

Q1 2015 Script

RICK - Welcome

Thank you and good morning to everyone. Welcome to TASER International's first quarter 2015 earnings conference call. Before we get started, I am going to turn the call over to Dan Behrendt, our CFO, to read the Safe Harbor Statement.

DAN - Safe Harbor Statement

Statements made on today's call will include forward-looking statements, including statements regarding our expectations, beliefs, intentions or strategies regarding the future including statements around projected spending. We intend that such forward-looking statements be subject to the safe-harbor provided by the Private Securities Litigation Reform Act of 1995. The forward-looking information is based upon current information and expectations regarding TASER International, Inc. These estimates and statements speak only as of the date on which they are made, are not guarantees of future performance, and involve certain risks, uncertainties and assumptions that are difficult to predict. All forward-looking statements that are made on today's call are subject to risks and uncertainties that could cause our actual results to differ materially. These risks are discussed in our press release we issued today and in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2014 under the caption "Risk Factors." You may find both of these filings, as well as our other SEC filings, on our website at www.taser.com.

Rick Smith

Thank you, Dan. As a reminder, we are going to be accepting some questions via Twitter during the Q&A portion of the call. To follow our updates on Twitter during the call, follow the account @TASER_IR. For those of you without Twitter, all updates and graphics stream directly to our Investor Relations website: investor.taser.com.

The first quarter of 2015 is off to an outstanding start thanks to strength in the TASER Weapons segment, as well as continued growth and new wins in the AXON business. We exceeded expectations in both the top-line and bottom-line, and continued to generate strong new business in the AXON and EVIDENCE.com business as reflected in the bookings metric of \$22.9 million, growth of 288% compared to the first quarter 2014. Revenue in the first quarter of 2015 was \$44.8 million, an increase of 24% compared to the first quarter 2014. We continue to be focused on consolidating the top tier of the market in the largest agencies in the U.S. on the AXON system during 2015 and our efforts resulted in 2 more major cities deploying our solution in Q1. With the addition of Tucson and Cleveland, we now have 16 major cities on EVIDENCE.com and over 42,000 AXON cameras in the field. And, if you include TASERCams, we now have over 125,000 law enforcement cameras in the field. Not only are we seeing increased deployments, but usage continues to climb. At the end of the first quarter, we had over a petabyte of data stored in EVIDENCE.com by the over 5,500 agencies who are active today.

Now that we are a couple of years into this program, we are starting to see some renewal contracts come through in meaningful amounts. While we aren't quite ready to share all metrics regarding renewals - we thought it was pertinent to share that we are seeing 79% of renewal contracts sign multi-year deals. This is right in line with the average contract term for the new business deals for the past couple of quarter as well. We are also seeing program expansions - Charlotte Mecklenburg is a great example. They initially did an early deployment in 2013 and in the first quarter 2015 they expanded their deployment to 1,400 AXON cameras on the Ultimate [EVIDENCE.com](https://www.evidence.com) tier. They are further expanding their program with integration with their Computer Aided Dispatch system to enhance the metadata from events. Programs such as these, that are longer term commitments, feed directly into improvements in metrics such as future contracted revenue which grew 32.6% sequentially in the first quarter to \$71.1 million.

Internationally, we saw traction in both the weapons and the AXON segments with a total of \$9.0 million in revenue, or 20% of total revenue. The Ontario Provincial Police placed their second significant order for SMART weapons since the initial Canadian approval of the Smart Weapon platform in Q4. The expansion of the smart weapon program this quickly is very encouraging. The City of London also placed the first significant AXON order that we've seen out of the UK thus far. They are truly innovative in their approach to technology in policing, and are deploying the AXON platform for its flexibility to integrate with future and existing technology. The City of London runs the famous "Ring of Steel" which covers much of the city center with surveillance cameras, one of the most well known fixed video programs in the world. Hence, we believe their selection of AXON and [EVIDENCE.com](https://www.evidence.com) is a meaningful achievement. Since the end of the quarter, we also announced the British Transport Police selected our solution to deploy 250 AXON cameras for a nationwide proof of concept. Given that the BTP officers work across most of the various jurisdictions in the United Kingdom, the cross agency information sharing capabilities of [EVIDENCE.com](https://www.evidence.com) will greatly enhance their program's success — and carries the potential to increase the value of [EVIDENCE.com](https://www.evidence.com) to other agencies throughout the UK who interact with the BTP. Finally, the London Metropolitan Police (which has over 31,000 officers) has announced their intention to deploy 10,000 to 30,000 cameras and to become "the most transparent police in the world." We have been working with the London Met on a field trial of 1,000 cameras over the past year with very positive feedback. However, investors should note that the expanded program will have to go through a new procurement process, so there is no assurance that they will ultimately purchase our solution.

As I mentioned on the last conference call, I am shifting much of my focus to building out our international business this year. I have been spending about 1 week per month in the UK over the past quarter to help our team build momentum. We have hired two great new sales people with strong enterprise software experience to anchor our sales efforts around [EVIDENCE.com](https://www.evidence.com) and to follow through on the momentum. We expect to see further announcements coming out of the UK this year.

