of \$7.20 per share as consideration for his financing the Company's purchase of inventory. In 2000, the Company issued 4,697 ten-year options to a non-employee at an exercise price of \$3.30 per share for consulting services, and 3,333 five-year options to a stockholder at an exercise price of \$0.22 per share in connection with his provision of services and a loan to the Company. These options have been recorded at fair value as additional paid-in capital and the related expense recorded in the year in which the service is provided in the accompanying financial statements.

A summary of the Company's stock options at December 31, 1999 and 2000 and for the years then ended is presented in the table below:

	1999		2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of year	65,334	\$6.37	124,875	\$0.82
Granted	121,458	0.83	21,863	2.83
Exercised	—	—	—	—
Expired/terminated	(61,917)	6.71	(3,416)	0.22
Options outstanding, end of year	124,875	\$0.82	143,322	\$1.14
Exercisable at end of year	42,352	\$1.20	84,979	\$1.02

Stock options outstanding and exercisable at December 31, 2000 are as follows:

Average Exercise Price	Outstanding		Exercisable	
	Options	Average Life(a)	Options	
\$0.22	3,333	4.50	3,333	
0.60	80,834	7.52	50,718	
0.66	36,667	3.00	23,426	
7.20	3,958	9.74	3,958	
3.30	18,530	8.42	3,544	
\$1.02	143,322	6.60	84,979	

(a) Average contractual life remaining in years.

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

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 6.64 years. Had the Company's compensation cost been determined using the fair value of approximately \$8,000 in 1999 and \$8,300 in 2000, based on the method of accounting prescribed by SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company's net loss and net loss per common share would have been adjusted to the following pro forma amounts (amounts in thousands except per common share amounts):

	<u>Year Ended December 31,</u>	
	<u>1999</u>	<u>2000</u>
Net loss available to common stockholders:		
As reported	\$(1,667)	\$ (406)
Pro forma	(1,675)	(414)
Basic and diluted net loss per common share:		
As reported	\$ (0.54)	\$(0.16)
Pro forma	(0.54)	(0.17)

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 February 2001, the Company granted 291,000 ten-year options to employees, 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 cost associated with the option granted to the consultant is approximately \$3,100.

**10. Loss per Share**

Basic net loss per 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 years ended December 31, 1999 and 2000, the Company's common stock options and warrants were anti-dilutive.

Loss per share is calculated as follows for the year ended December 31:

	<u>1999</u>	<u>2000</u>
<b>Basic:</b>		
Net loss	\$(1,666,733)	\$ (473,247)
Weighted average shares outstanding	3,076,410	2,482,976
Net loss per share	<u>\$ (0.54)</u>	<u>\$ (0.19)</u>
<b>Diluted:</b>		
Net loss	\$(1,666,733)	\$ (473,247)
Weighted average shares used in basic calculation	3,076,410	2,482,976
Stock options and warrants	0	0
Weighted average common and common equivalent shares outstanding	3,076,410	2,482,976
Net loss per share	<u>\$ (0.54)</u>	<u>\$ (0.19)</u>

**TASER INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS — (Continued)**

**11. Subsequent Event**

The Company has filed a registration statement on Form SB-2 offering 800,000 units at an estimated initial offering 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. Also, the Company intends to issue to the IPO's underwriter warrants which enable the underwriter to acquire 80,000 units for 120% of the IPO unit offering price.

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**You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from the information contained in this prospectus. We are offering to sell, and seeking offers to buy, units only in jurisdictions in which offers and sales are permitted.**

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**Until June 2, 2001 (25 days after the date of this prospectus), all broker-dealers that effect the transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.**

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**800,000 UNITS**



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**PROSPECTUS**

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**PAULSON INVESTMENT  
COMPANY, INC.**

May 8, 2001

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the Corporation), business address and telephone number, residence address and telephone number, and the number of shares of each class of stock of the Corporation beneficially owned by that stockholder; (3) any interest of the stockholder in the proposed business; (4) the name or names of each person nominated by the stockholder to be elected or re-elected as a director, if any; and (5) with respect to each nominee, that nominee's name, business address and telephone number, and residence address and telephone number, the number of shares, if any, of each class of stock of the Corporation owned directly and beneficially by that nominee, and all information relating to that nominee that is required to be disclosed in solicitations of proxies for elections of directors, or is otherwise required, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, or any provision of law subsequently replacing Regulation 14A, together with a duly acknowledged letter signed by the nominee stating his or her acceptance of the nomination by that stockholder, stating his or her intention to serve as a director if elected, and consenting to being named as a nominee for director in any proxy statement relating to such election. The person presiding at the annual meeting shall determine whether business (including the nomination of any person as a director) has been properly brought before the meeting and, if the facts so warrant, shall not permit any business (or voting with respect to any particular nominee) to be transacted that has not been properly brought before the meeting. Notwithstanding any other provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of the holders of not less than 66.67% of the voting power of the then outstanding shares of capital stock entitled to vote thereon (the "Voting Stock"), voting together as a single class, shall be required to amend or repeal, or to adopt a provision inconsistent with, this Section 2.03-a.  
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Section 2.03-b. Date and Time. Annual meetings of stockholders shall be held at such date and time as shall be designated by the Board of Directors and stated in the notice of the meeting.

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

Section 2.04. Special Meetings.

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Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may only be called and proposed by: (i) the Chairman of the Board; (ii) the Chief Executive Officer; (iii) the holder(s) of a majority of the voting power of the Voting Stock; or (iv) the Board of Directors pursuant to a resolution adopted by a majority of the then-authorized number of directors. Such request shall state the purpose or purposes of the proposed meeting.  
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Section 2.05. Purpose of Special Meeting.

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

Section 2.06. Notice of Meetings.

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

Section 2.07. Waiver of Notice.

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

Section 2.08. Quorum; Adjournment.

The holders of a majority of the voting power of all shares entitled to vote, present in person or represented by proxy, shall constitute a quorum for the transaction of all business at meetings of the stockholders, except as may be otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the original meeting in accordance with the notice thereof. If a quorum is present when a duly called or held meeting is convened, the stockholders present in person or represented by proxy may continue to transact business until adjournment notwithstanding the withdrawal of enough stockholders originally present in person or by proxy to leave less than a quorum, and for the purposes of voting pursuant to Section 2.09 hereof, stockholders holding a majority of the voting power of all shares entitled to vote shall be deemed to be present in person.

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Section 2.09. Vote Required.

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

Section 2.10. Voting Rights.

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

Section 2.11. Proxies.

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

An appointment of a proxy or proxies for shares held jointly by two or more stockholders is valid if signed by any one of them, unless and until the Corporation receives from any one of those stockholders written notice denying the authority of such other person or persons to appoint a proxy or proxies or appointing a different proxy or proxies, in which case no proxy shall be appointed unless the instrument shall otherwise provide. No proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. Subject to the above, any duly executed proxy shall continue in full force and effect and shall not be revoked unless written notice of its revocation or a duly executed proxy bearing a later date is filed with the Secretary of the Corporation. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable proxy.

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Section 2.12. Action in Writing.

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

Section 2.13. Closing of Books; Record Date.

The Board of Directors may fix, or authorize an officer to fix, a date, not more than sixty (60) nor less than ten (10) days preceding the date of any meeting of the stockholders of the Corporation, as a record date for the determination of the stockholders of record on the date so fixed or their legal representatives shall be entitled to notice of and to vote at such meeting, notwithstanding any transfer of shares on the books of the Corporation against the transfer of shares during the whole or any part of such period.

ARTICLE III: DIRECTORS

Section 3.01. General Powers.

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

Section 3.02. Number and Qualification.

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

Section 3.03. Classes and Terms.

The Board of Directors of the Corporation shall be divided into three classes designated Class A, Class B, and Class C, respectively, all as nearly equal in number as possible, with each director then in office receiving the classification that at least a majority of the Board of Directors designates. The initial term of office of directors of Class A shall expire at the annual meeting of stockholders of the Corporation in 2001, of Class B shall expire at the annual meeting of stockholders of the Corporation in 2002, and of Class C shall expire at the annual meeting of stockholders of the Corporation in 2003, and in all cases a director shall serve until the director's successor is elected and qualified or until his earlier death, resignation or removal. At each annual meeting of stockholders beginning with the annual meeting of

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stockholders in 2001, each director elected to succeed a director whose term is then expiring shall hold office until the third annual meeting of stockholders after his or her election and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. If the number of directors that constitutes the whole Board of Directors is changed as permitted by the Certificate of Incorporation or these Bylaws, the majority of the whole Board of Directors that adopts the change shall also fix and determine the number of directors comprising each class; provided, however, that any increase or decrease in the number of directors shall be apportioned among the classes as equally as possible. Notwithstanding any provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of 66.67% of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Section 3.03.  
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Section 3.04. Vacancies.

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Vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office, or other cause, and newly-created directorships resulting from any increase in the authorized number of directors, may be filled by no less than a majority vote of the remaining directors then in office, though less than a quorum, who are designated to represent the same class or classes of stockholders that the vacant position, when filled, is to represent or by the sole remaining director (but not by the stockholders except as required by law); provided, however, that, with respect to any directorship to be filled by the Board of Directors by reason of an increase in the number of directors: (a) such directorship shall be for a term of office continuing only until the next election of one or more directors by the stockholders; and (b) the Board of Directors may not fill more than two such directorships during the period between any two successive annual meetings of stockholders. Each director chosen in accordance with this provision shall receive the classification of the vacant directorship to which he or she has been appointed or, if it is a newly-created directorship, shall receive the classification that at least a majority of the Board of Directors designates and shall hold office until the first meeting of stockholders held after his or her election for the purpose of electing directors of that classification and until his or her successor is elected and qualified or until his or her earlier death, resignation, or removal from office. Notwithstanding any provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of 66.67% of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Section 3.04.  
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Section 3.05. Meetings.

Section 3.05-a. Place of Meetings. The Board of Directors may hold meetings, both regular and special, either within or without the State of Delaware.

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

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

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

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

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

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

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

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

Section 3.06. Committees.

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

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

(a) Approving or adopting, or recommending to the stockholders any action or matter expressly required by law to be submitted to stockholders for approval; or

(b) Adopting, amending or repealing any bylaw of the Corporation.

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

Section 3.07. Telephone Conference Meetings.

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

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Section 3.08. Compensation.

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

Section 3.09. Limitation of Director Liability.

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

Section 3.10. Resignation and Removal.

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

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ARTICLE IV: OFFICERS

Section 4.01. Selection: Qualifications.

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

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

Section 4.02. Salaries.

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

Section 4.03. Term of Office.

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

Section 4.04. Chairman of the Board.

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

Section 4.05. Chief Executive Officer.

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

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Section 4.06. President.

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

Section 4.07. Vice-Presidents.

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

Section 4.08. Secretary and Assistant Secretary.

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

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

Section 4.09. Chief Financial Officer.

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

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

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

#### ARTICLE V. CERTIFICATES FOR SHARES

##### Section 5.01. Issuance of Shares and Fractional Shares.

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

##### Section 5.02. Form of Certificate.

The shares of the Corporation shall be represented by certificates, provided that the Board of Directors of the Corporation may resolve that some or all of any or all classes or series of its stock will be uncertificated shares as provided in Section 5.06. Certificates shall be signed by the Chairman of the Board or the President and by the Secretary or Assistant Secretary of the Corporation, certifying the number of shares of capital stock owned by him in the Corporation. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the designations, preferences, and relative, participating, optional, or other special rights of the various classes of stock or series thereof and the qualifications, limitations, or restrictions of such rights, together with a statement of the authority of the Board of Directors to determine the relative rights and preferences of subsequent classes or series, shall be set forth in full on the face or back of the certificate which the Corporation shall issue to represent such stock, or, in lieu thereof, such certificate shall contain a statement that the stock is, or may be, subject to certain rights, preferences, or restrictions and that a statement of the same will be furnished without charge by the Corporation upon request by any stockholder. Certificates representing the shares of the capital stock of the Corporation shall be in such form not inconsistent with law or the Certificate of Incorporation or these Bylaws as shall be determined by the Board of Directors.

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Section 5.03. Facsimile Signatures.

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

Section 5.04. Lost, Stolen, or Destroyed Certificates.

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

Section 5.05. Transfers of Stock.

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

Section 5.06. Uncertificated Shares.

Unless prohibited by the Certificate of Incorporation or these Bylaws, some or all of any or all classes and series of the Corporation's shares may be uncertificated shares. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares, such uncertificated shares shall be canceled and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the Corporation. Within a reasonable time after the issuance or

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transfer of uncertificated shares, the Corporation shall send to the new stockholder the information required by Section 5.02 to be stated on certificates. If this Corporation becomes a publicly held corporation which adopts, in compliance with Section 17 of the Securities Exchange Act of 1934, a system of issuance, recordation, and transfer of its shares by electronic or other means not involving an issuance of certificates, this information is not required to be sent to new stockholders.

Section 5.07. Closing of Transfer Books: Record Date.

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

Section 5.08. Registered Stockholders.

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

Section 5.09. Stock Options and Agreements.

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

ARTICLE VI: DIVIDENDS

Section 6.01. Method of Payment.

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

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Section 6.02. Closing of Books: Record Date.

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

Section 6.03. Reserves.

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

ARTICLE VII: CHECKS

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

ARTICLE VIII: CORPORATE SEAL

The Corporation shall have no corporate seal.

ARTICLE IX: FISCAL YEAR

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

ARTICLE X: AMENDMENTS

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

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ARTICLE XI: BOOKS AND RECORDS

Section 11.01. Books and Records.

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

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

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

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

Section 11.02. Computerized Records.

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

Section 11.03. Examination and Copying by Stockholders.

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

ARTICLE XII: LOANS AND ADVANCES

Section 12.01. Loans, Guarantees, and Suretyship.

The Corporation may lend money to, guarantee an obligation of, become a surety for, or otherwise financially assist a person, if the transaction, or a class of transactions to which the transaction belongs, is approved by the affirmative vote of a majority of the directors present at a lawfully convened meeting and such action: (a) is in the usual and regular course of business of the Corporation; (b) is with, or for the benefit of, a related corporation, an organization with which the Corporation has the power to make donations; (c) is with, or for the benefit of, an officer or other employee of the Corporation or a subsidiary, including an officer or employee who is a director of the Corporation or a subsidiary, and may reasonably be expected, in the judgment of the Board of Directors, to benefit the Corporation; or (d) has been approved by the

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affirmative vote of the holders of seventy-five percent (75%) of the Voting Stock, voting together as a single class. The loan, guarantee, or other assistance may be with or without interest and may be unsecured or may be secured in any manner that a majority of the Board of Directors approves, including, without limitation, a pledge of or other security interest in shares of the Corporation.

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

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

ARTICLE XIII: INDEMNIFICATION

Section 13.01. Directors and Officers

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

Section 13.01-b. Indemnity in Proceedings by or in the Right of the Corporation. The Corporation shall indemnify its directors and officers in accordance with the provisions of this Section 13.01-b if the director or officer was or is a party to, or is threatened to be made a party to, any proceeding by or in the right of the Corporation to procure a judgment in its favor, against all expenses actually and reasonably incurred by the director or officer in connection with the defense or settlement of such proceeding if the director or officer acted in good faith and in a manner the director or officer reasonably believed was in or not opposed to the best interests of the corporation; provided, however, that the director or officer shall not be entitled to indemnification under this Section 13.01-b: (1) in connection with any proceeding in which the director or officer has been adjudged liable to the Corporation unless and only to the extent that the court conducting such proceeding, or the Delaware Court of Chancery, determines

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upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the director or officer is fairly and reasonably entitled to indemnification for such expenses as such court shall deem proper, or (2) in connection with any proceeding (or part thereof) initiated by such person or any proceeding by such person against the Corporation or its directors, officers, employees or other agents unless (A) such indemnification is expressly required to be made by law, (B) the proceeding was authorized by the Board of Directors, or (C) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the Delaware General Corporation Law.

Section 13.02. Employees and Other Agents

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

Section 13.03. Good Faith.

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

1. one or more officers or employees of the Corporation whom the director or officer believed to be reliable and competent in the matters presented;

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

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

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

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

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#### Section 13.04. Advances of Expenses

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

#### Section 13.05. Enforcement

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

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Section 13.06. Non-Exclusivity of Rights

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

Section 13.07. Survival of Rights

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

Section 13.08. Insurance

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

Section 13.09. Amendments

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

Section 13.10. Savings Clause

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

Section 13.11. Certain Definitions

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

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

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

Section 13.11-c. References to "OTHER ENTERPRISE" include, without limitation, employee benefit plans; references to "FINES" include, without limitation, any excise taxes assessed on a person with respect to any employee benefit plan; references to "SERVING AT THE REQUEST OF THE Corporation" include, without limitation, any service as a director, officer, employee or agent which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or its beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "NOT OPPOSED TO THE BEST INTERESTS OF THE CORPORATION" as referred to in this Article XIII.

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

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

#### Section 13.12. Notification and Defense of Claim

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

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

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

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

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

#### Section 13.13. Exclusions

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

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Section 13.14. Subrogation

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

ARTICLE XIV: DEFINITIONS AND USAGE

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

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

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Dated: April 24, 2001.

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/s/ Kathleen C. Hanrahan

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Kathleen C. Hanrahan, Secretary

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Bylaws-Taser International, Inc.  
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Exhibit 4.3

VOID AFTER 5:00 P.M. PACIFIC TIME ON \_\_\_\_\_, 2006

WARRANTS TO PURCHASE COMMON STOCK

W-\_\_\_\_\_ Warrants

TASER INTERNATIONAL, INC.  
CUSIP \_\_\_\_\_

THIS CERTIFIES THAT

or registered assigns, is the registered holder of the number of Warrants (the "Warrants") set forth above. Each Warrant entitles the holder thereof to purchase from TASER International, Inc., a corporation incorporated under the laws of the state of Delaware (the "Company"), subject to the terms and conditions set forth hereinafter and in the Warrant and Unit Agreement hereinafter more fully described (the "Warrant Agreement"), at any time on or before the close of business on \_\_\_\_\_, 2006 or, if such Warrant is redeemed as provided in the Warrant Agreement, at any time prior to the effective time of such redemption (the "Expiration Date"), one fully paid and non-assessable share of Common Stock of the Company (the "Common Stock") upon presentation and surrender of this Warrant Certificate, with the instructions for the registration and delivery of Common Stock filled in, at the stock transfer office in Glendale, California, of U.S. Stock Transfer Corporation, Warrant Agent of the Company (the "Warrant Agent") or of its successor warrant agent or, if there be no successor warrant agent, at the corporate offices of the Company, and upon payment of the Exercise Price (as defined in the Warrant Agreement) and any applicable taxes paid either in cash, or by certified or official bank check, payable in lawful money of the United States of America to the order of the Company. Each Warrant entitles the holder to purchase one share of Common Stock initially for one hundred ten percent (110%) of: two-thirds of the Initial Public Offering price of the Units (the "Exercise Price"). The number and kind of securities or other property for which the Warrants are exercisable are subject to further adjustment in certain events, such as mergers, splits, stock dividends, recapitalizations and the like, to prevent dilution. Upon 30 days notice, the Company may redeem any or all outstanding and unexercised Warrants at any time if the basic net income per share of Common Stock as confirmed by an audit conducted in accordance with generally accepted accounting principles applicable in the United States (which such audit may be conducted with respect to any fiscal year of the Company or any other 12-month period ending on the last day of a fiscal quarter of the Company, in the Company's sole discretion), for an audited 12-month period preceding the date of such notice is equal to or greater than \$1.00, at a price of \$0.25 per Warrant. All Warrants not theretofore exercised or redeemed will expire on \_\_\_\_\_, 2006.

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This Warrant Certificate is subject to all of the terms, provisions and conditions of the Warrant Agreement, dated as of \_\_\_\_\_, 2001 (the "Warrant Agreement"), between the Company and the Warrant Agent, to all of which terms, provisions and conditions the registered holder of this Warrant Certificate consents by acceptance hereof. The Warrant Agreement is incorporated herein by reference and made a part hereof and reference is made to the Warrant Agreement for a full description of the rights, limitations of rights, obligations, duties and immunities of the Warrant Agent, the Company and the holders of the Warrant Certificates. Copies of the Warrant Agreement are available for inspection at the stock transfer office of the Warrant Agent or may be obtained upon written request addressed to the Company at 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260, Attention: Chief Financial Officer.

The Company shall not be required upon the exercise of the Warrants evidenced by this Warrant Certificate to issue fractions of Warrants, Common Stock or other securities, but shall make adjustment therefor in cash on the basis of the current market value of any fractional interest as provided in the Warrant Agreement.

In certain cases, the sale of securities by the Company upon exercise of Warrants would violate the securities laws of the United States, certain states thereof or other jurisdictions. The Company has agreed to use all commercially reasonable efforts to cause a registration statement to continue to be effective during the term of the Warrants with respect to such sales under the Securities Act of 1933, as amended, and to take such action under the laws of various states as may be required to cause the sale of securities upon exercise to be lawful. However, the Company will not be required to honor the exercise of Warrants if, in the opinion of the Board of Directors, upon advice of counsel, the sale of securities upon such exercise would be unlawful. In certain cases, the Company may, but is not required to, purchase Warrants submitted for exercise for a cash price equal to the difference between the market price of the securities obtainable upon such exercise and the exercise price of such Warrants.

This Warrant Certificate, with or without other Warrant Certificates, upon surrender to the Warrant Agent, any successor warrant agent or, in the absence of any successor warrant agent, at the corporate offices of the Company, may be exchanged for another Warrant Certificate or Certificates evidencing in the aggregate the same number of Warrants as the Warrant Certificate or Certificates so surrendered. If the Warrants evidenced by this Warrant Certificate shall be exercised in part, the holder hereof shall be entitled to receive upon surrender hereof another Warrant Certificate or Certificates evidencing the number of Warrants not so exercised.

No holder of this Warrant Certificate, as such, shall be entitled to vote, receive dividends or be deemed the holder of Common Stock or any other securities of the Company which may at any time be issuable on the exercise hereof for any purpose whatever, nor shall anything contained in the Warrant Agreement or herein be construed to confer upon the holder of this Warrant Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof or give or withhold consent to any corporate action (whether upon any matter submitted to stockholders at any meeting thereof, or give or withhold consent to any merger,

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recapitalization, issuance of stock, reclassification of stock, change of par value or change of stock to no par value, consolidation, conveyance or otherwise) or to receive notice of meetings or other actions affecting stockholders (except as provided in the Warrant Agreement) or to receive dividends or subscription rights or otherwise until the Warrants evidenced by this Warrant Certificate shall have been exercised and the Common Stock purchasable upon the exercise thereof shall have become deliverable as provided in the Warrant Agreement.

If this Warrant Certificate shall be surrendered for exercise within any period during which the transfer books for the Company's Common Stock or other class of stock purchasable upon the exercise of the Warrants evidenced by this Warrant Certificate are closed for any purpose, the Company shall not be required to make delivery of certificates for shares purchasable upon such transfer until the date of the reopening of said transfer books.

Every holder of this Warrant Certificate by accepting the same consents and agrees with the Company, the Warrant Agent, and with every other holder of a Warrant Certificate that:

(a) This Warrant Certificate is transferable on the registry books of the Warrant Agent only upon the terms and conditions set forth in the Warrant Agreement; and

(b) The Company and the Warrant Agent may deem and treat the person in whose name this Warrant Certificate is registered as the absolute owner hereof (notwithstanding any notation of ownership or other writing thereon made by anyone other than the Company or the Warrant Agent) for all purposes whatever and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

The Company shall not be required to issue or deliver any certificate for shares of Common Stock or other securities upon the exercise of Warrants evidenced by this Warrant Certificate until any tax which may be payable in respect thereof by the holder of this Warrant Certificate pursuant to the Warrant Agreement shall have been paid, such tax being payable by the holder of this Warrant Certificate at the time of surrender.

This Warrant Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Warrant Agent.

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WITNESS the facsimile signatures of the proper officers of the Company and its corporate seal.

Dated: \_\_\_\_\_, 2001

TASER International, Inc.

By: \_\_\_\_\_  
Patrick W. Smith,  
Chief Executive Officer

Attest: \_\_\_\_\_  
Secretary

Countersigned

U.S. Stock Transfer Corporation

By: \_\_\_\_\_  
Authorized Officer

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FORM OF ELECTION TO PURCHASE  
(TO BE EXECUTED BY THE REGISTERED HOLDER IN ORDER TO EXERCISE THE  
WARRANTS IN WHOLE OR IN PART)

To: TASER INTERNATIONAL, INC.

The undersigned Registered Holder ( )

(Please insert Social Security or other  
identification number of Registered Holder)

hereby irrevocably elects to exercise the right of purchase represented by the  
within this Warrant Certificate for, and to purchase thereunder, \_\_\_\_\_  
shares of Common Stock provided for therein and tenders payment herewith to the  
order of TASER INTERNATIONAL, INC. in the amount of \$\_\_\_\_\_. The  
undersigned requests that certificates for such shares of Common Stock be issued  
as follows:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Deliver to: \_\_\_\_\_

Address: \_\_\_\_\_

and if said number of Warrants being exercised shall not be all the Warrants  
evidenced by this Warrant Certificate, that a new Certificate for the balance of  
such Warrants as well as the shares of Common Stock represented by this Warrant  
Certificate be registered in the name of, and delivered to, the Registered  
Holder at the address stated below:

Address: \_\_\_\_\_

Dated: \_\_\_\_\_, \_\_\_\_\_

Signature

(Signature must conform in all respects to the name of Registered Holder as  
specified in the case of this Warrant Certificate in every particular, without  
alteration or any change whatever.)

Signature Guaranteed:

The signature should be guaranteed by an eligible institution (Banks,  
Stockbrokers, Savings and Loan Association and Credit Union with membership in  
an approved signature Medallion Program), pursuant to S.E.C. Rule 17Ad-15.

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FORM OF ASSIGNMENT  
(TO BE SIGNED ONLY UPON ASSIGNMENT)

FOR VALUE RECEIVED, the undersigned Registered Holder ( )

\_\_\_\_\_  
(Please insert  
Social Security or other  
identification number of  
Registered Holder)

hereby sells, assigns and transfers unto

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
(Please Print Name and Address including Zip Code)

Warrants evidenced by the within Warrant Certificate, and  
irrevocably constitutes and appoints

\_\_\_\_\_  
to transfer this Warrant Certificate on the books of TASER International, Inc. with the full power of substitution in the premises.

Dated: \_\_\_\_\_, \_\_\_\_\_

Signature:

\_\_\_\_\_  
(Signature must conform in all respects to the name of Registered Holder as specified on the face of this Unit Certificate in every particular, without alteration or any change whatsoever, and the signature must be guaranteed in the usual manner.)

Signature Guaranteed:

\_\_\_\_\_  
The signature should be guaranteed by an eligible institution (Banks, Stockbrokers, Savings and Loan Association and Credit Union with membership in an approved signature Medallion Program), pursuant to S.E.C. Rule 17Ad-15.

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Exhibit 4.5

WARRANT AND UNIT AGREEMENT

TASER International, Inc., 7860 E. McClain Drive, Suite 2, Scottsdale, Arizona 85260, a Delaware corporation ("Company"), and US Stock Transfer Corporation, 1745 Gardena Avenue, Glendale, California, a \_\_\_\_\_ corporation ("Transfer Agent"), agree as follows:

1. PURPOSE. The Company proposes to publicly offer and issue in an initial public offering (the "Offering") \_\_\_\_\_ units ("Units"). Each Unit will entitle the registered holder of a Unit ("Unit Holder") to (i) one and one-half (1.5) shares of the Company's \$0.00001 par value common stock ("Share") and (ii) one and one-half (1.5) warrants, each whole warrant permitting the purchase of one (1) Share ("Warrant").

2. WARRANTS. Each Warrant will entitle the registered holder of a Warrant ("Warrant Holder") to purchase from the Company one (1) Share at one hundred ten percent (110%) of: two-thirds of the Initial Public Offering price of the Units (the "Exercise Price"). A Warrant Holder may exercise all or any number of Warrants resulting in the purchase of a whole number of Shares.

3. EXERCISE PERIOD. The Warrants may be exercised at any time during the period commencing thirty (30) days after the effective date ("Offering Date") of the Offering ("Exercise Date") and ending at 3:00 p.m., Denver Colorado time on the fifth (5th) anniversary date of the closing of the Offering ("Expiration Date"), except as changed by Section 15 of this Agreement.

4. NON-DETACHABILITY. A Warrant Certificate (as defined below) may not be detached from a Share certificate contained in a Unit for at least thirty (30) days following the Offering Date. Until such time, a Warrant Certificate may be split up, combined, exchanged or transferred on the books of the Transfer Agent only together with a Share certificate. Paulson Investment Company, Inc. will then determine when the Units separate, after which the Shares and Warrants will trade separately.

5. CERTIFICATES. The Warrant certificates shall be in registered form only and shall be substantially in the form set forth in Exhibit A attached to this Agreement ("Warrant Certificate"). The Unit certificates shall be in registered form only and shall be substantially in the form set forth in Exhibit B attached to this Agreement ("Unit Certificate"). Warrant and Unit Certificates shall be signed by, or shall bear the facsimile signature of, the Chief Executive Officer, President or a Vice President of the Company and the Secretary or an Assistant Secretary of the Company. If any person, whose facsimile signature has been placed upon any Warrant or Unit Certificate or the signature of an officer of the Company, shall have ceased to be such officer before such Warrant or Unit Certificate is countersigned, issued and delivered, such Warrant or Unit Certificate shall be countersigned, issued and delivered with the same effect as if such person had not ceased to be such officer. Any Warrant or Unit Certificate may be signed by, or made to bear the facsimile signature of, any person who at the actual date of the preparation of such Warrant or Unit Certificate shall be a proper officer of the Company to sign such Warrant or Unit Certificate, even though such person was not such an officer upon the date of this Agreement.

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6. ISSUANCE OF NEW CERTIFICATES. Notwithstanding any of the provisions of this Agreement or the several Warrant or Unit Certificates to the contrary, the Company may, at its option, issue new Warrant or Unit Certificates in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Exercise Price or the number or kind of shares purchasable under the several Warrant or Unit Certificates made in accordance with the provisions of this Agreement.

7. COUNTERSIGNING. Warrant and Unit Certificates shall be manually countersigned by the Transfer Agent and shall not be valid for any purpose unless so countersigned. The Transfer Agent hereby is authorized to countersign and deliver to, or in accordance with the instructions of, any Warrant or Unit Holder any Warrant or Unit Certificate, respectively, which is properly issued.

8. REGISTRATION OF TRANSFER AND EXCHANGES. The Transfer Agent will keep or cause to be kept books for registration of ownership or transfer of Warrant and Unit Certificates issued hereunder. Such registers shall show the names and addresses of the respective holders of the Warrant and Unit Certificates and the number of Warrants and Units evidenced by each such Warrant or Unit Certificate. Subject to the provisions of Section 4, the Transfer Agent shall from time to time register the transfer of any outstanding Warrant or Unit Certificate upon records maintained by the Transfer Agent for such purpose upon surrender of such Warrant or Unit Certificate to the Transfer Agent for transfer, accompanied by appropriate instruments of transfer in form satisfactory to the Company and the Transfer Agent and duly executed by the Warrant or Unit Holder or a duly authorized attorney. Upon any such registration of transfer, a new Warrant or Unit Certificate shall be issued in the name of and to the transferee and the surrendered Warrant or Unit Certificate shall be cancelled.

9. EXERCISE OF WARRANTS.

a. Any one Warrant or any multiple of one Warrant evidenced by any Warrant Certificate may be exercised on or after the Exercise Date and on or before the Expiration Date. A Warrant shall be exercised by the Warrant Holder by surrendering to the Transfer Agent the Warrant Certificate evidencing such Warrant with the exercise form on the reverse of such Warrant Certificate duly completed and executed and delivering to the Transfer Agent, by good check or bank draft payable to the order of the Company, the Exercise Price for each Share to be purchased. No fractional warrant may be exercised, but will be redeemed for cash equal to the current market value of such fractional warrant, as defined in Section 19 of this Warrant and Unit Agreement.

b. Upon receipt of a Warrant Certificate with the exercise form thereon duly executed together with payment in full of the Exercise Price (and an amount equal to any applicable taxes or government charges) for the Shares for which Warrants are then being exercised, the Transfer Agent shall requisition from any transfer agent for the Shares, and upon receipt shall make delivery of, certificates evidencing the total number of whole Shares for which Warrants are then being exercised in such names and denominations as are required for delivery to, or in accordance with the instructions of, the Warrant Holder. Such certificates for the Shares shall be deemed to be issued, and the person to whom such Shares are issued of record shall be deemed to have become a holder of record of such Shares, as of the date of the surrender of such Warrant Certificate and payment of the Exercise Price (and an amount equal to any applicable taxes or government

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charges), whichever shall last occur, provided that if the books of the Company with respect to the Shares shall be deemed to be closed, the person to whom such Shares are issued of record shall be deemed to have become a record holder of such Shares as of the date on which such books shall next be open (whether before, on or after the Expiration Date). The Company covenants and agrees that it shall not cause its stock transfer books to be closed for a period of more than twenty (20) consecutive business days except upon consolidation, merger, sale of all of its assets, dissolution or liquidation or as otherwise provided by law.

c. In addition, if it is required by law and upon instruction by the Company, the Transfer Agent will deliver to each Warrant Holder a prospectus that complies with the provisions of Section 5 of the Securities Act, as amended, and the Company agrees to supply the Transfer Agent with a sufficient number of prospectuses to effectuate that purpose.

d. Any Warrant Certificate or Certificates may be exchanged at the option of the holder thereof for another Warrant Certificate or Certificates of different denominations, of like tenor and representing in the aggregate the same number of Warrants, upon surrender of such Warrant Certificate or Certificates, with the Form of Assignment duly filled in and executed, to the Transfer Agent, at any time or from time-to-time after the close of business on the date hereof and prior to the close of business on the Expiration Date. The Transfer Agent shall promptly cancel the surrendered Warrant Certificate or Certificates and deliver the new Warrant Certificate or Certificates pursuant to the provisions of this Section.

e. If less than all the Warrants evidenced by a Warrant Certificate are exercised upon a single occasion, a new Warrant Certificate for the balance of the Warrants not so exercised shall be issued and delivered to, or in accordance with, transfer instructions properly given by the Warrant Holder until the Expiration Date.

f. All Warrant Certificates surrendered upon exercise of the Warrants shall be cancelled.

g. Upon the exercise, or conversion of any Warrant, the Transfer Agent shall account promptly to the Company with respect to Warrants exercised and concurrently pay to the Company all moneys received by the Transfer Agent for the purchase of securities or other property through the exercise of such Warrants.

h. Expenses incurred by the Transfer Agent while acting in the capacity as Transfer Agent, in accordance with this Agreement, will be paid by the Company. A detailed accounting statement relating to the number of shares exercised, names of registered Warrant Holder(s) and the net amount of exercise funds remitted will be given to the Company with the payment of each exercise amount.

10. REDEMPTION. The Warrants outstanding at the time of a redemption may be redeemed at the option of the Company, in whole or in part on a pro-rata basis, at any time if, at the time notice of such redemption is given by the Company as provided in subsection a. below, the basic net income per share of Common Stock as confirmed by an audit conducted in accordance with generally accepted accounting principles applicable in the United States (which such audit may be

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conducted with respect to any fiscal year of the Company or any other 12-month period ending on the last day of a fiscal quarter of the Company, in the Company's sole discretion), for an audited 12-month period preceding the date of such notice is equal to or greater than \$1.00, at a price of \$0.25 per Warrant (the "Redemption Price"). On the redemption date (the "Redemption Date"), the holders of record of redeemed Warrants shall be entitled to payment of the Redemption Price upon surrender of such redeemed Warrants to the Company at the principal office of the Transfer Agent in Glendale, California.

a. Notice of redemption of Warrants shall be given at least thirty (30) days prior to the Redemption Date by mailing, by registered or certified mail, return receipt requested, a copy of such notice to the Transfer Agent and by first class mail to all of the holders of record of Warrants at their respective addresses appearing on the books or transfer records of the Company or such other address designated in writing by the holder of record to the Transfer Agent not less than forty (40) days prior to the Redemption Date.

b. From and after the Redemption Date, all rights of the Warrant Holders (except the right to receive the Redemption Price) shall terminate, but only if (i) no later than one day prior to the Redemption Date the Company shall have irrevocably deposited with the Transfer Agent as paying agent a sufficient amount to pay on the Redemption Date the Redemption Price for all Warrants called for redemption and (ii) the notice of redemption shall have stated the name and address of the Transfer Agent and the intention of the Company to deposit such amount with the Transfer Agent no later than one day prior to the Redemption Date.

c. The Transfer Agent shall pay to the holders of record of redeemed Warrants all monies received by the Transfer Agent for the redemption of Warrants to which the holders of record of such redeemed Warrants who shall have surrendered their Warrants are entitled.

d. Any amounts deposited with the Transfer Agent that shall be unclaimed after six (6) months after the Redemption Date may be withdrawn by the Company, and thereafter the holders of the Warrants called for redemption for which such funds were deposited shall look solely to the Company for payment. The Company shall be entitled to the interest, if any, on funds deposited with the Transfer Agent and the holders of redeemed Warrants shall have no right to any such interest.

e. If the Company fails to make a sufficient deposit with the Transfer Agent as provided above, the holder of any Warrants called for redemption may at the option of the holder (i) by notice to the Company declare the notice of redemption a nullity as to such holder, or (ii) maintain an action against the Company for the Redemption Price. If the holder brings such an action, the Company will pay reasonable attorneys' fees of the holder. If the holder fails to bring an action against the Company for the Redemption Price within sixty (60) days after the Redemption Date, the holder shall be deemed to have elected to declare the notice of redemption to be a nullity as to such holder and such notice shall be without any force or effect as to such holder. Except as otherwise specifically provided in this subsection e., a notice of redemption, once mailed by the Company, as provided in subsection a., shall be irrevocable.

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11. TAXES. The Company will pay all taxes attributable to the initial issuance of Shares upon exercise of Warrants. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in any issue of Warrant or Unit Certificates or in the issue of any certificates of Shares in the name other than that of the Warrant or Unit Holder upon the exercise of any Warrant or Unit, as the case may be.

12. MUTILATED OR MISSING CERTIFICATES. If any Warrant or Unit Certificate is mutilated, lost, stolen or destroyed, the Company and the Transfer Agent may, on such terms as to indemnity or otherwise as they may in their discretion impose (which shall, in the case of a mutilated Warrant or Unit Certificate, include the surrender thereof), and upon receipt of evidence satisfactory to the Company and the Transfer Agent of such mutilation, loss, theft or destruction, issue a substitute Warrant or Unit Certificate, respectively, of like denomination or tenor as the Warrant or Unit Certificate so mutilated, lost, stolen or destroyed. Applicants for substitute Warrant or Unit Certificates shall comply with such other reasonable regulations and pay any reasonable charges as the Company or the Transfer Agent may prescribe.

13. SUBSEQUENT ISSUE OF CERTIFICATES. Subsequent to their original issuance, no Warrant or Unit Certificates shall be reissued except (i) such Certificates issued upon transfer thereof in accordance with Section 8 hereof, (ii) such Certificates issued upon any combination, split-up or exchange of Warrant or Unit Certificates pursuant to Section 8 hereof, (iii) such Certificates issued in replacement of mutilated, destroyed, lost or stolen Warrant or Unit Certificates pursuant to Section 12 hereof, (iv) Warrant Certificates issued upon the partial exercise of Warrant Certificates pursuant to Section 9 hereof, and (v) Warrant Certificates issued to reflect any adjustment or change in the Exercise Price or the number or kind of shares purchasable thereunder pursuant to Section 6 hereof. The Transfer Agent is hereby irrevocably authorized to countersign and deliver, in accordance with the provisions of said Sections 6, 8, 9 and 12, the new Warrant or Unit Certificates, as the case may be, required for purposes thereof, and the Company, whenever required by the Transfer Agent, will supply the Transfer Agent with Warrant and Unit Certificates duly executed on behalf of the Company for such purposes.

14. RESERVATION OF SHARES. For the purpose of enabling the Company to satisfy all obligations to issue Shares upon exercise of Warrants, the Company will at all times reserve and keep available free from preemptive rights, out of the aggregate of its authorized but unissued shares, the full number of Shares which may be issued upon the exercise of the Warrants. The Company covenants all shares which shall be so issuable, will upon issue be fully paid and nonassessable by the Company and free from all taxes, liens, charges and security interests with respect to the issue thereof. In the case of a Warrant exercisable solely for securities listed on a securities exchange or for which there are at least two (2) independent market makers, the Company may elect to redeem Warrants submitted to the Transfer Agent for exercise for a price equal to the difference between the aggregate low asked price, or closing price, as the case may be, of the securities for which such Warrant is exercisable on the date of such submission and the Exercise Price of such Warrants; in the event of such redemption, the Company will pay to the holder of such Warrants the above-described redemption price in cash within ten (10) business days after receipt of notice from the Transfer Agent that such Warrants have been submitted for exercise.

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15. GOVERNMENTAL RESTRICTIONS. If any Shares issuable upon the exercise of Warrants require registration or approval of any governmental authority, the Company will use commercially reasonable efforts to secure such registration or approval and, to the extent practicable, take action in anticipation of and prior to the exercise of the Warrants necessary to permit a public offering of the securities underlying the Warrants during the term of this Agreement; provided that in no event shall such Shares be issued, and the Company shall have the authority to suspend the exercise of all Warrants, until such registration or approval shall have been obtained; but all Warrants, the exercise of which is requested during any such suspension, shall be exercisable at the Exercise Price. If any such period of suspension continues past the Expiration Date, all Warrants, the exercise of which have been requested on or prior to the Expiration Date, shall be exercisable upon the removal of such suspension until the close of business on the business day immediately following the expiration of such suspension.

16. ADJUSTMENTS OF NUMBER AND KIND OF SHARES PURCHASABLE AND EXERCISE PRICE. The number and kind of securities or other property purchasable upon exercise of a Warrant shall be subject to adjustment from time to time upon the occurrence, after the date hereof, of any of the following events:

a. In case the Company shall (i) pay a dividend in, or make a distribution of, shares of capital stock on its outstanding Common Stock, (ii) subdivide its outstanding shares of Common Stock into a greater number of such shares or (iii) combine its outstanding shares of Common Stock into a smaller number of such shares, the total number of shares of Common Stock purchasable upon the exercise of each Warrant outstanding immediately prior thereto shall be adjusted so that the holder of any Warrant Certificate thereafter surrendered for exercise shall be entitled to receive at the same aggregate Exercise Price the number of shares of capital stock (of one or more classes) which such holder would have owned or have been entitled to receive immediately following the happening of any of the events described above had such Warrant been exercised in full immediately prior to the record date with respect to such event. Any adjustment made pursuant to this subsection shall, in the case of a stock dividend or distribution, become effective as of the record date therefor and, in the case of a subdivision or combination, be made as of the effective date thereof. If, as a result of an adjustment made pursuant to this subsection, the holder of any Warrant Certificate thereafter surrendered for exercise shall become entitled to receive shares of two or more classes of capital stock of the Company, the Board of Directors of the Company, (whose determination shall be conclusive and shall be evidenced by a Board resolution filed with the Transfer Agent) shall determine the allocation of the adjusted Exercise Price between or among shares of such classes of capital stock.

b. In the event of a capital reorganization or a reclassification of the Common Stock (except as provided in subsection a. above or subsection e. below), any Warrant Holder, upon exercise of Warrants, shall be entitled to receive, in substitution for the Common Stock to which he would have become entitled upon exercise immediately prior to such reorganization or reclassification, the shares (of any class or classes) or other securities or property of the Company (or cash) that he would have been entitled to receive at the same aggregate Exercise Price upon such reorganization or reclassification if such Warrants had been exercised immediately prior to the record date with respect to such event; and in any such case, appropriate provision (as determined by the Board of Directors of the Company, whose determination shall be conclusive and shall be

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evidenced by a certified Board resolution filed with the Transfer Agent) shall be made for the application of this Section with respect to the rights and interests thereafter of the Warrant Holders (including but not limited to the allocation of the Exercise Price between or among shares of classes of capital stock), to the end that this Section (including the adjustments of the number of shares of Common Stock or other securities purchasable and the Exercise Price thereof) shall thereafter be reflected, as nearly as reasonably practicable, in all subsequent exercises of the Warrants for any shares or securities or other property (or cash) thereafter deliverable upon the exercise of the Warrants.

c. Whenever the number of shares of Common Stock or other securities purchasable upon exercise of a Warrant is adjusted as provided in this Section, the Company will promptly file with the Transfer Agent a certificate signed by a Chairman of the Board or the Chief Executive Officer, the President or a Vice President of the Company and by the Secretary or an Assistant Secretary of the Company setting forth the number and kind of securities or other property purchasable upon exercise of a Warrant, as so adjusted, stating that such adjustments in the number or kind of shares or other securities or property conform to the requirements of this Section, and setting forth a brief statement of the facts accounting for such adjustments. Promptly after receipt of such certificate, the Company, or the Transfer Agent at the Company's request, will deliver, by first-class, postage prepaid mail, a brief summary thereof (to be supplied by the Company) to the registered holders of the outstanding Warrant Certificates; provided, however, that failure to file or to give any notice required under this subsection, or any defect therein, shall not affect the legality or validity of any such adjustments under this Section; and provided, further, that, where appropriate, such notice may be given in advance and included as part of the notice required to be given pursuant to Section 18 hereof.

d. In case of any consolidation of the Company with, or merger of the Company into, another corporation (other than a consolidation or merger which does not result in any reclassification or change of the outstanding Common Stock), or in case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety, the corporation formed by such consolidation or merger or the corporation which shall have acquired such assets, as the case may be, shall execute and deliver to the Transfer Agent a supplemental warrant agreement providing that the holder of each Warrant then outstanding shall have the right thereafter (until the expiration of such Warrant) to receive, upon exercise of such Warrant, solely the kind and amount of shares of stock and other securities and property (or cash) receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock of the Company for which such Warrant might have been exercised immediately prior to such consolidation, merger, sale or transfer. Such supplemental warrant agreement shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided in this Section. The above provision of this subsection shall similarly apply to successive consolidations, mergers, sales or transfers.

The Transfer Agent shall not have any responsibility to determine the correctness of any provision contained in any such supplemental warrant agreement relating to either the kind or amount of shares of stock or securities or property (or cash) purchasable by holders of Warrant Certificates upon the exercise of their Warrants after any such consolidation, merger, sale or transfer or of any adjustment to be made with respect thereto, but subject to the provisions of Section 23 hereof, may

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accept as conclusive evidence of the correctness of any such provisions, and shall be protected in relying upon, a certificate of a firm of independent certified public accountants (who may be the accountants regularly employed by the Company) with respect thereto.

e. Irrespective of any adjustments in the number or kind of shares issuable upon exercise of Warrants, Warrant Certificates theretofore or thereafter issued may continue to express the same price and number and kind of shares as are stated in the similar Warrant Certificates initially issuable pursuant to this Agreement.

f. The Company may retain a firm of independent public accountants of recognized standing, which may be the firm regularly retained by the Company, selected by the Board of Directors of the Company or the Executive Committee of said Board, and not disapproved by the Transfer Agent, to make any computation required under this Section, and a certificate signed by such firm shall, in the absence of fraud or gross negligence, be conclusive evidence of the correctness of any computation made under this Section.

g. For the purpose of this Section, the term "Common Stock" shall mean (i) the Common Stock or (ii) any other class of stock resulting from successive changes or reclassifications of such Common Stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that at any time as a result of an adjustment made pursuant to this Section, the holder of any Warrant thereafter surrendered for exercise shall become entitled to receive any shares of capital stock of the Company other than shares of Common Stock, thereafter the number of such other shares so receivable upon exercise of any Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in this Section, and all other provisions of this Agreement, with respect to the Common Stock, shall apply on like terms to any such other shares.

h. The Company may, from time to time and to the extent permitted by law, reduce the exercise price of the Warrants by any amount for a period of not less than twenty (20) days. If the Company so reduces the exercise price of the Warrants, it will give not less than fifteen (15) days' notice of such decrease, which notice may be in the form of a press release, and shall take such other steps as may be required under applicable law in connection with any offers or sales of securities at the reduced price.

17. REDUCTION OF EXERCISE PRICE BELOW PAR VALUE. Before taking any action that would cause an adjustment pursuant to Section 16 hereof reducing the portion of the Exercise Price required to purchase one share of capital stock below the then par value (if any) of a share of such capital stock, the Company will use its best efforts to take any corporate action which, in the opinion of its counsel, may be necessary in order that the Company may validly and legally issue fully paid and non-assessable shares of such capital stock.

18. NOTICE TO WARRANT HOLDERS. In case the Company after the date hereof shall propose (i) to offer to the holders of Common Stock, generally, rights to subscribe to or purchase any additional shares of any class of its capital stock, any evidences of its indebtedness or assets, or any other rights or options or (ii) to effect any reclassification of Common Stock (other than a

<PAGE> 9

reclassification involving merely the subdivision or combination of outstanding shares of Common Stock) or any capital reorganization, or any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or any sale, transfer or other disposition of its property and assets substantially as an entirety, or the liquidation, voluntary or involuntary dissolution or winding-up of the Company, then, in each such case, the Company shall file with the Transfer Agent and the Company, or the Transfer Agent on its behalf, shall mail (by first-class, postage prepaid mail) to all registered holders of the Warrant Certificates notice of such proposed action, which notice shall specify the date on which the books of the Company shall close or a record be taken for such offer of rights or options, or the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, voluntary or involuntary dissolution or winding-up shall take place or commence, as the case may be, and which shall also specify any record date for determination of holders of Common Stock entitled to vote thereon or participate therein and shall set forth such facts with respect thereto as shall be reasonably necessary to indicate any adjustments in the Exercise Price and the number or kind of shares or other securities purchasable upon exercise of Warrants which will be required as a result of such action. Such notice shall be filed and mailed in the case of any action covered by clause (i) above, at least ten (10) days prior to the record date for determining holders of the Common Stock for purposes of such action or, if a record is not to be taken, the date as of which the holders of shares of Common Stock of record are to be entitled to such offering; and, in the case of any action covered by clause (ii) above, at least twenty (20) days prior to the earlier of the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, voluntary or involuntary dissolution or winding-up is expected to become effective and the date on which it is expected that holders of shares of Common Stock of record on such date shall be entitled to exchange their shares for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, voluntary or involuntary dissolution or winding-up. Failure to give any such notice or any defect therein shall not affect the legality or validity of any transaction listed in this Section.

19. NO FRACTIONAL WARRANTS, UNITS OR SHARES. The Company shall not be required to issue fractions of Warrants or Units upon the reissue of Warrants or Units, any adjustments as described in Section 16 or otherwise; but the Company in lieu of issuing any such fractional interest, shall adjust the fractional interest by payment to the Warrant or Unit Holder an amount, in cash, equal to the current market value of any such fraction or interest. If the total Warrants or Units surrendered by exercise would result in the issuance of a fractional Share, the Company shall not be required to issue a fractional Share but rather the resulting fractional interest shall be adjusted by payment in an amount, in cash, equal to the current market value of such fractional interest. The current market value for such fractional interest will be the market value of one whole interest multiplied by the fraction thereof.

20. RIGHTS OF WARRANT HOLDERS. No Warrant Holder, as such, shall have any rights of a shareholder of the Company, either at law or equity, and the rights of the Warrant Holders, as such, are limited to those rights expressly provided in this Agreement or in the Warrant Certificates. The Company and the Transfer Agent may treat the registered Warrant Holder in respect of any Warrant Certificates as the absolute owner thereof for all purposes notwithstanding any notice to the contrary.

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21. RIGHT OF ACTION. All rights of action in respect to this Agreement are vested in the respective registered holders of the Warrant and Unit Certificates; and any registered holder of any Warrant or Unit Certificate, without the consent of the Transfer Agent or of any other holder of a Warrant or Unit Certificate, may, in his own behalf for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company suitable to enforce, or otherwise in respect of, his right to exercise the Warrants evidenced by such Warrant Certificate, for the purchase of shares of the Common Stock in the manner provided in the Warrant Certificate and in this Agreement.