Starting this summer, I will be spending 8 week segments in key markets where we will be hiring the local sales team to leverage my presence with key customers, and to follow through once we have initial momentum in each market. I will be in Northern Europe and the UK this summer, France in the fall (where we already have an installed base of around 8,000 weapons in the field

which are in need of an upgrade — and we will seek to expand the TASER programs and stand up wearable video programs). Next spring, I will be in Italy, with the largest police force in Europe and where TASER devices were recently legalized. Once these teams are up and running, I will focus on our presence in Asia and Australia. I believe these early successes in the UK indicate this new focus can change the game for us internationally.

At this point, I'd like to pass to our President, Luke Larson. One of the key reasons I tapped Luke for this role is he has proven exceptional at building teams and a world-class organization to take us to the next level.

LUKE LARSON

Thanks, Rick. So - let's start with hiring. It has been, and will always be my number 1 priority — getting the best possible people on our team to support our mission, and provide sustainable long term growth. I prescribe to the New York Yankees philosophy that if the players on our bus are better than the players on the other bus we'll win the game.

We have implemented a very intensive and rigorous hiring process to ensure we are hiring the right people to drive this business forward. 2015 has started off at a fast pace in comparison - we have hired over 50 people this year already. I could not be more proud of the people we recruited to join TASER this past few months. Among our key hires in the past few months:

- Mike Shore, our new VP of Video and Evidence Sales, who hails from both Google and Atlassian.
- Bill Padgett, our new VP of Supply chain, with a solid background in operations from Flextronics and Danaher.
- Sayce Falk, our new Head of Business Development from McKinsey and Company, and also a man who shares my alma matter as an infantry officer of the US Marine Corps.
- Brandon Bloom, Founder of ThinkFuse acquired by Salesforce, now he's building out key parts of Evidence.com

In April, we established our new Sales Development team, which will report to the same manager who grew the very successful telesales team from zero to approximately \$40 million in annual sales. The purpose of this team is to generate sales leads and pre-qualify accounts before the regional on-the-ground team goes on-site. We have also added a sales rep program for the middle tier of the market to the CEW side of the business to add visibility into the middle tier of the market, similar to what we initiated within the AXON sales organization. Our leadership development program also had great recruitment results this year - we will have 9 new Ivy Leaguers join our team - 7 from Harvard, 1 from Penn, and 1 one from Dartmouth. Of course, these are just a few of the outstanding people we have added to our team - I'd like to invite each of you to our upcoming shareholder meeting in Seattle to meet some of our people and see why I am so excited to be part of this team.

Even with all of this hiring, expenses came in under our projections for the quarter, largely because we could not find enough great people fast enough. As we look forward to the second

quarter results, we are continuing to move aggressively with hires and anticipate a \$1 million quarterly increase from the current SG&A level of \$14.6 million. We are confident that our investments in customer-facing positions will provide corresponding incremental returns.

You'll recall in the fourth quarter we introduced the Officer Safety Plan in conjunction with the LAPD order. Since then, our pipeline of deals for this program has grown to nearly \$60 million in a few short months. I'd say that the program is a success based on those metrics, and while we have only announced LAPD and Mobile, Alabama thus far, we look forward to sharing more agencies who have chosen this revolutionary purchasing program in the near future.

Earlier in April we announced the Standard Issue Grant program which was met with much excitement. The webcast alone announcing and describing the program had nearly 600 registrants despite a very short advertising and marketing period. This is another program in place to help and incentivize agencies to ensure their officers are fully-equipped on the job, not only with on-officer cameras but also with SMART weapons, which historically, have not been standard-issue equipment. We have a *huge* goal to get 100,000 officers on this grant program by the end of the year. The grant tiers range from \$100 - \$400 per officer. At the high end this could mean a \$40 million investment will net a \$600 million opportunity. We continue to set our sights high. We want a TASER weapon and camera on every officer in the U.S. and for them to be standard issue equipment at every agency. We are continuing to add more headcount in both our telesales function, domestic weapons sales staff, video sales staff and international sales staff to ensure that we are constantly at the top of mind for agencies around the world. We believe that, in this day and age, every officer should have a TASER and a camera, and we are moving aggressively to bring our technology to the men and women out there doing one of the hardest jobs imaginable.

No one is immune to the recent events that showcase that law enforcement personnel have extremely challenging jobs to keep citizens safe. While the history of our life-saving TASER is controversial to some, it is a tool that is used in violent and dangerous confrontations in which emotions can be extreme. While they have been involved in tragic situations including arrest related deaths they have also saved more than 141,000 lives from death or serious injury in more than 2.73 million field uses. That is the nature of exactly what TASER International is focused on -- defying conventional wisdom with revolutionary and proven methods to protect life and truth. You have to be willing endure the critics from afar as we try to resolve some of the world's most complicated and dangerous issues of stopping violent people while improving transparency at the same time. What matters is that we can make a difference that matters in this world and we are determined to tackle these problems

With that, I'd like to turn over to our CFO, Dan Behrendt, to provide some more color on our financial results and outlook for 2015.