22. AGREEMENT OF WARRANT AND UNIT HOLDERS. Every holder of a Warrant or Unit Certificate by accepting the same consents and agrees with the Company, the Transfer Agent and with every other holder of a Warrant or Unit Certificate, respectively, that:

a. The Warrant and Unit Certificates are transferable on the registry books of the Transfer Agent only upon the terms and conditions set forth in this Agreement; and

b. The Company and the Transfer Agent may deem and treat the person in whose name the Warrant or Unit Certificate is registered as the absolute owner of the Warrant or Unit, as the case may be, (notwithstanding any notation of ownership or other writing thereon made by anyone other than the Company or the Transfer Agent) for all purposes whatever and neither the Company nor the Transfer Agent shall be affected by any notice to the contrary.

23. TRANSFER AGENT. The Company hereby appoints the Transfer Agent to act as the agent of the Company and the Transfer Agent hereby accepts such appointment upon the following terms and conditions by all of which the Company and every Warrant and Unit Holder, by acceptance of his Warrants or Units, shall be bound:

a. Statements contained in this Agreement and in the Warrant and Unit Certificates shall be taken as statements of the Company. The Transfer Agent assumes no responsibility for the correctness of any of the same except such as describes the Transfer Agent or for action taken or to be taken by the Transfer Agent.

b. The Transfer Agent shall not be responsible for any failure of the Company to comply with any of the Company's covenants contained in this Agreement or in the Warrant or Unit Certificates.

c. The Transfer Agent may consult at any time with counsel satisfactory to it (who may be counsel for the Company) and the Transfer Agent shall incur no liability or responsibility to the Company or to any Warrant or Unit Holder in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with the opinion or the advice of such counsel, provided the Transfer Agent shall have exercised reasonable care in the selection and continued employment of such counsel.

d. The Transfer Agent shall incur no liability or responsibility to the Company or to any Warrant or Unit Holder for any action taken in reliance upon any notice, resolution, waiver,

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consent, order, certificate or other paper, document or instrument believed by it to be genuine and to have been signed, sent or presented by the proper party or parties.

e. The Company agrees to pay to the Transfer Agent reasonable compensation for all services rendered by the Transfer Agent in the execution of this Agreement, to reimburse the Transfer Agent for all expenses, taxes and governmental charges and all other charges of any kind or nature incurred by the Transfer Agent in the execution of this Agreement and to indemnify the Transfer Agent and save it harmless against any and all liabilities, including judgments, costs and counsel fees, arising from the Transfer Agent's engagement under this Agreement except as a result of the Transfer Agent's negligence, bad faith or willful misconduct.

f. The Transfer Agent shall be under no obligation to institute any action, suit or legal proceeding or to take any other action likely to involve expense unless the Company or one or more Warrant or Unit Holders shall furnish the Transfer Agent with reasonable security and indemnity for any costs and expenses which may be incurred in connection with such action, suit or legal proceeding, but this provision shall not affect the power of the Transfer Agent to take such action as the Transfer Agent may consider proper, whether with or without any such security or indemnity. All rights of action under this Agreement or under any of the Warrants or Units may be enforced by the Transfer Agent without the possession of any of the Warrant or Unit Certificates or the production thereof at any trial or other proceeding relative thereto, and any such action, suit or proceeding instituted by the Transfer Agent shall be brought in its name as Transfer Agent, and any recovery of judgement shall be for the ratable benefit of the Warrant or Unit Holders as their respective rights or interest may appear.

g. The Transfer Agent and any shareholder, director, officer or employee of the Transfer Agent may buy, sell or deal in any of the Warrants, Units or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Transfer Agent under this Agreement. Nothing herein shall preclude the Transfer Agent from acting in any other capacity for the Company or for any other legal entity.

24. SUCCESSOR TRANSFER AGENT. Any legal entity into which the Transfer Agent may be merged or converted or with which it may be consolidated, or any legal entity resulting from any merger, conversion or consolidation to which the Transfer Agent shall be a party, or any legal entity succeeding to the corporate trust business of the Transfer Agent, shall be the successor to the Transfer Agent hereunder without the execution or filing of any paper or any further act of a party or the parties hereto provided such legal entity is eligible to be appointed under Section 25 below. In any such event or if the name of the Transfer Agent is changed, the Transfer Agent or such successor may adopt the countersignature of the original Transfer Agent and may countersign such Warrant or Unit Certificates either in the name of the predecessor Transfer Agent or in the name of the successor Transfer Agent.

25. CHANGE OF TRANSFER AGENT. The Transfer Agent may resign or be discharged by the Company from its duties under this Agreement by the Transfer Agent or the Company, as the case may be, giving notice in writing to the other, and by giving a date when such resignation or discharge shall take effect, which notice shall be sent at least thirty (30) days prior to the date so

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specified. If the Transfer Agent shall resign, be discharged or shall otherwise become incapable of acting, the Company shall appoint a successor to the Transfer Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Transfer Agent or by any Warrant or Unit Holder or after discharging the Transfer Agent, then the Company agrees to perform the duties of the Transfer Agent hereunder until a successor Transfer Agent is appointed. Any successor Transfer Agent shall be a bank or a trust company, in good standing, organized under the laws of any state of the United States of America, having a combined capital and surplus of at least \$4,000,000 at the time of its appointment as Transfer Agent. After appointment, the successor Transfer Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Transfer Agent without further act or deed, and the former Transfer Agent shall deliver and transfer to the successor Transfer Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for effecting the delivery or transfer. Failure to give any notice provided for in this Section, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Transfer Agent or the appointment of the successor Transfer Agent, as the case may be.

26. NOTICES. Any notice or demand authorized by this Agreement to be given or made by the Transfer Agent or by any Warrant or Unit Holder to or on the Company shall be sufficiently given or made if sent by mail, first class, certified or registered, postage prepaid, addressed (until another address is filed in writing by the Company with the Transfer Agent), as follows:

TASER International, Inc.  
7860 E. McClain Drive, Suite 2  
Scottsdale, Arizona 85260

Any notice or demand authorized by this Agreement to be given or made by any Warrant or Unit Holder or by the Company to or on the Transfer Agent shall be sufficiently given or made if sent by mail, first class, certified or registered, postage prepaid, addressed (until another address is filed in writing by the Transfer Agent with the Company), as follows:

US Stock Transfer Corporation  
1745 Gardena Avenue  
Glendale, California 91204

Any distribution, notice or demand required or authorized by this Agreement to be given or made by the Company or the Transfer Agent to or on the Warrant or Unit Holders shall be sufficiently given or made if sent by mail, first class, certified or registered, postage prepaid, addressed to the Warrant or Unit Holders at their last known addresses as they shall appear on the registration books for the Warrant or Unit Certificates maintained by the Transfer Agent.

27. SUPPLEMENTS AND AMENDMENTS. The Company and the Transfer Agent may from time to time supplement or amend this Agreement without the approval of any Warrant or Unit Holders in order to cure any ambiguity or to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, or to make any other

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provisions in regard to matters or questions arising hereunder which the Company and the Transfer Agent may deem necessary or desirable.

28. SUCCESSORS. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Transfer Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

29. TERMINATION. This Agreement shall terminate at the close of business on the Expiration Date or such earlier date upon which all Warrants have been exercised; provided, however, that if exercise of the Warrants is suspended pursuant to Section 15 and such suspension continues past the Expiration Date, this Agreement shall terminate at the close of business on the business day immediately following expiration of such suspension. The provisions of Section 23 shall survive such termination.

30. GOVERNING LAW. This Agreement and each Warrant and Unit Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of [California] and for all purposes shall be construed in accordance with the laws of said State.

31. BENEFITS OF THIS AGREEMENT. Nothing in this Agreement shall be construed to give any person or corporation other than the Company, the Transfer Agent and the Warrant and Unit Holders any legal or equitable right, remedy or claim under this Agreement, and this Agreement shall be for the sole and exclusive benefit of the Company, the Transfer Agent and the Warrant and Unit Holders.

32. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of such counterparts shall for all purposes be deemed to be an original and all such counterparts shall together constitute but one and the same instrument.

33. INTEGRATION. As of the date hereof, this Agreement contains the entire and only agreement, understanding, representation, condition, warranty or covenant between the parties hereto with respect to the matters herein, supersedes any and all other agreements between the parties hereto relating to such matters, and may be modified or amended only by a written agreement signed by both parties hereto pursuant to the authority granted by Section 27.

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34. DESCRIPTIVE HEADINGS. The descriptive headings of the Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

Date: \_\_\_\_\_, 2001

TASER International, Inc.,  
a Delaware corporation

By: \_\_\_\_\_  
Its Chief Executive Officer

SEAL

ATTEST:

\_\_\_\_\_  
Its Secretary

US Stock Transfer Corporation,  
a \_\_\_\_\_ corporation

By: \_\_\_\_\_  
Its Vice President

SEAL

ATTEST:

\_\_\_\_\_  
Its Secretary

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EXHIBIT A  
[WARRANT CERTIFICATE]

<PAGE> 16

EXHIBIT B  
[UNIT CERTIFICATE]

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Exhibit 10.15

[TASER INTERNATIONAL LETTERHEAD]

PROMISSORY NOTE

Amount of Note (\$): \$75,000 Cash  
City: Scottsdale, State: Arizona  
Date: July 1, 1999

FOR VALUE RECEIVED the undersigned jointly and severally promise(s) to pay to the order of:

Malcolm Sherman, currently residing in Scottsdale, Arizona

the principal sum of:

Seventy-Five thousand & no/100 (\$75,000.00) dollars together with interest thereon from date at the rate of:

9.18% Per Annum

until maturity, said principal and interest shall be paid in 24 equal monthly payments of \$3,757.37, beginning on August 15, 1999 with the last payment submitted on July 15, 2001. (Please see attached Loan Amortization).

Each maker and endorser severally waives demand, protest and notice of maturity, non-payment or protest and all requirements necessary to hold each of them liable as makers and endorsers and, should litigation be necessary to enforce this note, each maker and endorser waives trial by jury and consents to the personal jurisdiction and venue of a court of subject matter jurisdiction located in the State of Arizona, and County of Maricopa.

Each maker and endorser further agrees, jointly and severally, to pay all costs of collection, including a reasonable attorney's fee in case the principal of this note or any payment on the principal or any interest thereon is not paid at the respective maturity thereof, or in case it becomes necessary to protest the security hereof, whether suit be brought or not.

This note is to be construed and enforced according to the laws of the State of Arizona; upon default in the payment of principal and/or interest when due, the whole sum of principal and interest remaining unpaid shall, at the option of the holder, become immediately due and payable and it shall accrue interest at the highest rate allowable by law, or, if no highest rate is otherwise indicated, at ten (10%) percent, from the date of default.

Default shall include, but not be limited to non-payment within ten (10) days from the due date set out herein.

Unless specifically disallowed by law, should litigation arise hereunder, service of process therefore may be obtained through certified mail, return receipt requested; the parties hereto waiving and all rights they may have to object to the method by which service was perfected.

/s/MWS  
/s/TPS

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Taser International, Inc. herein acknowledges and agrees to the following, regarding the herein described Promissory Note.

- A. The monies being borrowed are to secure tooling and equipment for that product as described in the enclosed attachment, marked "A" and listed as "Steman International Procurement, Quotation No: 98Q01-1-AT," Taser International, Inc. purchase order numbers: 021025-00, 021026-00, 021027-00, 021028-00, 021024-00 additionally known as "The Advanced Taser." Additional components as secured by Taser International, Inc. to complete the production of this product are included in the UCC filing and are described as electrical components, finished product or packaging.
- B. Taser International, Inc. agrees to the tooling and components as purchased by the funds of this Promissory Note being subject to a UCC filing in favor of Malcolm W. Sherman i.e., lender. Said UCC filing to be valid for the full period of the listed payment schedule. Taser International, Inc. agrees to the UCC filing of this lien and its permission is granted for a "floating lien" to be issued to Malcolm W. Sherman.
- C. Taser International, Inc. agrees and acknowledges that they have no right to sell, transfer, assign, sublease or encumber the equipment or this agreement or material covered under this agreement.
- D. All cost relative to the filing of the above listed UCC filings are to be born by Taser International, Inc.

All matters pertinent to this Agreement (including its interpretation, application, validity, performance and breach), shall be governed by, construed and enforce in accordance with the laws of the State of Arizona. The parties herein waive trial by jury and agree to submit to the personal jurisdiction and venue of a court of subject matter jurisdiction located in Maricopa County, State of Arizona. In the event that litigation results from or arises out of this Agreement or the performance thereof, the parties agree to reimburse the prevailing party's reasonable attorney's fees, court costs, and all other expenses, whether or not taxable by the court as costs in addition to any other relief to which the prevailing party may be entitled. In such event, no action shall be entertained by said court or any court of competent jurisdiction if filed more than one year subsequent to the date of the cause(s) of action actually accrued regardless of whether damages were otherwise as of said time calculable.

TASER INTERNATIONAL, INC.  
-----  
Corporation

/s/ Malcolm W. Sherman  
-----  
Payee - Signature

By: /s/ Patrick Smith  
-----  
President - Signature

M. W. Sherman  
-----  
Payee Name Printed

Patrick Smith  
-----  
President

Attest: /s/ Thomas P. Smith  
-----  
Treasurer - Signature

Corporate Seal  
[Corporate Seal]

Thomas P. Smith  
-----  
Treasurer  
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Exhibit 10.16

[TASER INTERNATIONAL LETTERHEAD]

May 26, 2000

Malcolm Sherman  
9068 E. Hillery Dr.  
Scottsdale, AZ 85260

Dear Malcolm,

This letter is to confirm our previous discussions regarding your pending retirement as a full time employee of TASER International.

- As we discussed, we would like you to work directly with Tom Smith to train him to maintain the current export customer base during the time between now and your formal retirement on June 30, 2000.
- The company will continue to pay your normal salary and car allowance up through June 30, although your work schedule between now and that time will be at your discretion in order to effectively train Tom and close any pending deals.
- After June 30, the company will pay your vacation time of 4 weeks in the month of July. These payments will be made on a biweekly basis concurrent with our normal payroll.
- Your outstanding balance of non-reimbursed expenses (approximately \$30,000) will be repaid in full on a biweekly basis starting on August 15. These payments will be of the same amount as your current salary plus car allowance, paid on a biweekly basis concurrent with our payroll disbursements.
- You will be asked to continue to serve on the board of directors and as an active significant shareholder. As you are aware, we do not remunerate our board members with cash compensation. However, the company will extend your current stock options (20,000 shares) for an additional 5 years after your formal retirement (i.e. Expiration date of 7/1/2005). All of these options shall be considered vested as of June 30, 2000 if they have not already vested prior to that time.
- Further, the company shall work with you as an independent contractor (effective May 27th, 2000) in certain foreign countries. Specifically, you shall be considered the exclusive foreign agent for the countries of:
  - India
  - Nepal
  - Sri Lanka

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PWS: /s/ PWS MWS: /s/ MWS  
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- <PAGE> 2  
 - BANGLADESH  
 - UKRAINE  
 - JORDAN  
 - ISRAEL

For a period of 12 months (i.e. Through June 30, 2001), these countries shall be reserved for you, operating as an independent contractor, to close an exclusive distribution deal. You will be paid a 10% commission for all sales in these countries for the period of time that you remain the exclusive agent. This 10% commission shall not include the \$20,000 deposit already received from Jordan, but shall include any additional sums received from the distributor in Jordan. Commissions will be paid to Sherman as payments are received by TASER International regardless of shipping dates as listed on purchase orders. Sales prices offered to Sherman during the course of his appointment as "exclusive agent" shall be equal to the best of prices offered to any other exclusive agreement granted by the company. In those instances which requires overages in billing, i.e. over the export selling price of TASER, these amount are to be forwarded to third parties for "commissions". TASER International, Inc, Agrees to forward via wire transfer or company check to such accounts as directed upon instructions from Sherman after these funds have been secured. Sherman's 10% commission is based on the net product prices as given to Sherman by TASER (less freight and miscellaneous charges). Once payment of commissions or overages has been remitted as instructed by Sherman, TASER shall be released of all liability associated with the specific transactions.

In order to maintain your exclusive agency for these areas, the following performance criteria must be met (the numbers in each column represent the number of ADVANCED TASERS sold within the territory):

<Table>  
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Country	3/30 2001	3/30 2002	3/30 2003	3/30 2004	3/30 2005	3/30 2006
<S> India	<C> 500	<C> 600	<C> 720	<C> 864	<C> 1036	<C> 1244
Ukraine	300	360	432	518	622	748
Sri Lanka	100	120	144	172	208	248
Bangladesh	200	240	288	346	414	498
Nepal	50	60	72	86	104	124
Jordan	200	240	288	346	414	498
Israel	200	240	288	346	414	498

</Table>

The sales in each column represent sales in the 12 calendar months proceeding the date atop the column. Should sales not meet or exceed this number, the exclusivity will expire without notice and the company will have the option to pursue other sales opportunities in those markets without further compensation due.

All inquiries from these territories will be forwarded to Sherman directly, and no pricing information shall be given to inquiries without Sherman's prior consent.

- Under the terms of this representation, you will be responsible for all travel and other related expense for you to develop these markets. This shall include telephone

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charges, cellular air time and all other related incidental expenses. We will, of course, support your efforts with reasonable collateral materials. Although you will remain on the payroll for the month of June as an employee, any sales in these territories (as listed above) beyond the \$20,000 deposit already received from Jordan shall be treated as commissioned sales in your relationship as an independent contractor.

- For purposes of supporting your role as a sales agent in the above listed countries, you may continue to use the title of "Director of Sales and Marketing." But this exception is FOR THOSE TERRITORIES ONLY. Accordingly, you may use your existing business cards in conjunction with these countries.
- Any potential business outside the scope of countries listed in this agreement, including any initiated by distributors in the countries listed within this document (specifically: India, Nepal, Sri Lanka, Bangladesh, Ukraine, Jordan and Israel), must be approved by TASER International in advance. The company may accept or reject any offers for additional countries at its sole discretion. The company has current prospects in Egypt and other countries in the Middle East and shall pursue those prospects directly.
- Effective May 27th, you will be operating as an independent sales representative and independent contractor in relation to these foreign sales activities. You will also be responsible for ensuring that all distribution agreements in those countries comply with US export law and relevant laws concerning foreign commerce.
- Although you will remain a member of our board of directors, any commitments on behalf of the company subsequent to the date of this letter must be approved, and joint signed by either Tom or Rick Smith as active officers in the company.
- All foreign orders shall be prepaid prior to shipment.
- In the event the company is going to go public through an IPO, be acquired by another entity, or raise a significant amount of capital to fund operations, the company shall have the right to buy-out the exclusivity provisions outlined above by a single payment equivalent to 6 months' historical commissions.
- I trust that the above accurately memorializes our discussion of yesterday. Should a disagreement arise over any of the provisions relating to your retirement, or the subsequent sales representation outlined above, we shall first sit over a beer and work it out. If this is unsuccessful, both parties (TASER International and Malcolm Sherman) hereby agree that any 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 contract, or the breach thereof, shall be settled by arbitration in accordance with the rules of the American Arbitration

<PAGE> 4

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.

- This agreement may be amended or modified only in writing, signed in advance by the parties hereto or their designated representatives. This agreement shall inure to the benefit of and be binding upon the parties hereto, and their respective successors and assigns.
- This memorandum outlines all terms related to your pending retirement, and the parties agree that any and all documents and or agreements entered into or/of prior date to this agreement are herein cancelled and mutually abrogated by the parties.
- This memorandum outlines all terms related to your pending retirement, and the parties hereby mutually release each other from any and all claims and/or obligations related to your employment as Director of Sales and Marketing for TASER International other than those obligations outlined herein. Pre-existing financial obligations currently owed to you (such as your salary, vacation pay, notes payable and accrued expenses) shall survive this agreement in their current form.
- TASER agrees to pay Sherman all outstanding balances owed as outlined above regardless and excluded from the releases in the preceding paragraph. These expenses will carry an effective interest rate of 10% per annum, accrued monthly on the unpaid balance only, until the entire principal and accrued interest is paid in full. Such interest shall be calculated from the beginning date at which the expenses were outstanding (i.e. the average monthly balance). However, any prior financing charges will be applied as credits against the interest owed.
- Regarding office space, TASER will make temporary office space available through the end of July, 2000. After that time, the company will plan to redistribute the use of space within our offices. Further, TASER will make partial secretarial support available for preparation of formal letters and contracts in conjunction with TASER sales for those territories assigned to Sherman as a part of this contract only.

Malcolm, I've truly enjoyed the past 6 years together. I've grown tremendously working with you. I wish you nothing but the best and hope you find more time over the coming months and years to take some well-deserved personal time.

Sincerely,

Understood and Agreed,

/s/ Rick W. Smith

5/26/2000

/s/ Malcolm W. Sherman

5/26/2000

-----  
Rick W. Smith  
President, TASER  
International

-----  
date

-----  
Malcolm W. Sherman

-----  
date

PAGE 4

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[SILICON VALLEY BANK LETTERHEAD]

IRREVOCABLE STANDBY LETTER OF CREDIT NO. SVB0IIS3615

DATE: APRIL 13, 2001

BENEFICIARY:  
TASER INTERNATIONAL, INC.  
7860 E. MCCLAIN DRIVE, SUITE 2  
SCOTTSDALE, AZ 85260  
ATTN: KATHY HANRAHAN, CONTROLLER  
(480) 905-2012

APPLICANT:  
BRUCE R. CULVER & DONNA T. CULVER  
6592 E. OAK SPRING DRIVE  
OAK PARK, CA 91377  
(818) 991-9950

AMOUNT: US\$500,000.00 (FIVE HUNDRED THOUSAND AND 00/100 U.S. DOLLARS)

EXPIRATION DATE: DECEMBER 31, 2001

LOCATION: AT OUR COUNTERS IN SANTA CLARA, CALIFORNIA

DEAR SIR/MADAM:

WE HEREBY ESTABLISH OUR IRREVOCABLE STANDBY LETTER OF CREDIT NO. SVB0IIS3615 IN YOUR FAVOR AVAILABLE BY YOUR DRAFTS DRAWN ON US AT SIGHT AND ACCOMPANIED BY THE FOLLOWING DOCUMENTS:

1. THE ORIGINAL OF THIS LETTER OF CREDIT AND ALL AMENDMENT(S), IF ANY.

PARTIAL DRAWS ARE ALLOWED. THIS LETTER OF CREDIT MUST ACCOMPANY ANY DRAWINGS HEREUNDER FOR ENDORSEMENT OF THE DRAWING AMOUNT AND WILL BE RETURNED TO THE BENEFICIARY UNLESS IT IS FULLY UTILIZED.

DRAFT(S) AND DOCUMENTS MUST INDICATE THE NUMBER AND DATE OF THIS LETTER OF CREDIT.

DOCUMENTS MUST BE FORWARDED TO US BY OVERNIGHT DELIVERY SERVICE TO:  
SILICON VALLEY BANK, 3003 TASMAN DRIVE, SANTA CLARA CA 95054, ATTN:  
INTERNATIONAL DIVISION.

WE HEREBY AGREE WITH THE DRAWERS, ENDORSERS AND BONAFIDE HOLDERS THAT THE DRAFTS DRAWN UNDER AND IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THIS LETTER OF CREDIT SHALL BE DULY HONORED UPON PRESENTATION TO THE DRAWEE, IF NEGOTIATED ON OR BEFORE THE EXPIRATION DATE OF THIS CREDIT.  
</R>

<PAGE> 2

[SILICON VALLEY BANK LETTERHEAD]

IRREVOCABLE STANDBY LETTER OF CREDIT NO. SVB011S3615

DATE: APRIL 13, 2001

EXCEPT AS EXPRESSLY STATED HEREIN THIS LETTER OF CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 500.

/s/ Danny J. Rowan  
-----  
AUTHORIZED SIGNATURE  
  
DANNY J. ROWAN

/s/ Dawn Y. Shinsato  
-----  
AUTHORIZED SIGNATURE  
  
DAWN Y. SHINSATO

<PAGE> 3

March 30, 2001

Board of Directors  
TASER, International, Inc.  
7860 East McClain Drive, Suite 2  
Scottsdale, Arizona 85260-1627

Letter of Support

Gentlemen:

<R>

The undersigned Phillips W. Smith and Bruce R. Culver are directors of TASER International, Inc., a Delaware corporation (the "Company"). Through loans, advances, provisions of guarantees, and other arrangements, we have from time-to-time supported financially and otherwise the business of the Company.

We agree, by this letter, to continue to support the Company by establishing an irrevocable, standby letter of credit issued by a bank of recognized standing in an amount not less than \$500,000. The letter of credit is intended to provide additional financial resources on which the Company may rely in the event of its suffering a working capital deficit or otherwise. Such letter of credit may be drawn upon by the Company at any time prior to December 31, 2001 upon presentation to the bank of a resolution validly adopted by the Board of Directors of the Company confirming a determination by the Board of Directors of the Company's need for additional funds and electing to draw upon such letter of credit.

In consideration of this letter of support and the provision of the letter of credit, the Company shall pay each of us \$10,000, and in the event of a draw upon the letter of credit, enter into commercially reasonable arrangements for the repayment to us of amounts so drawn.

If the foregoing accurately reflects our understanding, please so indicate by signing the enclosed copy of this letter and returning it to us.

Very truly yours,

/s/ Phillips W. Smith

-----  
Phillips W. Smith

/s/ Bruce R. Culver

-----  
Bruce R. Culver

Agreed and accepted  
this 30th day of March 2001.

TASER International, Inc.

/s/ Patrick W. Smith

-----  
Patrick W. Smith  
Chief Executive Officer and Director

</TEXT>  
</DOCUMENT>



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<TYPE> EX-10.18  
<FILENAME> p64567a3ex10-18.txt  
<DESCRIPTION> EX-10.18  
<TEXT>

<PAGE> 1

Exhibit 10.18

[TASER INTERNATIONAL (R) LOGO]

<R> 7339 East Evans Road - Scottsdale, AZ - 85280 - USA - (480) 991-0791 -  
Fax (480) 991-0791  
</R>

AMENDMENT TO PROMISSORY NOTE(S)

Note Balance: \_\_\_\_\_  
City/State: Scottsdale, Arizona  
Date of Amendment: 3/30/01

This Amendment No. \_\_\_ to the Original Loans and Security Agreement (this "Amendment") is made as of March 30, 2001 by and between TASER International Inc. ("Borrower") and \_\_\_\_\_ ("Lender").

Borrower and Lender are parties to, among other documents, a Promissory Note agreement as of \_\_\_\_\_ (date of initial investment). Borrower and Lender desire to amend the Promissory Notes in accordance with the following terms.

NOW THEREFORE, Borrower and Lender agree as follows:

4. The Maturity Dates are hereby amended to July 1, 2002. With an additional provision that the company may at its discretion, extend the maturity date 2 consecutive terms of 12 months each to cover working capital shortfalls.

Unless otherwise defined, all other terms specified in the Promissory Notes shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date above written.

Borrower:

Lender:

TASER International Inc.

By: /s/ Patrick W. Smith  
\_\_\_\_\_

Name: Patrick W. Smith

\_\_\_\_\_  
Name:

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</DOCUMENT>



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<FILENAME> p64567a3ex10-19.txt  
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<PAGE> 1

Exhibit 10.19

LOAN AND SECURITY AGREEMENT  
TASER INTERNATIONAL, INC.

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THIS LOAN AND SECURITY AGREEMENT (this "Agreement") dated April 26, 2001, between SILICON VALLEY BANK ("Bank"), whose address is 3003 Tasman Drive, Santa Clara, California 95054 with a loan production office located at 4455 E. Camelback Road, Suite E-290, Phoenix, Arizona 85018 and TASER INTERNATIONAL, INC. ("Borrower"), whose address is 7860 East McClain Drive, Suite 2, Scottsdale, AZ 85260 provides the terms on which Bank will lend to Borrower and Borrower will repay Bank. The parties agree as follows:

1 ACCOUNTING AND OTHER TERMS

Accounting terms not defined in this Agreement will be construed following GAAP. Calculations and determinations must be made following GAAP. The term "financial statements" includes the notes and schedules. The terms "including" and "includes" always mean "including (or includes) without limitation," in this or any Loan Document.

2 LOAN AND TERMS OF PAYMENT

2.1 PROMISE TO PAY.

Borrower promises to pay Bank the unpaid principal amount of all Credit Extensions and interest on the unpaid principal amount of the Credit Extensions.

2.1.1 REVOLVING ADVANCES.

(a) Bank will make Advances not exceeding the Committed Revolving Line. Amounts borrowed under this Section may be repaid and reborrowed during the term of this Agreement.

(b) To obtain an Advance, Borrower must notify Bank by facsimile or telephone by 12:00 p.m. Pacific time on the Business Day the Advance is to be made. Borrower must promptly confirm the notification by delivering to Bank the Payment/Advance Form attached as Exhibit B. Bank will credit Advances to Borrower's deposit account. Bank may make Advances under this Agreement based on instructions from a Responsible Officer or his or her designee or without instructions if the Advances are necessary to meet Obligations which have become due. Bank may rely on any telephone notice given by a person whom Bank believes is a Responsible Officer or designee. Borrower will indemnify Bank for any loss Bank suffers due to such reliance.

(c) The Committed Revolving Line terminates on the Revolving Maturity Date, when all Advances are immediately payable.

(d) Bank's obligation to lend the undisbursed portion of the Obligations will terminate if, in Bank's sole discretion, there has been a material adverse change in the general affairs, management, results of operation, condition (financial or otherwise) or the prospect of repayment of the Obligations, or there has been any material adverse deviation by Borrower from the most recent business plan of Borrower presented to and accepted by Bank prior to the execution of this Agreement.

2.2 INTEREST RATE, PAYMENTS.

(a) Interest Rate. Advances accrue interest on the outstanding principal balance at a per annum rate of 1 percentage point above the Prime Rate. After an Event of Default, Obligations accrue interest at 5 percent above the rate effective immediately before the Event of Default. The interest rate increases or decreases when the Prime Rate changes. Interest is computed on a 360 day year for the actual number of days elapsed.

(b) Payments. Interest due on the Committed Revolving Line is payable on the last day of each month. Bank may debit any of Borrower's deposit accounts including Account Number \_\_\_\_\_ for principal and interest payments owing or any amounts Borrower owes

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Bank. Bank will promptly notify Borrower when it debits Borrower's accounts. These debits are not a set-off. Payments received after 12:00 noon Pacific time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment is due the next Business Day and additional fees or interest accrue.

2.3 FEES.

Borrower will pay:

(a) Facility Fee. A fully earned, non-refundable Facility Fee of \$45,000 due no later than May 15, 2001; and

(b) Bank Expenses. All Bank Expenses (including reasonable attorneys' fees and reasonable expenses) incurred through and after the date of this Agreement, are payable when due.

3 CONDITIONS OF LOANS

3.1 CONDITIONS PRECEDENT TO INITIAL ADVANCE.

Bank's obligation to make the initial Advance is subject to the condition precedent that it receive the agreements, documents and fees it requires.

3.2 CONDITIONS PRECEDENT TO ALL ADVANCES.

Bank's obligations to make each Advance, including the initial Advance, is subject to the following:

(a) timely receipt of any Payment/Advance Form; and

<R>

(b) the representations and warranties in Section 5 must be materially true on the date of the Payment/Advance Form and on the effective date of each Advance and no Event of Default may have occurred and be continuing, or result from the Advance. Each Advance is Borrower's representation and warranty on that date that the representations and warranties of Section 5 remain true.

</R>

4 CREATION OF SECURITY INTEREST

4.1 GRANT OF SECURITY INTEREST.

Borrower grants Bank a continuing security interest in all presently existing and later acquired Collateral to secure all Obligations and performance of each of Borrower's duties under the Loan Documents. Except for Permitted Liens, any security interest will be a first priority security interest in the Collateral. Bank may place a "hold" on any deposit account pledged as Collateral. If this Agreement is terminated, Bank's lien and security interest in the Collateral will continue until Borrower fully satisfies its Obligations.

5 REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

5.1 DUE ORGANIZATION AND AUTHORIZATION.

Borrower and each Subsidiary is duly existing and in good standing in its state of formation and qualified and licensed to do business in, and in good standing in, any state in which

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the conduct of its business or its ownership of property requires that it be qualified, except where the failure to do so could not reasonably be expected to cause a Material Adverse Change.

The execution, delivery and performance of the Loan Documents have been duly authorized, and do not conflict with Borrower's formation documents, nor constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which or by which it is bound in which the default could reasonably be expected to cause a Material Adverse Change.

5.2 COLLATERAL.

Borrower has good title to the Collateral, free of Liens except Permitted Liens. All Inventory is in all material respects of good and marketable quality, free from material defects.

5.3 LITIGATION.

Except as shown in the Schedule, there are no actions or proceedings pending or, to the knowledge of Borrower's Responsible Officers, threatened by or against Borrower or any Subsidiary in which a likely adverse decision could reasonably be expected to cause a Material Adverse Change.

5.4 NO MATERIAL ADVERSE CHANGE IN FINANCIAL STATEMENTS.

All consolidated financial statements for Borrower, and any Subsidiary, delivered to Bank fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations. There has not been any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

5.5 SOLVENCY.

The fair salable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; the Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

5.6 REGULATORY COMPLIANCE.

Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations T and U of the Federal Reserve Board of Governors). Borrower has complied in all material respects with the Federal Fair Labor Standards Act. Borrower has not violated any laws, ordinances or rules, the violation of which could reasonably be expected to cause a Material Adverse Change. None of Borrower's or any Subsidiary's properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each Subsidiary has timely filed all required tax returns and paid, or made adequate provision to pay, all material taxes, except those being contested in good faith with adequate reserves under GAAP. Borrower and each Subsidiary has obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all government authorities that are necessary to continue its business as currently conducted, except where the failure to do so could not reasonably be expected to cause a Material Adverse Change.

<PAGE> 7  
5.7 SUBSIDIARIES.

Borrower does not own any stock, partnership interest or other equity securities except for Permitted Investments.

5.8 FULL DISCLOSURE.

No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank (taken together with all such written certificates and written statements to Bank) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading. Bank recognizes that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected and forecasted results.

6 AFFIRMATIVE COVENANTS

Borrower will do all of the following for so long as Bank has an obligation to lend, or there are outstanding Obligations:

6.1 GOVERNMENT COMPLIANCE.

Borrower will maintain its and all Subsidiaries' legal existence and good standing in its jurisdiction of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to cause a material adverse effect on Borrower's business or operations. Borrower will comply, and have each Subsidiary comply, with all laws, ordinances and regulations to which it is subject, noncompliance with which could have a material adverse effect on Borrower's business or operations or would reasonably be expected to cause a Material Adverse Change.

6.2 FINANCIAL STATEMENTS, REPORTS, CERTIFICATES.

(a) Borrower will deliver to Bank: (i) as soon as available, but no later than 30 days after the last day of each month, a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations during the period certified by a Responsible Officer and in a form acceptable to Bank; (ii) as soon as available, but no later than 90 days after the last day of Borrower's fiscal year, audited consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm reasonably acceptable to Bank; (iii) a prompt report of any legal actions pending or threatened against Borrower or any Subsidiary that could result in damages or costs to Borrower or any Subsidiary of \$100,000 or more; and (iv) budgets, sales projections, operating plans or other financial information Bank reasonably requests.

(b) Allow Bank to audit Borrower's Collateral at Borrower's expense. Such audits will be conducted no more often than every year unless an Event of Default has occurred and is continuing.

6.3 INVENTORY; RETURNS.

Borrower will keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between Borrower and its account debtors will follow Borrower's customary practices as they exist at execution of this Agreement. Borrower must promptly notify Bank of all returns, recoveries, disputes and claims, that involve more than \$50,000.

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6.4 TAXES.

Borrower will make, and cause each Subsidiary to make, timely payment of all material federal, state, and local taxes or assessments (other than taxes and assessments which Borrower is contesting in good faith, with adequate reserves maintained in accordance with GAAP) and will deliver to Bank, on demand, appropriate certificates attesting to the payment.

6.5 INSURANCE.

Borrower will keep its business and the Collateral insured for risks and in amounts standard for Borrower's industry, and as Bank may reasonably request. Insurance policies will be in a form, with companies, and in amounts that are satisfactory to Bank in Bank's reasonable discretion. All property policies will have a lender's loss payable endorsement showing Bank as an additional loss payee and all liability policies will show the Bank as an additional insured and provide that the insurer must give Bank at least 20 days notice before canceling its policy. At Bank's request, Borrower will deliver certified copies of policies and evidence of all premium payments. Proceeds payable under any policy will, at Bank's option, be payable to Bank on account of the Obligations.

6.6 PRIMARY ACCOUNTS.

Borrower will maintain its primary depository and operating accounts with Bank.

6.7 FURTHER ASSURANCES.

Borrower will execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's security interest in the Collateral or to effect the purposes of this Agreement.

7 NEGATIVE COVENANTS

Borrower will not do any of the following without Bank's prior written consent, which will not be unreasonably withheld, for so long as Bank has an obligation to lend or there are any outstanding Obligations:

7.1 DISPOSITIONS.

Convey, sell, lease, transfer or otherwise dispose of (collectively "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (i) of Inventory in the ordinary course of business; (ii) of non-exclusive licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; or (iii) of worn-out or obsolete Equipment.

7.2 CHANGES IN BUSINESS, OWNERSHIP, MANAGEMENT OR BUSINESS LOCATIONS.

Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower or reasonably related thereto or have a material change in its ownership or management of greater than 25% (other than by the sale of Borrower's equity securities in a public offering or to venture capital investors so long as Borrower identifies the venture capital investors prior to the closing of the investment). Borrower will not, without at least 30 days prior written notice, relocate its chief executive office or add any new offices or business locations in which Borrower maintains or stores over \$5,000 in Borrower's assets or property.

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7.3 MERGERS OR ACQUISITIONS.

Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person, except where (i) no Event of Default has occurred and is continuing or would result from such action during the term of this Agreement and (ii) such transaction would not result in a decrease of more than 25% of Tangible Net Worth. A Subsidiary may merge or consolidate into another Subsidiary or into Borrower.

7.4 INDEBTEDNESS.

Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

7.5 ENCUMBRANCE.

Create, incur, or allow any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, or permit any Collateral not to be subject to the first priority security interest granted here, subject to Permitted Liens.

7.6 DISTRIBUTIONS; INVESTMENTS.

Directly or indirectly acquire or own any Person, or make any Investment in any Person, other than Permitted Investments, or permit any of its Subsidiaries to do so. Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock.

7.7 TRANSACTIONS WITH AFFILIATES.

Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a nonaffiliated Person.

7.8 SUBORDINATED DEBT.

Make or permit any payment on any Subordinated Debt, except under the terms of the Subordinated Debt, or amend any provision in any document relating to the Subordinated Debt without Bank's prior written consent.

7.9 COMPLIANCE.

Become an "investment company" or a company controlled by an "investment company," under the Investment Company Act of 1940 or undertake as one of its important activities extending credit to purchase or carry margin stock, or use the proceeds of any Advance for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business or operations or would reasonably be expected to cause a Material Adverse Change, or permit any of its Subsidiaries to do so.

8 EVENTS OF DEFAULT

Any one of the following is an Event of Default:

<PAGE> 10  
8.1 PAYMENT DEFAULT.

If Borrower fails to pay any of the Obligations within 3 days after their due date. During the additional period the failure to cure the default is not an Event of Default (but no Advance will be made during the cure period);

8.2 COVENANT DEFAULT.

<R>

If Borrower violates any covenant in Section 7 or does not perform or observe any other material term, condition or covenant in this Agreement, any Loan Documents, or in any agreement between Borrower and Bank and as to any default under a term, condition or covenant that can be cured, has not cured the default within 10 days after it occurs, or if the default cannot be cured within 10 days or cannot be cured after Borrower's attempts within 10 day period, and the default may be cured within a reasonable time, then Borrower has an additional period (of not more than 30 days) to attempt to cure the default. During the additional time, the failure to cure the default is not an Event of Default (but no Advances will be made during the cure period);

8.3 MATERIAL ADVERSE CHANGE.

If there (i) occurs a material adverse change in the business, operations, or condition (financial or otherwise) of the Borrower; or (ii) is a material impairment of the prospect of repayment of any portion of the Obligations; or (iii) is a material impairment of the value or priority of Bank's security interests in the Collateral.

8.4 ATTACHMENT.

If any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver and the attachment, seizure or levy is not removed in 10 days, or if Borrower is enjoined, restrained, or prevented by court order from conducting a material part of its business or if a judgment or other claim becomes a Lien on a material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed against any of Borrower's assets by any government agency and not paid within 10 days after Borrower receives notice. These are not Events of Default if stayed or if a bond is posted pending contest by Borrower (but no Advances will be made during the cure period);

8.5 INSOLVENCY.

If Borrower becomes insolvent or if Borrower begins an Insolvency Proceeding or an Insolvency Proceeding is begun against Borrower and not dismissed or stayed within 30 days (but no Advances will be made before any Insolvency Proceeding is dismissed);

8.6 OTHER AGREEMENTS.

If there is a default in any agreement between Borrower and a third party that gives the third party the right to accelerate any Indebtedness exceeding \$100,000 or that could cause a Material Adverse Change;

8.7 JUDGMENTS.

If a money judgment(s) in the aggregate of at least \$50,000 is rendered against Borrower and is unsatisfied and unstayed for 10 days (but no Advances will be made before the judgment is stayed or satisfied);

<PAGE> 11  
8.8 MISREPRESENTATIONS.

If Borrower or any Person acting for Borrower makes any material misrepresentation or material misstatement now or later in any warranty or representation in this Agreement or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document; or

8.9 GUARANTY.

<R> Any guaranty of any Obligations ceases for any reason to be in full force or any Guarantor does not perform any obligation under any guaranty of the Obligations, or any material misrepresentation or material misstatement exists now or later in any warranty or representation in any guaranty of the Obligations or in any certificate delivered to Bank in connection with the guaranty, or any circumstance described in Sections 8.4, 8.5 or 8.7 occurs to any Guarantor, or any event of default under that certain Third Party Broker Account Pledge Agreement, of even date, by and between Bruce R. Culver and Donna T. Culver and Bank, securing the guaranty executed by Bruce R. Culver as a Guarantor.  
</R>

9 BANK'S RIGHTS AND REMEDIES

9.1 RIGHTS AND REMEDIES.

When an Event of Default occurs and continues Bank may, without notice or demand, do any or all of the following:

(a) Declare all Obligations immediately due and payable (but if an Event of Default described in Section 0 occurs all Obligations are immediately due and payable without any action by Bank);

(b) Stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) Settle or adjust disputes and claims directly with account debtors for amounts, on terms and in any order that Bank considers advisable;

(d) Make any payments and do any acts it considers necessary or reasonable to protect its security interest in the Collateral. Borrower will assemble the Collateral if Bank requires and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

(e) Apply to the Obligations any (i) balances and deposits of Borrower it holds, or (ii) any amount held by Bank owing to or for the credit or the account of Borrower;

(f) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral; and

(g) Dispose of the Collateral according to the Code.

9.2 POWER OF ATTORNEY.

Effective only when an Event of Default occurs and continues, Borrower irrevocably appoints Bank as its lawful attorney to: (i) endorse Borrower's name on any checks or other forms of payment or security; (ii) sign Borrower's name on any invoice or bill of lading for any Account or drafts against account debtors, (iii) make, settle, and adjust all claims under

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Borrower's insurance policies; (iv) settle and adjust disputes and claims about the Accounts directly with account debtors, for amounts and on terms Bank determines reasonable; and (v) transfer the Collateral into the name of Bank or a third party as the Code permits. Bank may exercise the power of attorney to sign Borrower's name on any documents necessary to perfect or continue the perfection of any security interest regardless of whether an Event of Default has occurred. Bank's appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and Bank's obligation to provide Advances terminates.

9.3 ACCOUNTS COLLECTION.

When an Event of Default occurs and continues, Bank may notify any Person owing Borrower money of Bank's security interest in the funds and verify the amount of the Account. Borrower must collect all payments in trust for Bank and, if requested by Bank, immediately deliver the payments to Bank in the form received from the account debtor, with proper endorsements for deposit.

9.4 BANK EXPENSES.

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If Borrower fails to pay any amount or furnish any required proof of payment to third persons, Bank may make all or part of the payment or obtain insurance policies required in Section 6.5, and take any action under the policies Bank deems prudent. Any amounts paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then applicable rate and secured by the Collateral. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

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9.5 BANK'S LIABILITY FOR COLLATERAL.

If Bank complies with reasonable banking practices and the Code, it is not liable for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other person. Borrower bears all risk of loss, damage or destruction of the Collateral.

9.6 REMEDIES CUMULATIVE.

Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay is not a waiver, election, or acquiescence. No waiver is effective unless signed by Bank and then is only effective for the specific instance and purpose for which it was given.

9.7 DEMAND WAIVER.

Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Bank on which Borrower is liable.

10 NOTICES

All notices or demands by any party about this Agreement or any other related agreement must be in writing and be personally delivered or sent by an overnight delivery service, by certified mail, postage prepaid, return receipt requested, or by telefacsimile to the addresses set forth at the beginning of this Agreement. A party may change its notice address by giving the other party written notice.

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11 CHOICE OF LAW, VENUE AND JURY TRIAL WAIVER

Arizona law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the process, venue and exclusive jurisdiction of the State and Federal courts in Maricopa County, Arizona.

BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

12 GENERAL PROVISIONS  
12.1 SUCCESSORS AND ASSIGNS.

This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights under it without Bank's prior written consent which may be granted or withheld in Bank's discretion. Bank has the right, without the consent of or notice to Borrower, to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits under this Agreement.

12.2 INDEMNIFICATION.

Borrower will indemnify, defend and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or Bank Expenses incurred, or paid by Bank from, following, or consequential to transactions between Bank and Borrower (including reasonable attorneys fees and expenses), except for losses caused by Bank's gross negligence or willful misconduct.

12.3 TIME OF ESSENCE.

Time is of the essence for the performance of all obligations in this Agreement.

12.4 SEVERABILITY OF PROVISION.

Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.5 AMENDMENTS IN WRITING, INTEGRATION.

All amendments to this Agreement must be in writing and signed by Borrower and Bank. This Agreement represents the entire agreement about this subject matter, and supersedes prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Agreement merge into this Agreement and the Loan Documents.

12.6 COUNTERPARTS.

This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, are an original, and all taken together, constitute one Agreement.

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12.7 SURVIVAL.

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All covenants, representations and warranties made in this Agreement continue in full force while any Obligations remain outstanding. The obligations of Borrower in Section 12.2 to indemnify Bank will survive until all statutes of limitations for actions that may be brought against Bank have run.  
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12.8 CONFIDENTIALITY.

In handling any confidential information, Bank will exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made (i) to Bank's subsidiaries or affiliates in connection with their business with Borrower, (ii) to prospective transferees or purchasers of any interest in the loans (provided, however, Bank shall use commercially reasonable efforts in obtaining such prospective transferee or purchasers agreement of the terms of this provision), (iii) as required by law, regulation, subpoena, or other order, (iv) as required in connection with Bank's examination or audit and (v) as Bank considers appropriate exercising remedies under this Agreement. Confidential information does not include information that either: (a) is in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain after disclosure to Bank; or (b) is disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

12.9 ATTORNEYS' FEES, COSTS AND EXPENSES.

In any action or proceeding between Borrower and Bank arising out of the Loan Documents, the prevailing party will be entitled to recover its reasonable attorneys' fees and other reasonable costs and expenses incurred, in addition to any other relief to which it may be entitled.

13 DEFINITIONS

13.1 DEFINITIONS.

In this Agreement:

"ACCOUNTS" are all existing and later arising accounts, contract rights, and other obligations owed Borrower in connection with its sale or lease of goods (including licensing software and other technology) or provision of services, all credit insurance, guaranties, other security and all merchandise returned or reclaimed by Borrower and Borrower's Books relating to any of the foregoing, as such definition may be amended from time to time.

"ADVANCE" or "ADVANCES" is a loan advance (or advances) under the Committed Revolving Line.

"AFFILIATE" of a Person is a Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members.

"BANK EXPENSES" are all audit fees and expenses and reasonable costs and expenses (including reasonable attorneys' fees and expenses) for preparing, negotiating, administering, defending and enforcing the Loan Documents (including appeals or Insolvency Proceedings).

"BORROWER'S BOOKS" are all Borrower's books and records including ledgers, records regarding Borrower's assets or liabilities, the Collateral, business operations or financial condition and all computer programs or discs or any equipment containing the information.

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"BUSINESS DAY" is any day that is not a Saturday, Sunday or a day on which the Bank is closed.

"CLOSING DATE" is the date of this Agreement.

"CODE" is the Uniform Commercial Code, as applicable.

"COLLATERAL" is the property described on Exhibit A.

"COMMITTED REVOLVING LINE" is an Advance of up to \$1,500,000.

"CONTINGENT OBLIGATION" is, for any Person, any direct or indirect liability, contingent or not, of that Person for (i) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (ii) any obligations for undrawn letters of credit for the account of that Person; and (iii) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but "Contingent Obligation" does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under the guarantee or other support arrangement.

"EQUIPMENT" is all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest, as such definition may be amended from time to time.

"ERISA" is the Employment Retirement Income Security Act of 1974, and its regulations.

"GAAP" is generally accepted accounting principles.

"GUARANTOR" is any present or future guarantor of the Obligations, including Bruce R. Culver.

"INDEBTEDNESS" is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations and (d) Contingent Obligations.

"INSOLVENCY PROCEEDING" are proceedings by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"INVENTORY" is present and future inventory in which Borrower has any interest, including merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or later owned by or in the custody or possession, actual or constructive, of Borrower, including inventory temporarily out of its custody or possession or in transit and including returns on any accounts or other proceeds (including insurance proceeds) from the sale or disposition of any of the foregoing and any documents of title.

"INVESTMENT" is any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

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"LIEN" is a mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"LOAN DOCUMENTS" are, collectively, this Agreement, any note, or notes or guaranties executed by Borrower or Guarantor, and any other present or future agreement between Borrower and/or for the benefit of Bank in connection with this Agreement, all as amended, extended or restated.

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"MATERIAL ADVERSE CHANGE" is described in Section 8.3.

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"OBLIGATIONS" are debts, principal, interest, Bank Expenses and other amounts Borrower owes Bank now or later, including cash management services, letters of credit and foreign exchange contracts, if any and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank.

"PERMITTED INDEBTEDNESS" is:

(a) Borrower's indebtedness to Bank under this Agreement or any other Loan Document;

(b) Indebtedness existing on the Closing Date and shown on the Schedule;

(c) Subordinated Debt;

(d) Indebtedness to trade creditors incurred in the ordinary course of business; and

(e) Indebtedness secured by Permitted Liens.

"PERMITTED INVESTMENTS" are:

(a) Investments shown on the Schedule and existing on the Closing Date; and

(b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States or its agency or any State maturing within 1 year from its acquisition, (ii) commercial paper maturing no more than 1 year after its creation and having the highest rating from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (iii) Bank's certificates of deposit issued maturing no more than 1 year after issue.

"PERMITTED LIENS" are:

(a) Liens existing on the Closing Date and shown on the Schedule or arising under this Agreement or other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either not delinquent or being contested in good faith and for which Borrower maintains adequate reserves on its Books, if they have no priority over any of Bank's security interests;

(c) Purchase money Liens (i) on Equipment acquired or held by Borrower or its Subsidiaries incurred for financing the acquisition of the Equipment, or (ii) existing on equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the equipment;

(d) Licenses or sublicenses granted in the ordinary course of Borrower's business and any interest or title of a licensor or under any license or sublicense, if the licenses and sublicenses permit granting Bank a security interest;

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(e) Leases or subleases granted in the ordinary course of Borrower's business, including in connection with Borrower's leased premises or leased property;

(f) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase.

"PERSON" is any individual, sole proprietorship, partnership, limited liability company, joint venture, company association, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

"PRIME RATE" is Bank's most recently announced "prime rate," even if it is not Bank's lowest rate.

"RESPONSIBLE OFFICER" is each of the Chief Executive Officer, the President, the Chief Financial Officer and the Controller of Borrower.

"REVOLVING MATURITY DATE" is April 30, 2002.

"SCHEDULE" is any attached schedule of exceptions.

"SUBORDINATED DEBT" is debt incurred by Borrower subordinated to Borrower's indebtedness owed to Bank and which is reflected in a written agreement in a manner and form acceptable to Bank and approved by Bank in writing.