DAN BEHRENDT

Revenue in the first quarter was \$44.8 million, growth of 24% compared to the first quarter of 2014, was stronger than expected. There were a couple deals on either end that bolstered the results -we had some deals pushed from Q4 into Q1 and also closed earlier than anticipated from Q2.

Research & Development expenses of \$4.6 million are slightly lower than anticipated, again due to slower hiring than planned. We did make several critical hires in both project management and engineering roles, but have plans to continue to aggressively grow both hardware and software engineering staff levels throughout the remainder of the year. We anticipate that with the hiring plans as well as incremental consulting spend in the hardware segment, we will grow R&D approximately \$1 million quarterly from the first quarter levels in the second quarter. In order to maintain a leadership position in the market we will make bold technology investments in emerging technologies such as *wearables*, mobile and cloud.

The gross margins were EPIC in the quarter. In the TASER weapons segment, gross margins were 71.1% in the first quarter of 2015 compared to 66.4% in the prior year. In the AXON segment, gross margins increased to 40.6% compared to 17.5% in the prior year. As you can see in the supplemental package online, there were a few one-time reversals that contributed to the gross margin strength. However, as our service revenues continue to increase and a critical mass of licenses is reached, cost of service delivered margins will continue to improve as there are fixed costs associated with the provision of software as a service. Due to the one-timers, we think that going-forward in immediate quarters a good modeling percentage is 64-66% gross margins on a consolidated basis.

The investments we are making are still paying off and proving to be prudent. In the first quarter our Customer Acquisition Cost to Life Time Value, a standard ratio used to evaluate the level of investment spend in SaaS companies, was 3.5. As a reminder, the general rule of thumb is investment are well-placed with a ratio greater than 3. With an active user base of approximately 22,000 users this quarter, versus approximately 15,000 last quarter, we are seeing continued growth. While the fourth quarter had a ratio of greater than 4, our incremental investments in sales personnel during 2015 creates a longer return runway as reps get trained up and deployed into the field.

We are realistic in knowing that some of these investments will succeed, some will fail. We believe that the investments we make with both our successes and our failures will be critical to maintaining a “learning organization” that can evolve and adapt to future technologies and market challenges. We are diligent about integrating our customer's feedback into our technologies so that we ideally innovate to their direct needs. Today we are investing heavily in mobile around communication and collaboration features for public safety. We see the trend from desktop to mobile as something that will certainly come to the public safety market as it has to so many other markets and are intent on being the leader in this space. I'd like to reiterate our commitment to the long-term and set the expectation this is a consistent message you will be hearing from me and our leadership team. We have assembled a world class development team that we see as a competitive advantage and in which we continue to supplement with strong

hires. We are playing to win a much larger market over the long run and look forward to generating long-term shareholder value as a result.

You may have noticed that the tax rate for the quarter of 32.5% is lower than our historic rate. This is due to two things. The first is that we are benefiting from the Domestic Production Activities Deduction that we get for producing our products in the United States. Second and even more significant is the impact of having our international business structure run out of Amsterdam. While we set up the Amsterdam office to be closer to our customers, we do get some tax benefits under this arrangement. It is worth noting that because we will have income in the United States and various foreign jurisdictions outside of the United States, our effective tax rate could fluctuate due to changes in the mix of earnings and potential losses in countries with differing statutory tax rates. We will look at this each quarter and update our effective tax rate as appropriate.

As a reminder, the Annual Shareholder Meeting will be held in a couple weeks on May 18th in Seattle. It will be held at 1800 Yale Avenue, at the SpringHill Suites Seattle Downtown at 9:00AM Pacific Standard Time. After the formal voting procedures, presentations will be made by Luke Larson, Luke Larson and Marcus Womack. There will also be an informal round-table discussion with the Company's product managers on both the video and weapon side of the business where you can ask them questions about the product offerings and development process. We will also have some of the videos and mementos from the IACP conference so investors are able to experience a bit of what our customers went through. While not required, we would appreciate RSVPs to be sent to IR@TASER.com so we can plan for the appropriate number of attendees.

You may have noticed that we changed up the earnings press release a bit this quarter. We heard the feedback from last quarter that we were perhaps a bit verbose during the call and did not leave enough time for questions. This call is meant to update you, our investors, on our quarterly progress so we tweaked the process to hopefully make this time more useful. We not only added the AXON segment statistics into the release as well as a few more business highlights from the quarter, but for the first time we've uploaded a supplemental package to the investor website which goes through each of the line item drivers to provide investors more color about what happened in the financials this quarter compared to last year and sequentially. As a result, we will be skipping most of the financial highlights part of the call this quarter and going right to Q & A. At the end of this call, we will be tweeting out a survey link. Please let us know what you think about this new call format and if there are other ways we can continue to improve our shareholder communications. As always, you can also provide feedback by emailing us at IR@taser.com.

With that we will take questions from the queue - as a reminder we will only take 3 questions per person for the first round to ensure everyone gets a chance.