"SUBSIDIARY" is for any Person, or any other business entity of which more than 50% of the voting stock or other equity interests is owned or controlled, directly or indirectly, by the Person or one or more Affiliates of the Person.

"TANGIBLE NET WORTH" is, on any date, the consolidated total assets of Borrower and its Subsidiaries minus, (i) any amounts attributable to (a) goodwill, (b) intangible items such as unamortized debt discount and expense, Patents, trade and service marks and names, Copyrights and research and development expenses except prepaid expenses, and (c) reserves not already deducted from assets, and (ii) Total Liabilities.

"TOTAL LIABILITIES" is on any day, obligations that should, under GAAP, be classified as liabilities on Borrower's consolidated balance sheet, including all Indebtedness, and current portion Subordinated Debt allowed to be paid, but excluding all other Subordinated Debt.

BORROWER:

TASER International, Inc.

By: /s/ Kathleen Manrahan

Title: Secretary & Chief Financial Officer

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BANK:

SILICON VALLEY BANK

By: /s/ Amy Lou Blunt

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Title: Vice President, Relationship Manager

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Exhibit 23.2

[AA LETTERHEAD]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

<R>  
As independent public accountants, we hereby consent to the use of our report dated April 30, 2001 (and to all references to our firm) included in or made a part of Amendment #3 of the Registration Statement on Form SB-2.  
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Phoenix, Arizona  
April 30, 2001  
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the Corporation), business address and telephone number, residence address and telephone number, and the number of shares of each class of stock of the Corporation beneficially owned by that stockholder; (3) any interest of the stockholder in the proposed business; (4) the name or names of each person nominated by the stockholder to be elected or re-elected as a director, if any; and (5) with respect to each nominee, that nominee's name, business address and telephone number, and residence address and telephone number, the number of shares, if any, of each class of stock of the Corporation owned directly and beneficially by that nominee, and all information relating to that nominee that is required to be disclosed in solicitations of proxies for elections of directors, or is otherwise required, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, or any provision of law subsequently replacing Regulation 14A, together with a duly acknowledged letter signed by the nominee stating his or her acceptance of the nomination by that stockholder, stating his or her intention to serve as a director if elected, and consenting to being named as a nominee for director in any proxy statement relating to such election. The person presiding at the annual meeting shall determine whether business (including the nomination of any person as a director) has been properly brought before the meeting and, if the facts so warrant, shall not permit any business (or voting with respect to any particular nominee) to be transacted that has not been properly brought before the meeting. Notwithstanding any other provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of the holders of not less than 66.67% of the voting power of the then outstanding shares of capital stock entitled to vote thereon (the "Voting Stock"), voting together as a single class, shall be required to amend or repeal, or to adopt a provision inconsistent with, this Section 2.03-a.  
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Section 2.03-b. Date and Time. Annual meetings of stockholders shall be held at such date and time as shall be designated by the Board of Directors and stated in the notice of the meeting.

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

Section 2.04. Special Meetings.

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Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may only be called and proposed by: (i) the Chairman of the Board; (ii) the Chief Executive Officer; (iii) the holder(s) of a majority of the voting power of the Voting Stock; or (iv) the Board of Directors pursuant to a resolution adopted by a majority of the then-authorized number of directors. Such request shall state the purpose or purposes of the proposed meeting.  
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Section 2.05. Purpose of Special Meeting.

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

Section 2.06. Notice of Meetings.

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

Section 2.07. Waiver of Notice.

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

Section 2.08. Quorum; Adjournment.

The holders of a majority of the voting power of all shares entitled to vote, present in person or represented by proxy, shall constitute a quorum for the transaction of all business at meetings of the stockholders, except as may be otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the original meeting in accordance with the notice thereof. If a quorum is present when a duly called or held meeting is convened, the stockholders present in person or represented by proxy may continue to transact business until adjournment notwithstanding the withdrawal of enough stockholders originally present in person or by proxy to leave less than a quorum, and for the purposes of voting pursuant to Section 2.09 hereof, stockholders holding a majority of the voting power of all shares entitled to vote shall be deemed to be present in person.

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Section 2.09. Vote Required.

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

Section 2.10. Voting Rights.

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

Section 2.11. Proxies.

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

An appointment of a proxy or proxies for shares held jointly by two or more stockholders is valid if signed by any one of them, unless and until the Corporation receives from any one of those stockholders written notice denying the authority of such other person or persons to appoint a proxy or proxies or appointing a different proxy or proxies, in which case no proxy shall be appointed unless the instrument shall otherwise provide. No proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. Subject to the above, any duly executed proxy shall continue in full force and effect and shall not be revoked unless written notice of its revocation or a duly executed proxy bearing a later date is filed with the Secretary of the Corporation. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable proxy.

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Section 2.12. Action in Writing.

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

Section 2.13. Closing of Books; Record Date.

The Board of Directors may fix, or authorize an officer to fix, a date, not more than sixty (60) nor less than ten (10) days preceding the date of any meeting of the stockholders of the Corporation, as a record date for the determination of the stockholders of record on the date so fixed or their legal representatives shall be entitled to notice of and to vote at such meeting, notwithstanding any transfer of shares on the books of the Corporation against the transfer of shares during the whole or any part of such period.

ARTICLE III: DIRECTORS

Section 3.01. General Powers.

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

Section 3.02. Number and Qualification.

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

Section 3.03. Classes and Terms.

The Board of Directors of the Corporation shall be divided into three classes designated Class A, Class B, and Class C, respectively, all as nearly equal in number as possible, with each director then in office receiving the classification that at least a majority of the Board of Directors designates. The initial term of office of directors of Class A shall expire at the annual meeting of stockholders of the Corporation in 2001, of Class B shall expire at the annual meeting of stockholders of the Corporation in 2002, and of Class C shall expire at the annual meeting of stockholders of the Corporation in 2003, and in all cases a director shall serve until the director's successor is elected and qualified or until his earlier death, resignation or removal. At each annual meeting of stockholders beginning with the annual meeting of

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stockholders in 2001, each director elected to succeed a director whose term is then expiring shall hold office until the third annual meeting of stockholders after his or her election and until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. If the number of directors that constitutes the whole Board of Directors is changed as permitted by the Certificate of Incorporation or these Bylaws, the majority of the whole Board of Directors that adopts the change shall also fix and determine the number of directors comprising each class; provided, however, that any increase or decrease in the number of directors shall be apportioned among the classes as equally as possible. Notwithstanding any provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of 66.67% of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Section 3.03.  
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Section 3.04. Vacancies.

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Vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office, or other cause, and newly-created directorships resulting from any increase in the authorized number of directors, may be filled by no less than a majority vote of the remaining directors then in office, though less than a quorum, who are designated to represent the same class or classes of stockholders that the vacant position, when filled, is to represent or by the sole remaining director (but not by the stockholders except as required by law); provided, however, that, with respect to any directorship to be filled by the Board of Directors by reason of an increase in the number of directors: (a) such directorship shall be for a term of office continuing only until the next election of one or more directors by the stockholders; and (b) the Board of Directors may not fill more than two such directorships during the period between any two successive annual meetings of stockholders. Each director chosen in accordance with this provision shall receive the classification of the vacant directorship to which he or she has been appointed or, if it is a newly-created directorship, shall receive the classification that at least a majority of the Board of Directors designates and shall hold office until the first meeting of stockholders held after his or her election for the purpose of electing directors of that classification and until his or her successor is elected and qualified or until his or her earlier death, resignation, or removal from office. Notwithstanding any provision of the Certificate of Incorporation or any provision of law that might otherwise permit a lesser or no vote, and in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of 66.67% of the Voting Stock, voting together as a single class, shall be required to amend or repeal, or to adopt any provision inconsistent with, this Section 3.04.  
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Section 3.05. Meetings.

Section 3.05-a. Place of Meetings. The Board of Directors may hold meetings, both regular and special, either within or without the State of Delaware.

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

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

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

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

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

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

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

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

Section 3.06. Committees.

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

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

(a) Approving or adopting, or recommending to the stockholders any action or matter expressly required by law to be submitted to stockholders for approval; or

(b) Adopting, amending or repealing any bylaw of the Corporation.

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

Section 3.07. Telephone Conference Meetings.

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

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Section 3.08. Compensation.

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

Section 3.09. Limitation of Director Liability.

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

Section 3.10. Resignation and Removal.

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

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ARTICLE IV: OFFICERS

Section 4.01. Selection: Qualifications.

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

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

Section 4.02. Salaries.

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

Section 4.03. Term of Office.

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

Section 4.04. Chairman of the Board.

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

Section 4.05. Chief Executive Officer.

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

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Section 4.06. President.

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

Section 4.07. Vice-Presidents.

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

Section 4.08. Secretary and Assistant Secretary.

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

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

Section 4.09. Chief Financial Officer.

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

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

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

#### ARTICLE V. CERTIFICATES FOR SHARES

##### Section 5.01. Issuance of Shares and Fractional Shares.

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

##### Section 5.02. Form of Certificate.

The shares of the Corporation shall be represented by certificates, provided that the Board of Directors of the Corporation may resolve that some or all of any or all classes or series of its stock will be uncertificated shares as provided in Section 5.06. Certificates shall be signed by the Chairman of the Board or the President and by the Secretary or Assistant Secretary of the Corporation, certifying the number of shares of capital stock owned by him in the Corporation. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the designations, preferences, and relative, participating, optional, or other special rights of the various classes of stock or series thereof and the qualifications, limitations, or restrictions of such rights, together with a statement of the authority of the Board of Directors to determine the relative rights and preferences of subsequent classes or series, shall be set forth in full on the face or back of the certificate which the Corporation shall issue to represent such stock, or, in lieu thereof, such certificate shall contain a statement that the stock is, or may be, subject to certain rights, preferences, or restrictions and that a statement of the same will be furnished without charge by the Corporation upon request by any stockholder. Certificates representing the shares of the capital stock of the Corporation shall be in such form not inconsistent with law or the Certificate of Incorporation or these Bylaws as shall be determined by the Board of Directors.

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Section 5.03. Facsimile Signatures.

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

Section 5.04. Lost, Stolen, or Destroyed Certificates.

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

Section 5.05. Transfers of Stock.

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

Section 5.06. Uncertificated Shares.

Unless prohibited by the Certificate of Incorporation or these Bylaws, some or all of any or all classes and series of the Corporation's shares may be uncertificated shares. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares, such uncertificated shares shall be canceled and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the Corporation. Within a reasonable time after the issuance or

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transfer of uncertificated shares, the Corporation shall send to the new stockholder the information required by Section 5.02 to be stated on certificates. If this Corporation becomes a publicly held corporation which adopts, in compliance with Section 17 of the Securities Exchange Act of 1934, a system of issuance, recordation, and transfer of its shares by electronic or other means not involving an issuance of certificates, this information is not required to be sent to new stockholders.

Section 5.07. Closing of Transfer Books: Record Date.

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

Section 5.08. Registered Stockholders.

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

Section 5.09. Stock Options and Agreements.

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

ARTICLE VI: DIVIDENDS

Section 6.01. Method of Payment.

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

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Section 6.02. Closing of Books: Record Date.

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

Section 6.03. Reserves.

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

ARTICLE VII: CHECKS

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

ARTICLE VIII: CORPORATE SEAL

The Corporation shall have no corporate seal.

ARTICLE IX: FISCAL YEAR

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

ARTICLE X: AMENDMENTS

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

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ARTICLE XI: BOOKS AND RECORDS

Section 11.01. Books and Records.

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

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

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

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

Section 11.02. Computerized Records.

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

Section 11.03. Examination and Copying by Stockholders.

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

ARTICLE XII: LOANS AND ADVANCES

Section 12.01. Loans, Guarantees, and Suretyship.

The Corporation may lend money to, guarantee an obligation of, become a surety for, or otherwise financially assist a person, if the transaction, or a class of transactions to which the transaction belongs, is approved by the affirmative vote of a majority of the directors present at a lawfully convened meeting and such action: (a) is in the usual and regular course of business of the Corporation; (b) is with, or for the benefit of, a related corporation, an organization with which the Corporation has the power to make donations; (c) is with, or for the benefit of, an officer or other employee of the Corporation or a subsidiary, including an officer or employee who is a director of the Corporation or a subsidiary, and may reasonably be expected, in the judgment of the Board of Directors, to benefit the Corporation; or (d) has been approved by the

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affirmative vote of the holders of seventy-five percent (75%) of the Voting Stock, voting together as a single class. The loan, guarantee, or other assistance may be with or without interest and may be unsecured or may be secured in any manner that a majority of the Board of Directors approves, including, without limitation, a pledge of or other security interest in shares of the Corporation.

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

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

ARTICLE XIII: INDEMNIFICATION

Section 13.01. Directors and Officers

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

Section 13.01-b. Indemnity in Proceedings by or in the Right of the Corporation. The Corporation shall indemnify its directors and officers in accordance with the provisions of this Section 13.01-b if the director or officer was or is a party to, or is threatened to be made a party to, any proceeding by or in the right of the Corporation to procure a judgment in its favor, against all expenses actually and reasonably incurred by the director or officer in connection with the defense or settlement of such proceeding if the director or officer acted in good faith and in a manner the director or officer reasonably believed was in or not opposed to the best interests of the corporation; provided, however, that the director or officer shall not be entitled to indemnification under this Section 13.01-b: (1) in connection with any proceeding in which the director or officer has been adjudged liable to the Corporation unless and only to the extent that the court conducting such proceeding, or the Delaware Court of Chancery, determines

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upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the director or officer is fairly and reasonably entitled to indemnification for such expenses as such court shall deem proper, or (2) in connection with any proceeding (or part thereof) initiated by such person or any proceeding by such person against the Corporation or its directors, officers, employees or other agents unless (A) such indemnification is expressly required to be made by law, (B) the proceeding was authorized by the Board of Directors, or (C) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the Delaware General Corporation Law.

Section 13.02. Employees and Other Agents

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

Section 13.03. Good Faith.

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

1. one or more officers or employees of the Corporation whom the director or officer believed to be reliable and competent in the matters presented;

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

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

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

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

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#### Section 13.04. Advances of Expenses

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

#### Section 13.05. Enforcement

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

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Section 13.06. Non-Exclusivity of Rights

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

Section 13.07. Survival of Rights

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

Section 13.08. Insurance

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

Section 13.09. Amendments

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

Section 13.10. Savings Clause

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

Section 13.11. Certain Definitions

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

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

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

Section 13.11-c. References to "OTHER ENTERPRISE" include, without limitation, employee benefit plans; references to "FINES" include, without limitation, any excise taxes assessed on a person with respect to any employee benefit plan; references to "SERVING AT THE REQUEST OF THE Corporation" include, without limitation, any service as a director, officer, employee or agent which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or its beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "NOT OPPOSED TO THE BEST INTERESTS OF THE CORPORATION" as referred to in this Article XIII.

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

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

#### Section 13.12. Notification and Defense of Claim

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

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

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

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

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

#### Section 13.13. Exclusions

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

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Section 13.14. Subrogation

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

ARTICLE XIV: DEFINITIONS AND USAGE

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

<R>

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

</R>

<R>

Dated: April 24, 2001.

</R>

<R>

/s/ Kathleen C. Hanrahan

</R>

Kathleen C. Hanrahan, Secretary

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Bylaws-Taser International, Inc.  
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Exhibit 4.3

VOID AFTER 5:00 P.M. PACIFIC TIME ON \_\_\_\_\_, 2006

WARRANTS TO PURCHASE COMMON STOCK

W-\_\_\_\_\_ Warrants

TASER INTERNATIONAL, INC.  
CUSIP \_\_\_\_\_

THIS CERTIFIES THAT

or registered assigns, is the registered holder of the number of Warrants (the "Warrants") set forth above. Each Warrant entitles the holder thereof to purchase from TASER International, Inc., a corporation incorporated under the laws of the state of Delaware (the "Company"), subject to the terms and conditions set forth hereinafter and in the Warrant and Unit Agreement hereinafter more fully described (the "Warrant Agreement"), at any time on or before the close of business on \_\_\_\_\_, 2006 or, if such Warrant is redeemed as provided in the Warrant Agreement, at any time prior to the effective time of such redemption (the "Expiration Date"), one fully paid and non-assessable share of Common Stock of the Company (the "Common Stock") upon presentation and surrender of this Warrant Certificate, with the instructions for the registration and delivery of Common Stock filled in, at the stock transfer office in Glendale, California, of U.S. Stock Transfer Corporation, Warrant Agent of the Company (the "Warrant Agent") or of its successor warrant agent or, if there be no successor warrant agent, at the corporate offices of the Company, and upon payment of the Exercise Price (as defined in the Warrant Agreement) and any applicable taxes paid either in cash, or by certified or official bank check, payable in lawful money of the United States of America to the order of the Company. Each Warrant entitles the holder to purchase one share of Common Stock initially for one hundred ten percent (110%) of: two-thirds of the Initial Public Offering price of the Units (the "Exercise Price"). The number and kind of securities or other property for which the Warrants are exercisable are subject to further adjustment in certain events, such as mergers, splits, stock dividends, recapitalizations and the like, to prevent dilution. Upon 30 days notice, the Company may redeem any or all outstanding and unexercised Warrants at any time if the basic net income per share of Common Stock as confirmed by an audit conducted in accordance with generally accepted accounting principles applicable in the United States (which such audit may be conducted with respect to any fiscal year of the Company or any other 12-month period ending on the last day of a fiscal quarter of the Company, in the Company's sole discretion), for an audited 12-month period preceding the date of such notice is equal to or greater than \$1.00, at a price of \$0.25 per Warrant. All Warrants not theretofore exercised or redeemed will expire on \_\_\_\_\_, 2006.

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This Warrant Certificate is subject to all of the terms, provisions and conditions of the Warrant Agreement, dated as of \_\_\_\_\_, 2001 (the "Warrant Agreement"), between the Company and the Warrant Agent, to all of which terms, provisions and conditions the registered holder of this Warrant Certificate consents by acceptance hereof. The Warrant Agreement is incorporated herein by reference and made a part hereof and reference is made to the Warrant Agreement for a full description of the rights, limitations of rights, obligations, duties and immunities of the Warrant Agent, the Company and the holders of the Warrant Certificates. Copies of the Warrant Agreement are available for inspection at the stock transfer office of the Warrant Agent or may be obtained upon written request addressed to the Company at 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260, Attention: Chief Financial Officer.

The Company shall not be required upon the exercise of the Warrants evidenced by this Warrant Certificate to issue fractions of Warrants, Common Stock or other securities, but shall make adjustment therefor in cash on the basis of the current market value of any fractional interest as provided in the Warrant Agreement.

In certain cases, the sale of securities by the Company upon exercise of Warrants would violate the securities laws of the United States, certain states thereof or other jurisdictions. The Company has agreed to use all commercially reasonable efforts to cause a registration statement to continue to be effective during the term of the Warrants with respect to such sales under the Securities Act of 1933, as amended, and to take such action under the laws of various states as may be required to cause the sale of securities upon exercise to be lawful. However, the Company will not be required to honor the exercise of Warrants if, in the opinion of the Board of Directors, upon advice of counsel, the sale of securities upon such exercise would be unlawful. In certain cases, the Company may, but is not required to, purchase Warrants submitted for exercise for a cash price equal to the difference between the market price of the securities obtainable upon such exercise and the exercise price of such Warrants.

This Warrant Certificate, with or without other Warrant Certificates, upon surrender to the Warrant Agent, any successor warrant agent or, in the absence of any successor warrant agent, at the corporate offices of the Company, may be exchanged for another Warrant Certificate or Certificates evidencing in the aggregate the same number of Warrants as the Warrant Certificate or Certificates so surrendered. If the Warrants evidenced by this Warrant Certificate shall be exercised in part, the holder hereof shall be entitled to receive upon surrender hereof another Warrant Certificate or Certificates evidencing the number of Warrants not so exercised.

No holder of this Warrant Certificate, as such, shall be entitled to vote, receive dividends or be deemed the holder of Common Stock or any other securities of the Company which may at any time be issuable on the exercise hereof for any purpose whatever, nor shall anything contained in the Warrant Agreement or herein be construed to confer upon the holder of this Warrant Certificate, as such, any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to stockholders at any meeting thereof or give or withhold consent to any corporate action (whether upon any matter submitted to stockholders at any meeting thereof, or give or withhold consent to any merger,

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recapitalization, issuance of stock, reclassification of stock, change of par value or change of stock to no par value, consolidation, conveyance or otherwise) or to receive notice of meetings or other actions affecting stockholders (except as provided in the Warrant Agreement) or to receive dividends or subscription rights or otherwise until the Warrants evidenced by this Warrant Certificate shall have been exercised and the Common Stock purchasable upon the exercise thereof shall have become deliverable as provided in the Warrant Agreement.

If this Warrant Certificate shall be surrendered for exercise within any period during which the transfer books for the Company's Common Stock or other class of stock purchasable upon the exercise of the Warrants evidenced by this Warrant Certificate are closed for any purpose, the Company shall not be required to make delivery of certificates for shares purchasable upon such transfer until the date of the reopening of said transfer books.

Every holder of this Warrant Certificate by accepting the same consents and agrees with the Company, the Warrant Agent, and with every other holder of a Warrant Certificate that:

(a) This Warrant Certificate is transferable on the registry books of the Warrant Agent only upon the terms and conditions set forth in the Warrant Agreement; and

(b) The Company and the Warrant Agent may deem and treat the person in whose name this Warrant Certificate is registered as the absolute owner hereof (notwithstanding any notation of ownership or other writing thereon made by anyone other than the Company or the Warrant Agent) for all purposes whatever and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary.

The Company shall not be required to issue or deliver any certificate for shares of Common Stock or other securities upon the exercise of Warrants evidenced by this Warrant Certificate until any tax which may be payable in respect thereof by the holder of this Warrant Certificate pursuant to the Warrant Agreement shall have been paid, such tax being payable by the holder of this Warrant Certificate at the time of surrender.

This Warrant Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Warrant Agent.

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WITNESS the facsimile signatures of the proper officers of the Company and its corporate seal.

Dated: \_\_\_\_\_, 2001

TASER International, Inc.

By: \_\_\_\_\_  
Patrick W. Smith,  
Chief Executive Officer

Attest: \_\_\_\_\_  
Secretary

Countersigned

U.S. Stock Transfer Corporation

By: \_\_\_\_\_  
Authorized Officer

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FORM OF ELECTION TO PURCHASE  
(TO BE EXECUTED BY THE REGISTERED HOLDER IN ORDER TO EXERCISE THE  
WARRANTS IN WHOLE OR IN PART)

To: TASER INTERNATIONAL, INC.

The undersigned Registered Holder ( )

(Please insert Social Security or other  
identification number of Registered Holder)

hereby irrevocably elects to exercise the right of purchase represented by the  
within this Warrant Certificate for, and to purchase thereunder, \_\_\_\_\_  
shares of Common Stock provided for therein and tenders payment herewith to the  
order of TASER INTERNATIONAL, INC. in the amount of \$\_\_\_\_\_. The  
undersigned requests that certificates for such shares of Common Stock be issued  
as follows:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Deliver to: \_\_\_\_\_

Address: \_\_\_\_\_

and if said number of Warrants being exercised shall not be all the Warrants  
evidenced by this Warrant Certificate, that a new Certificate for the balance of  
such Warrants as well as the shares of Common Stock represented by this Warrant  
Certificate be registered in the name of, and delivered to, the Registered  
Holder at the address stated below:

Address: \_\_\_\_\_

Dated: \_\_\_\_\_, \_\_\_\_\_

Signature

(Signature must conform in all respects to the name of Registered Holder as  
specified in the case of this Warrant Certificate in every particular, without  
alteration or any change whatever.)

Signature Guaranteed:

The signature should be guaranteed by an eligible institution (Banks,  
Stockbrokers, Savings and Loan Association and Credit Union with membership in  
an approved signature Medallion Program), pursuant to S.E.C. Rule 17Ad-15.

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FORM OF ASSIGNMENT  
(TO BE SIGNED ONLY UPON ASSIGNMENT)

FOR VALUE RECEIVED, the undersigned Registered Holder ( )

\_\_\_\_\_  
(Please insert  
Social Security or other  
identification number of  
Registered Holder)

hereby sells, assigns and transfers unto

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
(Please Print Name and Address including Zip Code)

Warrants evidenced by the within Warrant Certificate, and  
irrevocably constitutes and appoints

\_\_\_\_\_  
to transfer this Warrant Certificate on the books of TASER International, Inc. with the full power of substitution in the premises. Attorney

Dated: \_\_\_\_\_, \_\_\_\_\_

Signature:

\_\_\_\_\_  
(Signature must conform in all respects to the name of Registered Holder as specified on the face of this Unit Certificate in every particular, without alteration or any change whatsoever, and the signature must be guaranteed in the usual manner.)

Signature Guaranteed:

\_\_\_\_\_  
The signature should be guaranteed by an eligible institution (Banks, Stockbrokers, Savings and Loan Association and Credit Union with membership in an approved signature Medallion Program), pursuant to S.E.C. Rule 17Ad-15.

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Exhibit 4.5

WARRANT AND UNIT AGREEMENT

TASER International, Inc., 7860 E. McClain Drive, Suite 2, Scottsdale, Arizona 85260, a Delaware corporation ("Company"), and US Stock Transfer Corporation, 1745 Gardena Avenue, Glendale, California, a \_\_\_\_\_ corporation ("Transfer Agent"), agree as follows:

1. PURPOSE. The Company proposes to publicly offer and issue in an initial public offering (the "Offering") \_\_\_\_\_ units ("Units"). Each Unit will entitle the registered holder of a Unit ("Unit Holder") to (i) one and one-half (1.5) shares of the Company's \$0.00001 par value common stock ("Share") and (ii) one and one-half (1.5) warrants, each whole warrant permitting the purchase of one (1) Share ("Warrant").
2. WARRANTS. Each Warrant will entitle the registered holder of a Warrant ("Warrant Holder") to purchase from the Company one (1) Share at one hundred ten percent (110%) of: two-thirds of the Initial Public Offering price of the Units (the "Exercise Price"). A Warrant Holder may exercise all or any number of Warrants resulting in the purchase of a whole number of Shares.
3. EXERCISE PERIOD. The Warrants may be exercised at any time during the period commencing thirty (30) days after the effective date ("Offering Date") of the Offering ("Exercise Date") and ending at 3:00 p.m., Denver Colorado time on the fifth (5th) anniversary date of the closing of the Offering ("Expiration Date"), except as changed by Section 15 of this Agreement.
4. NON-DETACHABILITY. A Warrant Certificate (as defined below) may not be detached from a Share certificate contained in a Unit for at least thirty (30) days following the Offering Date. Until such time, a Warrant Certificate may be split up, combined, exchanged or transferred on the books of the Transfer Agent only together with a Share certificate. Paulson Investment Company, Inc. will then determine when the Units separate, after which the Shares and Warrants will trade separately.
5. CERTIFICATES. The Warrant certificates shall be in registered form only and shall be substantially in the form set forth in Exhibit A attached to this Agreement ("Warrant Certificate"). The Unit certificates shall be in registered form only and shall be substantially in the form set forth in Exhibit B attached to this Agreement ("Unit Certificate"). Warrant and Unit Certificates shall be signed by, or shall bear the facsimile signature of, the Chief Executive Officer, President or a Vice President of the Company and the Secretary or an Assistant Secretary of the Company. If any person, whose facsimile signature has been placed upon any Warrant or Unit Certificate or the signature of an officer of the Company, shall have ceased to be such officer before such Warrant or Unit Certificate is countersigned, issued and delivered, such Warrant or Unit Certificate shall be countersigned, issued and delivered with the same effect as if such person had not ceased to be such officer. Any Warrant or Unit Certificate may be signed by, or made to bear the facsimile signature of, any person who at the actual date of the preparation of such Warrant or Unit Certificate shall be a proper officer of the Company to sign such Warrant or Unit Certificate, even though such person was not such an officer upon the date of this Agreement.

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6. ISSUANCE OF NEW CERTIFICATES. Notwithstanding any of the provisions of this Agreement or the several Warrant or Unit Certificates to the contrary, the Company may, at its option, issue new Warrant or Unit Certificates in such form as may be approved by its Board of Directors to reflect any adjustment or change in the Exercise Price or the number or kind of shares purchasable under the several Warrant or Unit Certificates made in accordance with the provisions of this Agreement.

7. COUNTERSIGNING. Warrant and Unit Certificates shall be manually countersigned by the Transfer Agent and shall not be valid for any purpose unless so countersigned. The Transfer Agent hereby is authorized to countersign and deliver to, or in accordance with the instructions of, any Warrant or Unit Holder any Warrant or Unit Certificate, respectively, which is properly issued.

8. REGISTRATION OF TRANSFER AND EXCHANGES. The Transfer Agent will keep or cause to be kept books for registration of ownership or transfer of Warrant and Unit Certificates issued hereunder. Such registers shall show the names and addresses of the respective holders of the Warrant and Unit Certificates and the number of Warrants and Units evidenced by each such Warrant or Unit Certificate. Subject to the provisions of Section 4, the Transfer Agent shall from time to time register the transfer of any outstanding Warrant or Unit Certificate upon records maintained by the Transfer Agent for such purpose upon surrender of such Warrant or Unit Certificate to the Transfer Agent for transfer, accompanied by appropriate instruments of transfer in form satisfactory to the Company and the Transfer Agent and duly executed by the Warrant or Unit Holder or a duly authorized attorney. Upon any such registration of transfer, a new Warrant or Unit Certificate shall be issued in the name of and to the transferee and the surrendered Warrant or Unit Certificate shall be cancelled.

9. EXERCISE OF WARRANTS.

a. Any one Warrant or any multiple of one Warrant evidenced by any Warrant Certificate may be exercised on or after the Exercise Date and on or before the Expiration Date. A Warrant shall be exercised by the Warrant Holder by surrendering to the Transfer Agent the Warrant Certificate evidencing such Warrant with the exercise form on the reverse of such Warrant Certificate duly completed and executed and delivering to the Transfer Agent, by good check or bank draft payable to the order of the Company, the Exercise Price for each Share to be purchased. No fractional warrant may be exercised, but will be redeemed for cash equal to the current market value of such fractional warrant, as defined in Section 19 of this Warrant and Unit Agreement.

b. Upon receipt of a Warrant Certificate with the exercise form thereon duly executed together with payment in full of the Exercise Price (and an amount equal to any applicable taxes or government charges) for the Shares for which Warrants are then being exercised, the Transfer Agent shall requisition from any transfer agent for the Shares, and upon receipt shall make delivery of, certificates evidencing the total number of whole Shares for which Warrants are then being exercised in such names and denominations as are required for delivery to, or in accordance with the instructions of, the Warrant Holder. Such certificates for the Shares shall be deemed to be issued, and the person to whom such Shares are issued of record shall be deemed to have become a holder of record of such Shares, as of the date of the surrender of such Warrant Certificate and payment of the Exercise Price (and an amount equal to any applicable taxes or government

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charges), whichever shall last occur, provided that if the books of the Company with respect to the Shares shall be deemed to be closed, the person to whom such Shares are issued of record shall be deemed to have become a record holder of such Shares as of the date on which such books shall next be open (whether before, on or after the Expiration Date). The Company covenants and agrees that it shall not cause its stock transfer books to be closed for a period of more than twenty (20) consecutive business days except upon consolidation, merger, sale of all of its assets, dissolution or liquidation or as otherwise provided by law.

c. In addition, if it is required by law and upon instruction by the Company, the Transfer Agent will deliver to each Warrant Holder a prospectus that complies with the provisions of Section 5 of the Securities Act, as amended, and the Company agrees to supply the Transfer Agent with a sufficient number of prospectuses to effectuate that purpose.

d. Any Warrant Certificate or Certificates may be exchanged at the option of the holder thereof for another Warrant Certificate or Certificates of different denominations, of like tenor and representing in the aggregate the same number of Warrants, upon surrender of such Warrant Certificate or Certificates, with the Form of Assignment duly filled in and executed, to the Transfer Agent, at any time or from time-to-time after the close of business on the date hereof and prior to the close of business on the Expiration Date. The Transfer Agent shall promptly cancel the surrendered Warrant Certificate or Certificates and deliver the new Warrant Certificate or Certificates pursuant to the provisions of this Section.

e. If less than all the Warrants evidenced by a Warrant Certificate are exercised upon a single occasion, a new Warrant Certificate for the balance of the Warrants not so exercised shall be issued and delivered to, or in accordance with, transfer instructions properly given by the Warrant Holder until the Expiration Date.

f. All Warrant Certificates surrendered upon exercise of the Warrants shall be cancelled.

g. Upon the exercise, or conversion of any Warrant, the Transfer Agent shall account promptly to the Company with respect to Warrants exercised and concurrently pay to the Company all moneys received by the Transfer Agent for the purchase of securities or other property through the exercise of such Warrants.

h. Expenses incurred by the Transfer Agent while acting in the capacity as Transfer Agent, in accordance with this Agreement, will be paid by the Company. A detailed accounting statement relating to the number of shares exercised, names of registered Warrant Holder(s) and the net amount of exercise funds remitted will be given to the Company with the payment of each exercise amount.

10. REDEMPTION. The Warrants outstanding at the time of a redemption may be redeemed at the option of the Company, in whole or in part on a pro-rata basis, at any time if, at the time notice of such redemption is given by the Company as provided in subsection a. below, the basic net income per share of Common Stock as confirmed by an audit conducted in accordance with generally accepted accounting principles applicable in the United States (which such audit may be

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conducted with respect to any fiscal year of the Company or any other 12-month period ending on the last day of a fiscal quarter of the Company, in the Company's sole discretion), for an audited 12-month period preceding the date of such notice is equal to or greater than \$1.00, at a price of \$0.25 per Warrant (the "Redemption Price"). On the redemption date (the "Redemption Date"), the holders of record of redeemed Warrants shall be entitled to payment of the Redemption Price upon surrender of such redeemed Warrants to the Company at the principal office of the Transfer Agent in Glendale, California.

a. Notice of redemption of Warrants shall be given at least thirty (30) days prior to the Redemption Date by mailing, by registered or certified mail, return receipt requested, a copy of such notice to the Transfer Agent and by first class mail to all of the holders of record of Warrants at their respective addresses appearing on the books or transfer records of the Company or such other address designated in writing by the holder of record to the Transfer Agent not less than forty (40) days prior to the Redemption Date.

b. From and after the Redemption Date, all rights of the Warrant Holders (except the right to receive the Redemption Price) shall terminate, but only if (i) no later than one day prior to the Redemption Date the Company shall have irrevocably deposited with the Transfer Agent as paying agent a sufficient amount to pay on the Redemption Date the Redemption Price for all Warrants called for redemption and (ii) the notice of redemption shall have stated the name and address of the Transfer Agent and the intention of the Company to deposit such amount with the Transfer Agent no later than one day prior to the Redemption Date.

c. The Transfer Agent shall pay to the holders of record of redeemed Warrants all monies received by the Transfer Agent for the redemption of Warrants to which the holders of record of such redeemed Warrants who shall have surrendered their Warrants are entitled.

d. Any amounts deposited with the Transfer Agent that shall be unclaimed after six (6) months after the Redemption Date may be withdrawn by the Company, and thereafter the holders of the Warrants called for redemption for which such funds were deposited shall look solely to the Company for payment. The Company shall be entitled to the interest, if any, on funds deposited with the Transfer Agent and the holders of redeemed Warrants shall have no right to any such interest.

e. If the Company fails to make a sufficient deposit with the Transfer Agent as provided above, the holder of any Warrants called for redemption may at the option of the holder (i) by notice to the Company declare the notice of redemption a nullity as to such holder, or (ii) maintain an action against the Company for the Redemption Price. If the holder brings such an action, the Company will pay reasonable attorneys' fees of the holder. If the holder fails to bring an action against the Company for the Redemption Price within sixty (60) days after the Redemption Date, the holder shall be deemed to have elected to declare the notice of redemption to be a nullity as to such holder and such notice shall be without any force or effect as to such holder. Except as otherwise specifically provided in this subsection e., a notice of redemption, once mailed by the Company, as provided in subsection a., shall be irrevocable.

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11. TAXES. The Company will pay all taxes attributable to the initial issuance of Shares upon exercise of Warrants. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in any issue of Warrant or Unit Certificates or in the issue of any certificates of Shares in the name other than that of the Warrant or Unit Holder upon the exercise of any Warrant or Unit, as the case may be.

12. MUTILATED OR MISSING CERTIFICATES. If any Warrant or Unit Certificate is mutilated, lost, stolen or destroyed, the Company and the Transfer Agent may, on such terms as to indemnity or otherwise as they may in their discretion impose (which shall, in the case of a mutilated Warrant or Unit Certificate, include the surrender thereof), and upon receipt of evidence satisfactory to the Company and the Transfer Agent of such mutilation, loss, theft or destruction, issue a substitute Warrant or Unit Certificate, respectively, of like denomination or tenor as the Warrant or Unit Certificate so mutilated, lost, stolen or destroyed. Applicants for substitute Warrant or Unit Certificates shall comply with such other reasonable regulations and pay any reasonable charges as the Company or the Transfer Agent may prescribe.

13. SUBSEQUENT ISSUE OF CERTIFICATES. Subsequent to their original issuance, no Warrant or Unit Certificates shall be reissued except (i) such Certificates issued upon transfer thereof in accordance with Section 8 hereof, (ii) such Certificates issued upon any combination, split-up or exchange of Warrant or Unit Certificates pursuant to Section 8 hereof, (iii) such Certificates issued in replacement of mutilated, destroyed, lost or stolen Warrant or Unit Certificates pursuant to Section 12 hereof, (iv) Warrant Certificates issued upon the partial exercise of Warrant Certificates pursuant to Section 9 hereof, and (v) Warrant Certificates issued to reflect any adjustment or change in the Exercise Price or the number or kind of shares purchasable thereunder pursuant to Section 6 hereof. The Transfer Agent is hereby irrevocably authorized to countersign and deliver, in accordance with the provisions of said Sections 6, 8, 9 and 12, the new Warrant or Unit Certificates, as the case may be, required for purposes thereof, and the Company, whenever required by the Transfer Agent, will supply the Transfer Agent with Warrant and Unit Certificates duly executed on behalf of the Company for such purposes.

14. RESERVATION OF SHARES. For the purpose of enabling the Company to satisfy all obligations to issue Shares upon exercise of Warrants, the Company will at all times reserve and keep available free from preemptive rights, out of the aggregate of its authorized but unissued shares, the full number of Shares which may be issued upon the exercise of the Warrants. The Company covenants all shares which shall be so issuable, will upon issue be fully paid and nonassessable by the Company and free from all taxes, liens, charges and security interests with respect to the issue thereof. In the case of a Warrant exercisable solely for securities listed on a securities exchange or for which there are at least two (2) independent market makers, the Company may elect to redeem Warrants submitted to the Transfer Agent for exercise for a price equal to the difference between the aggregate low asked price, or closing price, as the case may be, of the securities for which such Warrant is exercisable on the date of such submission and the Exercise Price of such Warrants; in the event of such redemption, the Company will pay to the holder of such Warrants the above-described redemption price in cash within ten (10) business days after receipt of notice from the Transfer Agent that such Warrants have been submitted for exercise.

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15. GOVERNMENTAL RESTRICTIONS. If any Shares issuable upon the exercise of Warrants require registration or approval of any governmental authority, the Company will use commercially reasonable efforts to secure such registration or approval and, to the extent practicable, take action in anticipation of and prior to the exercise of the Warrants necessary to permit a public offering of the securities underlying the Warrants during the term of this Agreement; provided that in no event shall such Shares be issued, and the Company shall have the authority to suspend the exercise of all Warrants, until such registration or approval shall have been obtained; but all Warrants, the exercise of which is requested during any such suspension, shall be exercisable at the Exercise Price. If any such period of suspension continues past the Expiration Date, all Warrants, the exercise of which have been requested on or prior to the Expiration Date, shall be exercisable upon the removal of such suspension until the close of business on the business day immediately following the expiration of such suspension.

16. ADJUSTMENTS OF NUMBER AND KIND OF SHARES PURCHASABLE AND EXERCISE PRICE. The number and kind of securities or other property purchasable upon exercise of a Warrant shall be subject to adjustment from time to time upon the occurrence, after the date hereof, of any of the following events:

a. In case the Company shall (i) pay a dividend in, or make a distribution of, shares of capital stock on its outstanding Common Stock, (ii) subdivide its outstanding shares of Common Stock into a greater number of such shares or (iii) combine its outstanding shares of Common Stock into a smaller number of such shares, the total number of shares of Common Stock purchasable upon the exercise of each Warrant outstanding immediately prior thereto shall be adjusted so that the holder of any Warrant Certificate thereafter surrendered for exercise shall be entitled to receive at the same aggregate Exercise Price the number of shares of capital stock (of one or more classes) which such holder would have owned or have been entitled to receive immediately following the happening of any of the events described above had such Warrant been exercised in full immediately prior to the record date with respect to such event. Any adjustment made pursuant to this subsection shall, in the case of a stock dividend or distribution, become effective as of the record date therefor and, in the case of a subdivision or combination, be made as of the effective date thereof. If, as a result of an adjustment made pursuant to this subsection, the holder of any Warrant Certificate thereafter surrendered for exercise shall become entitled to receive shares of two or more classes of capital stock of the Company, the Board of Directors of the Company, (whose determination shall be conclusive and shall be evidenced by a Board resolution filed with the Transfer Agent) shall determine the allocation of the adjusted Exercise Price between or among shares of such classes of capital stock.

b. In the event of a capital reorganization or a reclassification of the Common Stock (except as provided in subsection a. above or subsection e. below), any Warrant Holder, upon exercise of Warrants, shall be entitled to receive, in substitution for the Common Stock to which he would have become entitled upon exercise immediately prior to such reorganization or reclassification, the shares (of any class or classes) or other securities or property of the Company (or cash) that he would have been entitled to receive at the same aggregate Exercise Price upon such reorganization or reclassification if such Warrants had been exercised immediately prior to the record date with respect to such event; and in any such case, appropriate provision (as determined by the Board of Directors of the Company, whose determination shall be conclusive and shall be

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evidenced by a certified Board resolution filed with the Transfer Agent) shall be made for the application of this Section with respect to the rights and interests thereafter of the Warrant Holders (including but not limited to the allocation of the Exercise Price between or among shares of classes of capital stock), to the end that this Section (including the adjustments of the number of shares of Common Stock or other securities purchasable and the Exercise Price thereof) shall thereafter be reflected, as nearly as reasonably practicable, in all subsequent exercises of the Warrants for any shares or securities or other property (or cash) thereafter deliverable upon the exercise of the Warrants.

c. Whenever the number of shares of Common Stock or other securities purchasable upon exercise of a Warrant is adjusted as provided in this Section, the Company will promptly file with the Transfer Agent a certificate signed by a Chairman of the Board or the Chief Executive Officer, the President or a Vice President of the Company and by the Secretary or an Assistant Secretary of the Company setting forth the number and kind of securities or other property purchasable upon exercise of a Warrant, as so adjusted, stating that such adjustments in the number or kind of shares or other securities or property conform to the requirements of this Section, and setting forth a brief statement of the facts accounting for such adjustments. Promptly after receipt of such certificate, the Company, or the Transfer Agent at the Company's request, will deliver, by first-class, postage prepaid mail, a brief summary thereof (to be supplied by the Company) to the registered holders of the outstanding Warrant Certificates; provided, however, that failure to file or to give any notice required under this subsection, or any defect therein, shall not affect the legality or validity of any such adjustments under this Section; and provided, further, that, where appropriate, such notice may be given in advance and included as part of the notice required to be given pursuant to Section 18 hereof.

d. In case of any consolidation of the Company with, or merger of the Company into, another corporation (other than a consolidation or merger which does not result in any reclassification or change of the outstanding Common Stock), or in case of any sale or conveyance to another corporation of the property of the Company as an entirety or substantially as an entirety, the corporation formed by such consolidation or merger or the corporation which shall have acquired such assets, as the case may be, shall execute and deliver to the Transfer Agent a supplemental warrant agreement providing that the holder of each Warrant then outstanding shall have the right thereafter (until the expiration of such Warrant) to receive, upon exercise of such Warrant, solely the kind and amount of shares of stock and other securities and property (or cash) receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock of the Company for which such Warrant might have been exercised immediately prior to such consolidation, merger, sale or transfer. Such supplemental warrant agreement shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided in this Section. The above provision of this subsection shall similarly apply to successive consolidations, mergers, sales or transfers.

The Transfer Agent shall not have any responsibility to determine the correctness of any provision contained in any such supplemental warrant agreement relating to either the kind or amount of shares of stock or securities or property (or cash) purchasable by holders of Warrant Certificates upon the exercise of their Warrants after any such consolidation, merger, sale or transfer or of any adjustment to be made with respect thereto, but subject to the provisions of Section 23 hereof, may

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accept as conclusive evidence of the correctness of any such provisions, and shall be protected in relying upon, a certificate of a firm of independent certified public accountants (who may be the accountants regularly employed by the Company) with respect thereto.

e. Irrespective of any adjustments in the number or kind of shares issuable upon exercise of Warrants, Warrant Certificates theretofore or thereafter issued may continue to express the same price and number and kind of shares as are stated in the similar Warrant Certificates initially issuable pursuant to this Agreement.

f. The Company may retain a firm of independent public accountants of recognized standing, which may be the firm regularly retained by the Company, selected by the Board of Directors of the Company or the Executive Committee of said Board, and not disapproved by the Transfer Agent, to make any computation required under this Section, and a certificate signed by such firm shall, in the absence of fraud or gross negligence, be conclusive evidence of the correctness of any computation made under this Section.

g. For the purpose of this Section, the term "Common Stock" shall mean (i) the Common Stock or (ii) any other class of stock resulting from successive changes or reclassifications of such Common Stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that at any time as a result of an adjustment made pursuant to this Section, the holder of any Warrant thereafter surrendered for exercise shall become entitled to receive any shares of capital stock of the Company other than shares of Common Stock, thereafter the number of such other shares so receivable upon exercise of any Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Common Stock contained in this Section, and all other provisions of this Agreement, with respect to the Common Stock, shall apply on like terms to any such other shares.

h. The Company may, from time to time and to the extent permitted by law, reduce the exercise price of the Warrants by any amount for a period of not less than twenty (20) days. If the Company so reduces the exercise price of the Warrants, it will give not less than fifteen (15) days' notice of such decrease, which notice may be in the form of a press release, and shall take such other steps as may be required under applicable law in connection with any offers or sales of securities at the reduced price.

17. REDUCTION OF EXERCISE PRICE BELOW PAR VALUE. Before taking any action that would cause an adjustment pursuant to Section 16 hereof reducing the portion of the Exercise Price required to purchase one share of capital stock below the then par value (if any) of a share of such capital stock, the Company will use its best efforts to take any corporate action which, in the opinion of its counsel, may be necessary in order that the Company may validly and legally issue fully paid and non-assessable shares of such capital stock.

18. NOTICE TO WARRANT HOLDERS. In case the Company after the date hereof shall propose (i) to offer to the holders of Common Stock, generally, rights to subscribe to or purchase any additional shares of any class of its capital stock, any evidences of its indebtedness or assets, or any other rights or options or (ii) to effect any reclassification of Common Stock (other than a

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reclassification involving merely the subdivision or combination of outstanding shares of Common Stock) or any capital reorganization, or any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or any sale, transfer or other disposition of its property and assets substantially as an entirety, or the liquidation, voluntary or involuntary dissolution or winding-up of the Company, then, in each such case, the Company shall file with the Transfer Agent and the Company, or the Transfer Agent on its behalf, shall mail (by first-class, postage prepaid mail) to all registered holders of the Warrant Certificates notice of such proposed action, which notice shall specify the date on which the books of the Company shall close or a record be taken for such offer of rights or options, or the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, voluntary or involuntary dissolution or winding-up shall take place or commence, as the case may be, and which shall also specify any record date for determination of holders of Common Stock entitled to vote thereon or participate therein and shall set forth such facts with respect thereto as shall be reasonably necessary to indicate any adjustments in the Exercise Price and the number or kind of shares or other securities purchasable upon exercise of Warrants which will be required as a result of such action. Such notice shall be filed and mailed in the case of any action covered by clause (i) above, at least ten (10) days prior to the record date for determining holders of the Common Stock for purposes of such action or, if a record is not to be taken, the date as of which the holders of shares of Common Stock of record are to be entitled to such offering; and, in the case of any action covered by clause (ii) above, at least twenty (20) days prior to the earlier of the date on which such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, voluntary or involuntary dissolution or winding-up is expected to become effective and the date on which it is expected that holders of shares of Common Stock of record on such date shall be entitled to exchange their shares for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger, sale, transfer, other disposition, liquidation, voluntary or involuntary dissolution or winding-up. Failure to give any such notice or any defect therein shall not affect the legality or validity of any transaction listed in this Section.

19. NO FRACTIONAL WARRANTS, UNITS OR SHARES. The Company shall not be required to issue fractions of Warrants or Units upon the reissue of Warrants or Units, any adjustments as described in Section 16 or otherwise; but the Company in lieu of issuing any such fractional interest, shall adjust the fractional interest by payment to the Warrant or Unit Holder an amount, in cash, equal to the current market value of any such fraction or interest. If the total Warrants or Units surrendered by exercise would result in the issuance of a fractional Share, the Company shall not be required to issue a fractional Share but rather the resulting fractional interest shall be adjusted by payment in an amount, in cash, equal to the current market value of such fractional interest. The current market value for such fractional interest will be the market value of one whole interest multiplied by the fraction thereof.

20. RIGHTS OF WARRANT HOLDERS. No Warrant Holder, as such, shall have any rights of a shareholder of the Company, either at law or equity, and the rights of the Warrant Holders, as such, are limited to those rights expressly provided in this Agreement or in the Warrant Certificates. The Company and the Transfer Agent may treat the registered Warrant Holder in respect of any Warrant Certificates as the absolute owner thereof for all purposes notwithstanding any notice to the contrary.

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21. RIGHT OF ACTION. All rights of action in respect to this Agreement are vested in the respective registered holders of the Warrant and Unit Certificates; and any registered holder of any Warrant or Unit Certificate, without the consent of the Transfer Agent or of any other holder of a Warrant or Unit Certificate, may, in his own behalf for his own benefit, enforce, and may institute and maintain any suit, action or proceeding against the Company suitable to enforce, or otherwise in respect of, his right to exercise the Warrants evidenced by such Warrant Certificate, for the purchase of shares of the Common Stock in the manner provided in the Warrant Certificate and in this Agreement.

22. AGREEMENT OF WARRANT AND UNIT HOLDERS. Every holder of a Warrant or Unit Certificate by accepting the same consents and agrees with the Company, the Transfer Agent and with every other holder of a Warrant or Unit Certificate, respectively, that:

a. The Warrant and Unit Certificates are transferable on the registry books of the Transfer Agent only upon the terms and conditions set forth in this Agreement; and

b. The Company and the Transfer Agent may deem and treat the person in whose name the Warrant or Unit Certificate is registered as the absolute owner of the Warrant or Unit, as the case may be, (notwithstanding any notation of ownership or other writing thereon made by anyone other than the Company or the Transfer Agent) for all purposes whatever and neither the Company nor the Transfer Agent shall be affected by any notice to the contrary.

23. TRANSFER AGENT. The Company hereby appoints the Transfer Agent to act as the agent of the Company and the Transfer Agent hereby accepts such appointment upon the following terms and conditions by all of which the Company and every Warrant and Unit Holder, by acceptance of his Warrants or Units, shall be bound:

a. Statements contained in this Agreement and in the Warrant and Unit Certificates shall be taken as statements of the Company. The Transfer Agent assumes no responsibility for the correctness of any of the same except such as describes the Transfer Agent or for action taken or to be taken by the Transfer Agent.

b. The Transfer Agent shall not be responsible for any failure of the Company to comply with any of the Company's covenants contained in this Agreement or in the Warrant or Unit Certificates.

c. The Transfer Agent may consult at any time with counsel satisfactory to it (who may be counsel for the Company) and the Transfer Agent shall incur no liability or responsibility to the Company or to any Warrant or Unit Holder in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with the opinion or the advice of such counsel, provided the Transfer Agent shall have exercised reasonable care in the selection and continued employment of such counsel.

d. The Transfer Agent shall incur no liability or responsibility to the Company or to any Warrant or Unit Holder for any action taken in reliance upon any notice, resolution, waiver,

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consent, order, certificate or other paper, document or instrument believed by it to be genuine and to have been signed, sent or presented by the proper party or parties.

e. The Company agrees to pay to the Transfer Agent reasonable compensation for all services rendered by the Transfer Agent in the execution of this Agreement, to reimburse the Transfer Agent for all expenses, taxes and governmental charges and all other charges of any kind or nature incurred by the Transfer Agent in the execution of this Agreement and to indemnify the Transfer Agent and save it harmless against any and all liabilities, including judgments, costs and counsel fees, arising from the Transfer Agent's engagement under this Agreement except as a result of the Transfer Agent's negligence, bad faith or willful misconduct.

f. The Transfer Agent shall be under no obligation to institute any action, suit or legal proceeding or to take any other action likely to involve expense unless the Company or one or more Warrant or Unit Holders shall furnish the Transfer Agent with reasonable security and indemnity for any costs and expenses which may be incurred in connection with such action, suit or legal proceeding, but this provision shall not affect the power of the Transfer Agent to take such action as the Transfer Agent may consider proper, whether with or without any such security or indemnity. All rights of action under this Agreement or under any of the Warrants or Units may be enforced by the Transfer Agent without the possession of any of the Warrant or Unit Certificates or the production thereof at any trial or other proceeding relative thereto, and any such action, suit or proceeding instituted by the Transfer Agent shall be brought in its name as Transfer Agent, and any recovery of judgement shall be for the ratable benefit of the Warrant or Unit Holders as their respective rights or interest may appear.

g. The Transfer Agent and any shareholder, director, officer or employee of the Transfer Agent may buy, sell or deal in any of the Warrants, Units or other securities of the Company or become pecuniarily interested in any transaction in which the Company may be interested, or contract with or lend money to the Company or otherwise act as fully and freely as though it were not Transfer Agent under this Agreement. Nothing herein shall preclude the Transfer Agent from acting in any other capacity for the Company or for any other legal entity.

24. SUCCESSOR TRANSFER AGENT. Any legal entity into which the Transfer Agent may be merged or converted or with which it may be consolidated, or any legal entity resulting from any merger, conversion or consolidation to which the Transfer Agent shall be a party, or any legal entity succeeding to the corporate trust business of the Transfer Agent, shall be the successor to the Transfer Agent hereunder without the execution or filing of any paper or any further act of a party or the parties hereto provided such legal entity is eligible to be appointed under Section 25 below. In any such event or if the name of the Transfer Agent is changed, the Transfer Agent or such successor may adopt the countersignature of the original Transfer Agent and may countersign such Warrant or Unit Certificates either in the name of the predecessor Transfer Agent or in the name of the successor Transfer Agent.

25. CHANGE OF TRANSFER AGENT. The Transfer Agent may resign or be discharged by the Company from its duties under this Agreement by the Transfer Agent or the Company, as the case may be, giving notice in writing to the other, and by giving a date when such resignation or discharge shall take effect, which notice shall be sent at least thirty (30) days prior to the date so

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specified. If the Transfer Agent shall resign, be discharged or shall otherwise become incapable of acting, the Company shall appoint a successor to the Transfer Agent. If the Company shall fail to make such appointment within a period of thirty (30) days after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Transfer Agent or by any Warrant or Unit Holder or after discharging the Transfer Agent, then the Company agrees to perform the duties of the Transfer Agent hereunder until a successor Transfer Agent is appointed. Any successor Transfer Agent shall be a bank or a trust company, in good standing, organized under the laws of any state of the United States of America, having a combined capital and surplus of at least \$4,000,000 at the time of its appointment as Transfer Agent. After appointment, the successor Transfer Agent shall be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Transfer Agent without further act or deed, and the former Transfer Agent shall deliver and transfer to the successor Transfer Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for effecting the delivery or transfer. Failure to give any notice provided for in this Section, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Transfer Agent or the appointment of the successor Transfer Agent, as the case may be.

26. NOTICES. Any notice or demand authorized by this Agreement to be given or made by the Transfer Agent or by any Warrant or Unit Holder to or on the Company shall be sufficiently given or made if sent by mail, first class, certified or registered, postage prepaid, addressed (until another address is filed in writing by the Company with the Transfer Agent), as follows:

TASER International, Inc.  
7860 E. McClain Drive, Suite 2  
Scottsdale, Arizona 85260

Any notice or demand authorized by this Agreement to be given or made by any Warrant or Unit Holder or by the Company to or on the Transfer Agent shall be sufficiently given or made if sent by mail, first class, certified or registered, postage prepaid, addressed (until another address is filed in writing by the Transfer Agent with the Company), as follows:

US Stock Transfer Corporation  
1745 Gardena Avenue  
Glendale, California 91204

Any distribution, notice or demand required or authorized by this Agreement to be given or made by the Company or the Transfer Agent to or on the Warrant or Unit Holders shall be sufficiently given or made if sent by mail, first class, certified or registered, postage prepaid, addressed to the Warrant or Unit Holders at their last known addresses as they shall appear on the registration books for the Warrant or Unit Certificates maintained by the Transfer Agent.

27. SUPPLEMENTS AND AMENDMENTS. The Company and the Transfer Agent may from time to time supplement or amend this Agreement without the approval of any Warrant or Unit Holders in order to cure any ambiguity or to correct or supplement any provision contained herein which may be defective or inconsistent with any other provisions herein, or to make any other

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provisions in regard to matters or questions arising hereunder which the Company and the Transfer Agent may deem necessary or desirable.

28. SUCCESSORS. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Transfer Agent shall bind and inure to the benefit of their respective successors and assigns hereunder.

29. TERMINATION. This Agreement shall terminate at the close of business on the Expiration Date or such earlier date upon which all Warrants have been exercised; provided, however, that if exercise of the Warrants is suspended pursuant to Section 15 and such suspension continues past the Expiration Date, this Agreement shall terminate at the close of business on the business day immediately following expiration of such suspension. The provisions of Section 23 shall survive such termination.

30. GOVERNING LAW. This Agreement and each Warrant and Unit Certificate issued hereunder shall be deemed to be a contract made under the laws of the State of [California] and for all purposes shall be construed in accordance with the laws of said State.

31. BENEFITS OF THIS AGREEMENT. Nothing in this Agreement shall be construed to give any person or corporation other than the Company, the Transfer Agent and the Warrant and Unit Holders any legal or equitable right, remedy or claim under this Agreement, and this Agreement shall be for the sole and exclusive benefit of the Company, the Transfer Agent and the Warrant and Unit Holders.

32. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of such counterparts shall for all purposes be deemed to be an original and all such counterparts shall together constitute but one and the same instrument.

33. INTEGRATION. As of the date hereof, this Agreement contains the entire and only agreement, understanding, representation, condition, warranty or covenant between the parties hereto with respect to the matters herein, supersedes any and all other agreements between the parties hereto relating to such matters, and may be modified or amended only by a written agreement signed by both parties hereto pursuant to the authority granted by Section 27.

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34. DESCRIPTIVE HEADINGS. The descriptive headings of the Sections of this Agreement are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

Date: \_\_\_\_\_, 2001

TASER International, Inc.,  
a Delaware corporation

By: \_\_\_\_\_  
Its Chief Executive Officer

SEAL

ATTEST:

\_\_\_\_\_  
Its Secretary

US Stock Transfer Corporation,  
a \_\_\_\_\_ corporation

By: \_\_\_\_\_  
Its Vice President

SEAL

ATTEST:

\_\_\_\_\_  
Its Secretary

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EXHIBIT A  
[WARRANT CERTIFICATE]

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EXHIBIT B  
[UNIT CERTIFICATE]

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Exhibit 10.15

[TASER INTERNATIONAL LETTERHEAD]

PROMISSORY NOTE

Amount of Note (\$): \$75,000 Cash  
City: Scottsdale, State: Arizona  
Date: July 1, 1999

FOR VALUE RECEIVED the undersigned jointly and severally promise(s) to pay to the order of:

Malcolm Sherman, currently residing in Scottsdale, Arizona

the principal sum of:

Seventy-Five thousand & no/100 (\$75,000.00) dollars together with interest thereon from date at the rate of:

9.18% Per Annum

until maturity, said principal and interest shall be paid in 24 equal monthly payments of \$3,757.37, beginning on August 15, 1999 with the last payment submitted on July 15, 2001. (Please see attached Loan Amortization).

Each maker and endorser severally waives demand, protest and notice of maturity, non-payment or protest and all requirements necessary to hold each of them liable as makers and endorsers and, should litigation be necessary to enforce this note, each maker and endorser waives trial by jury and consents to the personal jurisdiction and venue of a court of subject matter jurisdiction located in the State of Arizona, and County of Maricopa.

Each maker and endorser further agrees, jointly and severally, to pay all costs of collection, including a reasonable attorney's fee in case the principal of this note or any payment on the principal or any interest thereon is not paid at the respective maturity thereof, or in case it becomes necessary to protest the security hereof, whether suit be brought or not.

This note is to be construed and enforced according to the laws of the State of Arizona; upon default in the payment of principal and/or interest when due, the whole sum of principal and interest remaining unpaid shall, at the option of the holder, become immediately due and payable and it shall accrue interest at the highest rate allowable by law, or, if no highest rate is otherwise indicated, at ten (10%) percent, from the date of default.

Default shall include, but not be limited to non-payment within ten (10) days from the due date set out herein.

Unless specifically disallowed by law, should litigation arise hereunder, service of process therefore may be obtained through certified mail, return receipt requested; the parties hereto waiving and all rights they may have to object to the method by which service was perfected.

/s/MWS  
/s/TPS

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Taser International, Inc. herein acknowledges and agrees to the following, regarding the herein described Promissory Note.

- A. The monies being borrowed are to secure tooling and equipment for that product as described in the enclosed attachment, marked "A" and listed as "Steman International Procurement, Quotation No: 98Q01-1-AT," Taser International, Inc. purchase order numbers: 021025-00, 021026-00, 021027-00, 021028-00, 021024-00 additionally known as "The Advanced Taser." Additional components as secured by Taser International, Inc. to complete the production of this product are included in the UCC filing and are described as electrical components, finished product or packaging.
- B. Taser International, Inc. agrees to the tooling and components as purchased by the funds of this Promissory Note being subject to a UCC filing in favor of Malcolm W. Sherman i.e., lender. Said UCC filing to be valid for the full period of the listed payment schedule. Taser International, Inc. agrees to the UCC filing of this lien and its permission is granted for a "floating lien" to be issued to Malcolm W. Sherman.
- C. Taser International, Inc. agrees and acknowledges that they have no right to sell, transfer, assign, sublease or encumber the equipment or this agreement or material covered under this agreement.
- D. All cost relative to the filing of the above listed UCC filings are to be born by Taser International, Inc.

All matters pertinent to this Agreement (including its interpretation, application, validity, performance and breach), shall be governed by, construed and enforce in accordance with the laws of the State of Arizona. The parties herein waive trial by jury and agree to submit to the personal jurisdiction and venue of a court of subject matter jurisdiction located in Maricopa County, State of Arizona. In the event that litigation results from or arises out of this Agreement or the performance thereof, the parties agree to reimburse the prevailing party's reasonable attorney's fees, court costs, and all other expenses, whether or not taxable by the court as costs in addition to any other relief to which the prevailing party may be entitled. In such event, no action shall be entertained by said court or any court of competent jurisdiction if filed more than one year subsequent to the date of the cause(s) of action actually accrued regardless of whether damages were otherwise as of said time calculable.

TASER INTERNATIONAL, INC.  
-----  
Corporation

/s/ Malcolm W. Sherman  
-----  
Payee - Signature

By: /s/ Patrick Smith  
-----  
President - Signature

M. W. Sherman  
-----  
Payee Name Printed

Patrick Smith  
-----  
President

Attest: /s/ Thomas P. Smith  
-----  
Treasurer - Signature

Corporate Seal  
[Corporate Seal]

Thomas P. Smith  
-----  
Treasurer  
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Exhibit 10.16

[TASER INTERNATIONAL LETTERHEAD]

May 26, 2000

Malcolm Sherman  
9068 E. Hillery Dr.  
Scottsdale, AZ 85260

Dear Malcolm,

This letter is to confirm our previous discussions regarding your pending retirement as a full time employee of TASER International.

- As we discussed, we would like you to work directly with Tom Smith to train him to maintain the current export customer base during the time between now and your formal retirement on June 30, 2000.
- The company will continue to pay your normal salary and car allowance up through June 30, although your work schedule between now and that time will be at your discretion in order to effectively train Tom and close any pending deals.
- After June 30, the company will pay your vacation time of 4 weeks in the month of July. These payments will be made on a biweekly basis concurrent with our normal payroll.
- Your outstanding balance of non-reimbursed expenses (approximately \$30,000) will be repaid in full on a biweekly basis starting on August 15. These payments will be of the same amount as your current salary plus car allowance, paid on a biweekly basis concurrent with our payroll disbursements.
- You will be asked to continue to serve on the board of directors and as an active significant shareholder. As you are aware, we do not remunerate our board members with cash compensation. However, the company will extend your current stock options (20,000 shares) for an additional 5 years after your formal retirement (i.e. Expiration date of 7/1/2005). All of these options shall be considered vested as of June 30, 2000 if they have not already vested prior to that time.
- Further, the company shall work with you as an independent contractor (effective May 27th, 2000) in certain foreign countries. Specifically, you shall be considered the exclusive foreign agent for the countries of:
  - India
  - Nepal
  - Sri Lanka

PAGE 1

PWS: /s/ PWS MWS: /s/ MWS  
---

- <PAGE> 2  
 - BANGLADESH  
 - UKRAINE  
 - JORDAN  
 - ISRAEL

For a period of 12 months (i.e. Through June 30, 2001), these countries shall be reserved for you, operating as an independent contractor, to close an exclusive distribution deal. You will be paid a 10% commission for all sales in these countries for the period of time that you remain the exclusive agent. This 10% commission shall not include the \$20,000 deposit already received from Jordan, but shall include any additional sums received from the distributor in Jordan. Commissions will be paid to Sherman as payments are received by TASER International regardless of shipping dates as listed on purchase orders. Sales prices offered to Sherman during the course of his appointment as "exclusive agent" shall be equal to the best of prices offered to any other exclusive agreement granted by the company. In those instances which requires overages in billing, i.e. over the export selling price of TASER, these amount are to be forwarded to third parties for "commissions". TASER International, Inc, Agrees to forward via wire transfer or company check to such accounts as directed upon instructions from Sherman after these funds have been secured. Sherman's 10% commission is based on the net product prices as given to Sherman by TASER (less freight and miscellaneous charges). Once payment of commissions or overages has been remitted as instructed by Sherman, TASER shall be released of all liability associated with the specific transactions.

In order to maintain your exclusive agency for these areas, the following performance criteria must be met (the numbers in each column represent the number of ADVANCED TASERS sold within the territory):

<Table>  
 <Caption>

Country	3/30 2001	3/30 2002	3/30 2003	3/30 2004	3/30 2005	3/30 2006
<S> India	<C> 500	<C> 600	<C> 720	<C> 864	<C> 1036	<C> 1244
Ukraine	300	360	432	518	622	748
Sri Lanka	100	120	144	172	208	248
Bangladesh	200	240	288	346	414	498
Nepal	50	60	72	86	104	124
Jordan	200	240	288	346	414	498
Israel	200	240	288	346	414	498

</Table>

The sales in each column represent sales in the 12 calendar months proceeding the date atop the column. Should sales not meet or exceed this number, the exclusivity will expire without notice and the company will have the option to pursue other sales opportunities in those markets without further compensation due.

All inquiries from these territories will be forwarded to Sherman directly, and no pricing information shall be given to inquiries without Sherman's prior consent.

- Under the terms of this representation, you will be responsible for all travel and other related expense for you to develop these markets. This shall include telephone

<PAGE> 3

charges, cellular air time and all other related incidental expenses. We will, of course, support your efforts with reasonable collateral materials. Although you will remain on the payroll for the month of June as an employee, any sales in these territories (as listed above) beyond the \$20,000 deposit already received from Jordan shall be treated as commissioned sales in your relationship as an independent contractor.

- For purposes of supporting your role as a sales agent in the above listed countries, you may continue to use the title of "Director of Sales and Marketing." But this exception is FOR THOSE TERRITORIES ONLY. Accordingly, you may use your existing business cards in conjunction with these countries.
- Any potential business outside the scope of countries listed in this agreement, including any initiated by distributors in the countries listed within this document (specifically: India, Nepal, Sri Lanka, Bangladesh, Ukraine, Jordan and Israel), must be approved by TASER International in advance. The company may accept or reject any offers for additional countries at its sole discretion. The company has current prospects in Egypt and other countries in the Middle East and shall pursue those prospects directly.
- Effective May 27th, you will be operating as an independent sales representative and independent contractor in relation to these foreign sales activities. You will also be responsible for ensuring that all distribution agreements in those countries comply with US export law and relevant laws concerning foreign commerce.
- Although you will remain a member of our board of directors, any commitments on behalf of the company subsequent to the date of this letter must be approved, and joint signed by either Tom or Rick Smith as active officers in the company.
- All foreign orders shall be prepaid prior to shipment.
- In the event the company is going to go public through an IPO, be acquired by another entity, or raise a significant amount of capital to fund operations, the company shall have the right to buy-out the exclusivity provisions outlined above by a single payment equivalent to 6 months' historical commissions.
- I trust that the above accurately memorializes our discussion of yesterday. Should a disagreement arise over any of the provisions relating to your retirement, or the subsequent sales representation outlined above, we shall first sit over a beer and work it out. If this is unsuccessful, both parties (TASER International and Malcolm Sherman) hereby agree that any 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 contract, or the breach thereof, shall be settled by arbitration in accordance with the rules of the American Arbitration

<PAGE> 4

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.

- This agreement may be amended or modified only in writing, signed in advance by the parties hereto or their designated representatives. This agreement shall inure to the benefit of and be binding upon the parties hereto, and their respective successors and assigns.
- This memorandum outlines all terms related to your pending retirement, and the parties agree that any and all documents and or agreements entered into or/of prior date to this agreement are herein cancelled and mutually abrogated by the parties.
- This memorandum outlines all terms related to your pending retirement, and the parties hereby mutually release each other from any and all claims and/or obligations related to your employment as Director of Sales and Marketing for TASER International other than those obligations outlined herein. Pre-existing financial obligations currently owed to you (such as your salary, vacation pay, notes payable and accrued expenses) shall survive this agreement in their current form.
- TASER agrees to pay Sherman all outstanding balances owed as outlined above regardless and excluded from the releases in the preceding paragraph. These expenses will carry an effective interest rate of 10% per annum, accrued monthly on the unpaid balance only, until the entire principal and accrued interest is paid in full. Such interest shall be calculated from the beginning date at which the expenses were outstanding (i.e. the average monthly balance). However, any prior financing charges will be applied as credits against the interest owed.
- Regarding office space, TASER will make temporary office space available through the end of July, 2000. After that time, the company will plan to redistribute the use of space within our offices. Further, TASER will make partial secretarial support available for preparation of formal letters and contracts in conjunction with TASER sales for those territories assigned to Sherman as a part of this contract only.

Malcolm, I've truly enjoyed the past 6 years together. I've grown tremendously working with you. I wish you nothing but the best and hope you find more time over the coming months and years to take some well-deserved personal time.

Sincerely,

Understood and Agreed,

/s/ Rick W. Smith

5/26/2000

/s/ Malcolm W. Sherman

5/26/2000

-----  
Rick W. Smith  
President, TASER  
International

-----  
date

-----  
Malcolm W. Sherman

-----  
date

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PWS: /s/PWS

MWS: /s/MWS

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[SILICON VALLEY BANK LETTERHEAD]

IRREVOCABLE STANDBY LETTER OF CREDIT NO. SVB0IIS3615

DATE: APRIL 13, 2001

BENEFICIARY:  
TASER INTERNATIONAL, INC.  
7860 E. MCCLAIN DRIVE, SUITE 2  
SCOTTSDALE, AZ 85260  
ATTN: KATHY HANRAHAN, CONTROLLER  
(480) 905-2012

APPLICANT:  
BRUCE R. CULVER & DONNA T. CULVER  
6592 E. OAK SPRING DRIVE  
OAK PARK, CA 91377  
(818) 991-9950

AMOUNT: US\$500,000.00 (FIVE HUNDRED THOUSAND AND 00/100 U.S. DOLLARS)

EXPIRATION DATE: DECEMBER 31, 2001

LOCATION: AT OUR COUNTERS IN SANTA CLARA, CALIFORNIA

DEAR SIR/MADAM:

WE HEREBY ESTABLISH OUR IRREVOCABLE STANDBY LETTER OF CREDIT NO. SVB0IIS3615 IN YOUR FAVOR AVAILABLE BY YOUR DRAFTS DRAWN ON US AT SIGHT AND ACCOMPANIED BY THE FOLLOWING DOCUMENTS:

1. THE ORIGINAL OF THIS LETTER OF CREDIT AND ALL AMENDMENT(S), IF ANY.

PARTIAL DRAWS ARE ALLOWED. THIS LETTER OF CREDIT MUST ACCOMPANY ANY DRAWINGS HEREUNDER FOR ENDORSEMENT OF THE DRAWING AMOUNT AND WILL BE RETURNED TO THE BENEFICIARY UNLESS IT IS FULLY UTILIZED.

DRAFT(S) AND DOCUMENTS MUST INDICATE THE NUMBER AND DATE OF THIS LETTER OF CREDIT.

DOCUMENTS MUST BE FORWARDED TO US BY OVERNIGHT DELIVERY SERVICE TO:  
SILICON VALLEY BANK, 3003 TASMAN DRIVE, SANTA CLARA CA 95054, ATTN:  
INTERNATIONAL DIVISION.

WE HEREBY AGREE WITH THE DRAWERS, ENDORSERS AND BONAFIDE HOLDERS THAT THE DRAFTS DRAWN UNDER AND IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THIS LETTER OF CREDIT SHALL BE DULY HONORED UPON PRESENTATION TO THE DRAWEE, IF NEGOTIATED ON OR BEFORE THE EXPIRATION DATE OF THIS CREDIT.  
</R>

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[SILICON VALLEY BANK LETTERHEAD]

IRREVOCABLE STANDBY LETTER OF CREDIT NO. SVB011S3615

DATE: APRIL 13, 2001

EXCEPT AS EXPRESSLY STATED HEREIN THIS LETTER OF CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 500.

/s/ Danny J. Rowan  
-----  
AUTHORIZED SIGNATURE  
  
DANNY J. ROWAN

/s/ Dawn Y. Shinsato  
-----  
AUTHORIZED SIGNATURE  
  
DAWN Y. SHINSATO

<PAGE> 3

March 30, 2001

Board of Directors  
TASER, International, Inc.  
7860 East McClain Drive, Suite 2  
Scottsdale, Arizona 85260-1627

Letter of Support

Gentlemen:

<R>

The undersigned Phillips W. Smith and Bruce R. Culver are directors of TASER International, Inc., a Delaware corporation (the "Company"). Through loans, advances, provisions of guarantees, and other arrangements, we have from time-to-time supported financially and otherwise the business of the Company.

We agree, by this letter, to continue to support the Company by establishing an irrevocable, standby letter of credit issued by a bank of recognized standing in an amount not less than \$500,000. The letter of credit is intended to provide additional financial resources on which the Company may rely in the event of its suffering a working capital deficit or otherwise. Such letter of credit may be drawn upon by the Company at any time prior to December 31, 2001 upon presentation to the bank of a resolution validly adopted by the Board of Directors of the Company confirming a determination by the Board of Directors of the Company's need for additional funds and electing to draw upon such letter of credit.

In consideration of this letter of support and the provision of the letter of credit, the Company shall pay each of us \$10,000, and in the event of a draw upon the letter of credit, enter into commercially reasonable arrangements for the repayment to us of amounts so drawn.

If the foregoing accurately reflects our understanding, please so indicate by signing the enclosed copy of this letter and returning it to us.

Very truly yours,

/s/ Phillips W. Smith

-----  
Phillips W. Smith

/s/ Bruce R. Culver

-----  
Bruce R. Culver

Agreed and accepted  
this 30th day of March 2001.

TASER International, Inc.

/s/ Patrick W. Smith

-----  
Patrick W. Smith  
Chief Executive Officer and Director

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Exhibit 10.18

[TASER INTERNATIONAL (R) LOGO]

<R> 7339 East Evans Road - Scottsdale, AZ - 85280 - USA - (480) 991-0791 -  
Fax (480) 991-0791  
</R>

AMENDMENT TO PROMISSORY NOTE(S)

Note Balance: \_\_\_\_\_  
City/State: Scottsdale, Arizona  
Date of Amendment: 3/30/01

This Amendment No. \_\_\_ to the Original Loans and Security Agreement (this "Amendment") is made as of March 30, 2001 by and between TASER International Inc. ("Borrower") and \_\_\_\_\_ ("Lender").

Borrower and Lender are parties to, among other documents, a Promissory Note agreement as of \_\_\_\_\_ (date of initial investment). Borrower and Lender desire to amend the Promissory Notes in accordance with the following terms.

NOW THEREFORE, Borrower and Lender agree as follows:

4. The Maturity Dates are hereby amended to July 1, 2002. With an additional provision that the company may at its discretion, extend the maturity date 2 consecutive terms of 12 months each to cover working capital shortfalls.

Unless otherwise defined, all other terms specified in the Promissory Notes shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the date above written.

Borrower:  
TASER International Inc.

Lender:  
  
\_\_\_\_\_  
Name: \_\_\_\_\_

By: /s/ Patrick W. Smith  
\_\_\_\_\_  
Name: Patrick W. Smith

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Exhibit 10.19

LOAN AND SECURITY AGREEMENT  
TASER INTERNATIONAL, INC.

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THIS LOAN AND SECURITY AGREEMENT (this "Agreement") dated April 26, 2001, between SILICON VALLEY BANK ("Bank"), whose address is 3003 Tasman Drive, Santa Clara, California 95054 with a loan production office located at 4455 E. Camelback Road, Suite E-290, Phoenix, Arizona 85018 and TASER INTERNATIONAL, INC. ("Borrower"), whose address is 7860 East McClain Drive, Suite 2, Scottsdale, AZ 85260 provides the terms on which Bank will lend to Borrower and Borrower will repay Bank. The parties agree as follows:

1 ACCOUNTING AND OTHER TERMS

Accounting terms not defined in this Agreement will be construed following GAAP. Calculations and determinations must be made following GAAP. The term "financial statements" includes the notes and schedules. The terms "including" and "includes" always mean "including (or includes) without limitation," in this or any Loan Document.

2 LOAN AND TERMS OF PAYMENT

2.1 PROMISE TO PAY.

Borrower promises to pay Bank the unpaid principal amount of all Credit Extensions and interest on the unpaid principal amount of the Credit Extensions.

2.1.1 REVOLVING ADVANCES.

(a) Bank will make Advances not exceeding the Committed Revolving Line. Amounts borrowed under this Section may be repaid and reborrowed during the term of this Agreement.

(b) To obtain an Advance, Borrower must notify Bank by facsimile or telephone by 12:00 p.m. Pacific time on the Business Day the Advance is to be made. Borrower must promptly confirm the notification by delivering to Bank the Payment/Advance Form attached as Exhibit B. Bank will credit Advances to Borrower's deposit account. Bank may make Advances under this Agreement based on instructions from a Responsible Officer or his or her designee or without instructions if the Advances are necessary to meet Obligations which have become due. Bank may rely on any telephone notice given by a person whom Bank believes is a Responsible Officer or designee. Borrower will indemnify Bank for any loss Bank suffers due to such reliance.

(c) The Committed Revolving Line terminates on the Revolving Maturity Date, when all Advances are immediately payable.

(d) Bank's obligation to lend the undisbursed portion of the Obligations will terminate if, in Bank's sole discretion, there has been a material adverse change in the general affairs, management, results of operation, condition (financial or otherwise) or the prospect of repayment of the Obligations, or there has been any material adverse deviation by Borrower from the most recent business plan of Borrower presented to and accepted by Bank prior to the execution of this Agreement.

2.2 INTEREST RATE, PAYMENTS.

(a) Interest Rate. Advances accrue interest on the outstanding principal balance at a per annum rate of 1 percentage point above the Prime Rate. After an Event of Default, Obligations accrue interest at 5 percent above the rate effective immediately before the Event of Default. The interest rate increases or decreases when the Prime Rate changes. Interest is computed on a 360 day year for the actual number of days elapsed.

(b) Payments. Interest due on the Committed Revolving Line is payable on the last day of each month. Bank may debit any of Borrower's deposit accounts including Account Number \_\_\_\_\_ for principal and interest payments owing or any amounts Borrower owes

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Bank. Bank will promptly notify Borrower when it debits Borrower's accounts. These debits are not a set-off. Payments received after 12:00 noon Pacific time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment is due the next Business Day and additional fees or interest accrue.

2.3 FEES.

Borrower will pay:

(a) Facility Fee. A fully earned, non-refundable Facility Fee of \$45,000 due no later than May 15, 2001; and

(b) Bank Expenses. All Bank Expenses (including reasonable attorneys' fees and reasonable expenses) incurred through and after the date of this Agreement, are payable when due.

3 CONDITIONS OF LOANS

3.1 CONDITIONS PRECEDENT TO INITIAL ADVANCE.

Bank's obligation to make the initial Advance is subject to the condition precedent that it receive the agreements, documents and fees it requires.

3.2 CONDITIONS PRECEDENT TO ALL ADVANCES.

Bank's obligations to make each Advance, including the initial Advance, is subject to the following:

(a) timely receipt of any Payment/Advance Form; and

<R>

(b) the representations and warranties in Section 5 must be materially true on the date of the Payment/Advance Form and on the effective date of each Advance and no Event of Default may have occurred and be continuing, or result from the Advance. Each Advance is Borrower's representation and warranty on that date that the representations and warranties of Section 5 remain true.

</R>

4 CREATION OF SECURITY INTEREST

4.1 GRANT OF SECURITY INTEREST.

Borrower grants Bank a continuing security interest in all presently existing and later acquired Collateral to secure all Obligations and performance of each of Borrower's duties under the Loan Documents. Except for Permitted Liens, any security interest will be a first priority security interest in the Collateral. Bank may place a "hold" on any deposit account pledged as Collateral. If this Agreement is terminated, Bank's lien and security interest in the Collateral will continue until Borrower fully satisfies its Obligations.

5 REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

5.1 DUE ORGANIZATION AND AUTHORIZATION.

Borrower and each Subsidiary is duly existing and in good standing in its state of formation and qualified and licensed to do business in, and in good standing in, any state in which

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the conduct of its business or its ownership of property requires that it be qualified, except where the failure to do so could not reasonably be expected to cause a Material Adverse Change.

The execution, delivery and performance of the Loan Documents have been duly authorized, and do not conflict with Borrower's formation documents, nor constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which or by which it is bound in which the default could reasonably be expected to cause a Material Adverse Change.

5.2 COLLATERAL.

Borrower has good title to the Collateral, free of Liens except Permitted Liens. All Inventory is in all material respects of good and marketable quality, free from material defects.

5.3 LITIGATION.

Except as shown in the Schedule, there are no actions or proceedings pending or, to the knowledge of Borrower's Responsible Officers, threatened by or against Borrower or any Subsidiary in which a likely adverse decision could reasonably be expected to cause a Material Adverse Change.

5.4 NO MATERIAL ADVERSE CHANGE IN FINANCIAL STATEMENTS.

All consolidated financial statements for Borrower, and any Subsidiary, delivered to Bank fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations. There has not been any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

5.5 SOLVENCY.

The fair salable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; the Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

5.6 REGULATORY COMPLIANCE.

Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations T and U of the Federal Reserve Board of Governors). Borrower has complied in all material respects with the Federal Fair Labor Standards Act. Borrower has not violated any laws, ordinances or rules, the violation of which could reasonably be expected to cause a Material Adverse Change. None of Borrower's or any Subsidiary's properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each Subsidiary has timely filed all required tax returns and paid, or made adequate provision to pay, all material taxes, except those being contested in good faith with adequate reserves under GAAP. Borrower and each Subsidiary has obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all government authorities that are necessary to continue its business as currently conducted, except where the failure to do so could not reasonably be expected to cause a Material Adverse Change.

<PAGE> 7  
5.7 SUBSIDIARIES.

Borrower does not own any stock, partnership interest or other equity securities except for Permitted Investments.

5.8 FULL DISCLOSURE.

No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank (taken together with all such written certificates and written statements to Bank) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading. Bank recognizes that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not viewed as facts and that actual results during the period or periods covered by such projections and forecasts may differ from the projected and forecasted results.

6 AFFIRMATIVE COVENANTS

Borrower will do all of the following for so long as Bank has an obligation to lend, or there are outstanding Obligations:

6.1 GOVERNMENT COMPLIANCE.

Borrower will maintain its and all Subsidiaries' legal existence and good standing in its jurisdiction of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to cause a material adverse effect on Borrower's business or operations. Borrower will comply, and have each Subsidiary comply, with all laws, ordinances and regulations to which it is subject, noncompliance with which could have a material adverse effect on Borrower's business or operations or would reasonably be expected to cause a Material Adverse Change.

6.2 FINANCIAL STATEMENTS, REPORTS, CERTIFICATES.

(a) Borrower will deliver to Bank: (i) as soon as available, but no later than 30 days after the last day of each month, a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations during the period certified by a Responsible Officer and in a form acceptable to Bank; (ii) as soon as available, but no later than 90 days after the last day of Borrower's fiscal year, audited consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm reasonably acceptable to Bank; (iii) a prompt report of any legal actions pending or threatened against Borrower or any Subsidiary that could result in damages or costs to Borrower or any Subsidiary of \$100,000 or more; and (iv) budgets, sales projections, operating plans or other financial information Bank reasonably requests.

(b) Allow Bank to audit Borrower's Collateral at Borrower's expense. Such audits will be conducted no more often than every year unless an Event of Default has occurred and is continuing.

6.3 INVENTORY; RETURNS.

Borrower will keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between Borrower and its account debtors will follow Borrower's customary practices as they exist at execution of this Agreement. Borrower must promptly notify Bank of all returns, recoveries, disputes and claims, that involve more than \$50,000.

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6.4 TAXES.

Borrower will make, and cause each Subsidiary to make, timely payment of all material federal, state, and local taxes or assessments (other than taxes and assessments which Borrower is contesting in good faith, with adequate reserves maintained in accordance with GAAP) and will deliver to Bank, on demand, appropriate certificates attesting to the payment.

6.5 INSURANCE.

Borrower will keep its business and the Collateral insured for risks and in amounts standard for Borrower's industry, and as Bank may reasonably request. Insurance policies will be in a form, with companies, and in amounts that are satisfactory to Bank in Bank's reasonable discretion. All property policies will have a lender's loss payable endorsement showing Bank as an additional loss payee and all liability policies will show the Bank as an additional insured and provide that the insurer must give Bank at least 20 days notice before canceling its policy. At Bank's request, Borrower will deliver certified copies of policies and evidence of all premium payments. Proceeds payable under any policy will, at Bank's option, be payable to Bank on account of the Obligations.

6.6 PRIMARY ACCOUNTS.

Borrower will maintain its primary depository and operating accounts with Bank.

6.7 FURTHER ASSURANCES.

Borrower will execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's security interest in the Collateral or to effect the purposes of this Agreement.

7 NEGATIVE COVENANTS

Borrower will not do any of the following without Bank's prior written consent, which will not be unreasonably withheld, for so long as Bank has an obligation to lend or there are any outstanding Obligations:

7.1 DISPOSITIONS.

Convey, sell, lease, transfer or otherwise dispose of (collectively "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (i) of Inventory in the ordinary course of business; (ii) of non-exclusive licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; or (iii) of worn-out or obsolete Equipment.

7.2 CHANGES IN BUSINESS, OWNERSHIP, MANAGEMENT OR BUSINESS LOCATIONS.

Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower or reasonably related thereto or have a material change in its ownership or management of greater than 25% (other than by the sale of Borrower's equity securities in a public offering or to venture capital investors so long as Borrower identifies the venture capital investors prior to the closing of the investment). Borrower will not, without at least 30 days prior written notice, relocate its chief executive office or add any new offices or business locations in which Borrower maintains or stores over \$5,000 in Borrower's assets or property.

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7.3 MERGERS OR ACQUISITIONS.

Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person, except where (i) no Event of Default has occurred and is continuing or would result from such action during the term of this Agreement and (ii) such transaction would not result in a decrease of more than 25% of Tangible Net Worth. A Subsidiary may merge or consolidate into another Subsidiary or into Borrower.

7.4 INDEBTEDNESS.

Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

7.5 ENCUMBRANCE.

Create, incur, or allow any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, or permit any Collateral not to be subject to the first priority security interest granted here, subject to Permitted Liens.

7.6 DISTRIBUTIONS; INVESTMENTS.

Directly or indirectly acquire or own any Person, or make any Investment in any Person, other than Permitted Investments, or permit any of its Subsidiaries to do so. Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock.

7.7 TRANSACTIONS WITH AFFILIATES.

Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a nonaffiliated Person.

7.8 SUBORDINATED DEBT.

Make or permit any payment on any Subordinated Debt, except under the terms of the Subordinated Debt, or amend any provision in any document relating to the Subordinated Debt without Bank's prior written consent.

7.9 COMPLIANCE.

Become an "investment company" or a company controlled by an "investment company," under the Investment Company Act of 1940 or undertake as one of its important activities extending credit to purchase or carry margin stock, or use the proceeds of any Advance for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business or operations or would reasonably be expected to cause a Material Adverse Change, or permit any of its Subsidiaries to do so.

8 EVENTS OF DEFAULT

Any one of the following is an Event of Default:

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8.1 PAYMENT DEFAULT.

If Borrower fails to pay any of the Obligations within 3 days after their due date. During the additional period the failure to cure the default is not an Event of Default (but no Advance will be made during the cure period);

8.2 COVENANT DEFAULT.

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If Borrower violates any covenant in Section 7 or does not perform or observe any other material term, condition or covenant in this Agreement, any Loan Documents, or in any agreement between Borrower and Bank and as to any default under a term, condition or covenant that can be cured, has not cured the default within 10 days after it occurs, or if the default cannot be cured within 10 days or cannot be cured after Borrower's attempts within 10 day period, and the default may be cured within a reasonable time, then Borrower has an additional period (of not more than 30 days) to attempt to cure the default. During the additional time, the failure to cure the default is not an Event of Default (but no Advances will be made during the cure period);

8.3 MATERIAL ADVERSE CHANGE.

If there (i) occurs a material adverse change in the business, operations, or condition (financial or otherwise) of the Borrower; or (ii) is a material impairment of the prospect of repayment of any portion of the Obligations; or (iii) is a material impairment of the value or priority of Bank's security interests in the Collateral.

8.4 ATTACHMENT.

If any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver and the attachment, seizure or levy is not removed in 10 days, or if Borrower is enjoined, restrained, or prevented by court order from conducting a material part of its business or if a judgment or other claim becomes a Lien on a material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed against any of Borrower's assets by any government agency and not paid within 10 days after Borrower receives notice. These are not Events of Default if stayed or if a bond is posted pending contest by Borrower (but no Advances will be made during the cure period);

8.5 INSOLVENCY.

If Borrower becomes insolvent or if Borrower begins an Insolvency Proceeding or an Insolvency Proceeding is begun against Borrower and not dismissed or stayed within 30 days (but no Advances will be made before any Insolvency Proceeding is dismissed);

8.6 OTHER AGREEMENTS.

If there is a default in any agreement between Borrower and a third party that gives the third party the right to accelerate any Indebtedness exceeding \$100,000 or that could cause a Material Adverse Change;

8.7 JUDGMENTS.

If a money judgment(s) in the aggregate of at least \$50,000 is rendered against Borrower and is unsatisfied and unstayed for 10 days (but no Advances will be made before the judgment is stayed or satisfied);

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8.8 MISREPRESENTATIONS.

If Borrower or any Person acting for Borrower makes any material misrepresentation or material misstatement now or later in any warranty or representation in this Agreement or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document; or

8.9 GUARANTY.

<R> Any guaranty of any Obligations ceases for any reason to be in full force or any Guarantor does not perform any obligation under any guaranty of the Obligations, or any material misrepresentation or material misstatement exists now or later in any warranty or representation in any guaranty of the Obligations or in any certificate delivered to Bank in connection with the guaranty, or any circumstance described in Sections 8.4, 8.5 or 8.7 occurs to any Guarantor, or any event of default under that certain Third Party Broker Account Pledge Agreement, of even date, by and between Bruce R. Culver and Donna T. Culver and Bank, securing the guaranty executed by Bruce R. Culver as a Guarantor.  
</R>

9 BANK'S RIGHTS AND REMEDIES

9.1 RIGHTS AND REMEDIES.

When an Event of Default occurs and continues Bank may, without notice or demand, do any or all of the following:

(a) Declare all Obligations immediately due and payable (but if an Event of Default described in Section 0 occurs all Obligations are immediately due and payable without any action by Bank);

(b) Stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;

(c) Settle or adjust disputes and claims directly with account debtors for amounts, on terms and in any order that Bank considers advisable;

(d) Make any payments and do any acts it considers necessary or reasonable to protect its security interest in the Collateral. Borrower will assemble the Collateral if Bank requires and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;

(e) Apply to the Obligations any (i) balances and deposits of Borrower it holds, or (ii) any amount held by Bank owing to or for the credit or the account of Borrower;

(f) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral; and

(g) Dispose of the Collateral according to the Code.

9.2 POWER OF ATTORNEY.

Effective only when an Event of Default occurs and continues, Borrower irrevocably appoints Bank as its lawful attorney to: (i) endorse Borrower's name on any checks or other forms of payment or security; (ii) sign Borrower's name on any invoice or bill of lading for any Account or drafts against account debtors, (iii) make, settle, and adjust all claims under

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Borrower's insurance policies; (iv) settle and adjust disputes and claims about the Accounts directly with account debtors, for amounts and on terms Bank determines reasonable; and (v) transfer the Collateral into the name of Bank or a third party as the Code permits. Bank may exercise the power of attorney to sign Borrower's name on any documents necessary to perfect or continue the perfection of any security interest regardless of whether an Event of Default has occurred. Bank's appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and Bank's obligation to provide Advances terminates.

9.3 ACCOUNTS COLLECTION.

When an Event of Default occurs and continues, Bank may notify any Person owing Borrower money of Bank's security interest in the funds and verify the amount of the Account. Borrower must collect all payments in trust for Bank and, if requested by Bank, immediately deliver the payments to Bank in the form received from the account debtor, with proper endorsements for deposit.

9.4 BANK EXPENSES.

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If Borrower fails to pay any amount or furnish any required proof of payment to third persons, Bank may make all or part of the payment or obtain insurance policies required in Section 6.5, and take any action under the policies Bank deems prudent. Any amounts paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then applicable rate and secured by the Collateral. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

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9.5 BANK'S LIABILITY FOR COLLATERAL.

If Bank complies with reasonable banking practices and the Code, it is not liable for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other person. Borrower bears all risk of loss, damage or destruction of the Collateral.

9.6 REMEDIES CUMULATIVE.

Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay is not a waiver, election, or acquiescence. No waiver is effective unless signed by Bank and then is only effective for the specific instance and purpose for which it was given.

9.7 DEMAND WAIVER.

Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Bank on which Borrower is liable.

10 NOTICES

All notices or demands by any party about this Agreement or any other related agreement must be in writing and be personally delivered or sent by an overnight delivery service, by certified mail, postage prepaid, return receipt requested, or by telefacsimile to the addresses set forth at the beginning of this Agreement. A party may change its notice address by giving the other party written notice.

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11 CHOICE OF LAW, VENUE AND JURY TRIAL WAIVER

Arizona law governs the Loan Documents without regard to principles of conflicts of law. Borrower and Bank each submit to the process, venue and exclusive jurisdiction of the State and Federal courts in Maricopa County, Arizona.

BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

12 GENERAL PROVISIONS  
12.1 SUCCESSORS AND ASSIGNS.

This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights under it without Bank's prior written consent which may be granted or withheld in Bank's discretion. Bank has the right, without the consent of or notice to Borrower, to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits under this Agreement.

12.2 INDEMNIFICATION.

Borrower will indemnify, defend and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities asserted by any other party in connection with the transactions contemplated by the Loan Documents; and (b) all losses or Bank Expenses incurred, or paid by Bank from, following, or consequential to transactions between Bank and Borrower (including reasonable attorneys fees and expenses), except for losses caused by Bank's gross negligence or willful misconduct.

12.3 TIME OF ESSENCE.

Time is of the essence for the performance of all obligations in this Agreement.

12.4 SEVERABILITY OF PROVISION.

Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.5 AMENDMENTS IN WRITING, INTEGRATION.

All amendments to this Agreement must be in writing and signed by Borrower and Bank. This Agreement represents the entire agreement about this subject matter, and supersedes prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Agreement merge into this Agreement and the Loan Documents.

12.6 COUNTERPARTS.

This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, are an original, and all taken together, constitute one Agreement.

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12.7 SURVIVAL.

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All covenants, representations and warranties made in this Agreement continue in full force while any Obligations remain outstanding. The obligations of Borrower in Section 12.2 to indemnify Bank will survive until all statutes of limitations for actions that may be brought against Bank have run.

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12.8 CONFIDENTIALITY.

In handling any confidential information, Bank will exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made (i) to Bank's subsidiaries or affiliates in connection with their business with Borrower, (ii) to prospective transferees or purchasers of any interest in the loans (provided, however, Bank shall use commercially reasonable efforts in obtaining such prospective transferee or purchasers agreement of the terms of this provision), (iii) as required by law, regulation, subpoena, or other order, (iv) as required in connection with Bank's examination or audit and (v) as Bank considers appropriate exercising remedies under this Agreement. Confidential information does not include information that either: (a) is in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain after disclosure to Bank; or (b) is disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information.

12.9 ATTORNEYS' FEES, COSTS AND EXPENSES.

In any action or proceeding between Borrower and Bank arising out of the Loan Documents, the prevailing party will be entitled to recover its reasonable attorneys' fees and other reasonable costs and expenses incurred, in addition to any other relief to which it may be entitled.

13 DEFINITIONS

13.1 DEFINITIONS.

In this Agreement:

"ACCOUNTS" are all existing and later arising accounts, contract rights, and other obligations owed Borrower in connection with its sale or lease of goods (including licensing software and other technology) or provision of services, all credit insurance, guaranties, other security and all merchandise returned or reclaimed by Borrower and Borrower's Books relating to any of the foregoing, as such definition may be amended from time to time.

"ADVANCE" or "ADVANCES" is a loan advance (or advances) under the Committed Revolving Line.

"AFFILIATE" of a Person is a Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members.

"BANK EXPENSES" are all audit fees and expenses and reasonable costs and expenses (including reasonable attorneys' fees and expenses) for preparing, negotiating, administering, defending and enforcing the Loan Documents (including appeals or Insolvency Proceedings).

"BORROWER'S BOOKS" are all Borrower's books and records including ledgers, records regarding Borrower's assets or liabilities, the Collateral, business operations or financial condition and all computer programs or discs or any equipment containing the information.

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"BUSINESS DAY" is any day that is not a Saturday, Sunday or a day on which the Bank is closed.

"CLOSING DATE" is the date of this Agreement.

"CODE" is the Uniform Commercial Code, as applicable.

"COLLATERAL" is the property described on Exhibit A.

"COMMITTED REVOLVING LINE" is an Advance of up to \$1,500,000.

"CONTINGENT OBLIGATION" is, for any Person, any direct or indirect liability, contingent or not, of that Person for (i) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (ii) any obligations for undrawn letters of credit for the account of that Person; and (iii) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but "Contingent Obligation" does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under the guarantee or other support arrangement.

"EQUIPMENT" is all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest, as such definition may be amended from time to time.

"ERISA" is the Employment Retirement Income Security Act of 1974, and its regulations.

"GAAP" is generally accepted accounting principles.

"GUARANTOR" is any present or future guarantor of the Obligations, including Bruce R. Culver.

"INDEBTEDNESS" is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations and (d) Contingent Obligations.

"INSOLVENCY PROCEEDING" are proceedings by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"INVENTORY" is present and future inventory in which Borrower has any interest, including merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or later owned by or in the custody or possession, actual or constructive, of Borrower, including inventory temporarily out of its custody or possession or in transit and including returns on any accounts or other proceeds (including insurance proceeds) from the sale or disposition of any of the foregoing and any documents of title.

"INVESTMENT" is any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

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"LIEN" is a mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"LOAN DOCUMENTS" are, collectively, this Agreement, any note, or notes or guaranties executed by Borrower or Guarantor, and any other present or future agreement between Borrower and/or for the benefit of Bank in connection with this Agreement, all as amended, extended or restated.

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"MATERIAL ADVERSE CHANGE" is described in Section 8.3.

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"OBLIGATIONS" are debts, principal, interest, Bank Expenses and other amounts Borrower owes Bank now or later, including cash management services, letters of credit and foreign exchange contracts, if any and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank.

"PERMITTED INDEBTEDNESS" is:

(a) Borrower's indebtedness to Bank under this Agreement or any other Loan Document;

(b) Indebtedness existing on the Closing Date and shown on the Schedule;

(c) Subordinated Debt;

(d) Indebtedness to trade creditors incurred in the ordinary course of business; and

(e) Indebtedness secured by Permitted Liens.

"PERMITTED INVESTMENTS" are:

(a) Investments shown on the Schedule and existing on the Closing Date; and

(b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States or its agency or any State maturing within 1 year from its acquisition, (ii) commercial paper maturing no more than 1 year after its creation and having the highest rating from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (iii) Bank's certificates of deposit issued maturing no more than 1 year after issue.

"PERMITTED LIENS" are:

(a) Liens existing on the Closing Date and shown on the Schedule or arising under this Agreement or other Loan Documents;

(b) Liens for taxes, fees, assessments or other government charges or levies, either not delinquent or being contested in good faith and for which Borrower maintains adequate reserves on its Books, if they have no priority over any of Bank's security interests;

(c) Purchase money Liens (i) on Equipment acquired or held by Borrower or its Subsidiaries incurred for financing the acquisition of the Equipment, or (ii) existing on equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the equipment;

(d) Licenses or sublicenses granted in the ordinary course of Borrower's business and any interest or title of a licensor or under any license or sublicense, if the licenses and sublicenses permit granting Bank a security interest;

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(e) Leases or subleases granted in the ordinary course of Borrower's business, including in connection with Borrower's leased premises or leased property;

(f) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase.

"PERSON" is any individual, sole proprietorship, partnership, limited liability company, joint venture, company association, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

"PRIME RATE" is Bank's most recently announced "prime rate," even if it is not Bank's lowest rate.

"RESPONSIBLE OFFICER" is each of the Chief Executive Officer, the President, the Chief Financial Officer and the Controller of Borrower.

"REVOLVING MATURITY DATE" is April 30, 2002.

"SCHEDULE" is any attached schedule of exceptions.

"SUBORDINATED DEBT" is debt incurred by Borrower subordinated to Borrower's indebtedness owed to Bank and which is reflected in a written agreement in a manner and form acceptable to Bank and approved by Bank in writing.

"SUBSIDIARY" is for any Person, or any other business entity of which more than 50% of the voting stock or other equity interests is owned or controlled, directly or indirectly, by the Person or one or more Affiliates of the Person.

"TANGIBLE NET WORTH" is, on any date, the consolidated total assets of Borrower and its Subsidiaries minus, (i) any amounts attributable to (a) goodwill, (b) intangible items such as unamortized debt discount and expense, Patents, trade and service marks and names, Copyrights and research and development expenses except prepaid expenses, and (c) reserves not already deducted from assets, and (ii) Total Liabilities.

"TOTAL LIABILITIES" is on any day, obligations that should, under GAAP, be classified as liabilities on Borrower's consolidated balance sheet, including all Indebtedness, and current portion Subordinated Debt allowed to be paid, but excluding all other Subordinated Debt.

BORROWER:

TASER International, Inc.

By: /s/ Kathleen Manrahan

Title: Secretary & Chief Financial Officer

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BANK:

SILICON VALLEY BANK

By: /s/ Amy Lou Blunt

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Title: Vice President, Relationship Manager

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Exhibit 23.2

[AA LETTERHEAD]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

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As independent public accountants, we hereby consent to the use of our report dated April 30, 2001 (and to all references to our firm) included in or made a part of Amendment #3 of the Registration Statement on Form SB-2.

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Phoenix, Arizona  
April 30, 2001

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