

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

Form 10-KSB

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2002

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 001-16391

Taser International, Inc.

(Name of small business issuer in its charter)

Delaware

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

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

(Address of principal executive offices)

86-0741227

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

85260

(Zip Code)

(480) 991-0797

(Issuer's telephone number)

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

Securities registered under Section 12(g) of the Act:

Common Stock, \$0.00001 par value per share

Warrant, right to purchase one share of Common Stock

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

The issuer's revenues for the fiscal year ended December 31, 2002 were \$9,842,777.

The aggregate market value of the Common Stock held by non-affiliates of the issuer, based on the average of the high and low sales prices of the issuer's Common Stock on February 28, 2003 as reported by Nasdaq, was \$4,145,082.

The number of shares of Common Stock outstanding as of February 28, 2003 was 2,809,393.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of registrant's proxy statement dated on or about March 25, 2003 prepared in connection with the annual meeting of stockholders to be held May 1, 2003 are incorporated by reference into Part III of this report.

Transitional Small Business Disclosure Format: Yes No

TASER INTERNATIONAL, INC.

ANNUAL REPORT ON FORM 10-KSB

Year Ended December 31, 2002

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PART I

The statements contained in this report that are not historical are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including statements, without limitation, regarding our expectations, beliefs, intentions or strategies regarding the future. We intend that such forward-looking statements be subject to the safe-harbor provided by the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things: (1) expected revenue and earnings growth; (2) estimates regarding the size of target markets; (3) our ability to successfully penetrate the law enforcement market; (4) growth expectations for existing accounts; (5) our ability to expand product sales to the private security, military and consumer self-defense markets; and (6) our target business model. These statements are qualified by important factors that could cause our actual results to differ materially from those reflected by the forward-looking statements. Such factors include but are not limited to: (1) market acceptance of our products; (2) our ability to establish and expand direct and indirect distribution channels; (3) our ability to attract and retain the endorsement of key opinion-leaders in the law enforcement community; (4) the level of product technology and price competition for our ADVANCED TASER product; (5) the degree and rate of growth of the markets in which we compete and the accompanying demand for our products; and (6) other factors detailed in our filings with the Security and Exchange Commission, including, without limitation, those factors detailed in Exhibit 99.1 to this report.

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

Item 1. Description of Business

Overview

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

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

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

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

order to enter the law enforcement market, we would have to make material changes to our existing technology and channel all of our resources toward success in this industry.

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

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

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

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

During 2001, we expanded our sales and marketing efforts, and we sold or provided ADVANCED TASERS to more than 1,000 police agencies worldwide. 2001 also marked the introduction of our products to the airline industry. Immediately following the tragic events of September 11, 2001, leading commercial airlines contacted us with regard to using the ADVANCED TASER on board commercial aircraft. In December 2001, United Airlines became the first U.S. airline to purchase our products. Unfortunately, with the U.S. Government facing new challenges in providing homeland defense, United Airlines and other commercial carriers interested in using our weapons onboard their aircraft were precluded from deploying the ADVANCED TASERS until additional government sponsored safety studies could be conducted.

In 2002, Company management worked with officials from United Airlines, and a Washington lobbying firm to assist with safety studies and to initiate legislative changes which would allow the ADVANCED TASER to be deployed on board commercial aircraft. On November 25, 2002 Congress approved The Homeland Security Act of 2002 allowing individual carriers to apply to the Under Secretary of Transportation for Security, on a case by case basis, to deploy the weapon system. As of January 2003, two commercial carriers, United Airlines and Mesa Airlines, had submitted these applications to the Transportation Security Administration (TSA) for approval.

During 2002, we also began our pursuit of the consumer market for the ADVANCED TASER. We initiated this launch with the introduction of our M18 weapons at the Consumer Electronics Show in January 2002, and followed by introducing the product in a test market in California. The initial response did not meet our original expectations. Further, as we worked with commercial distributors, we found that in order to support a national consumer marketing campaign, significant resources, both human and financial, would be required. Additionally, management believed commercial distribution would defocus the efforts of the sales team from its primary objective of further penetrating the U.S. law enforcement market.

In April, 2002, the Company was notified that it had received a grant from the Office of Naval Research to aid the U.S. Government with the development of less-than-lethal weapons for the military. This grant not

only provided us with added funding for our research and development efforts, but also validated our position as a leader in less-lethal technologies. In September 2002, our grant funding was augmented with an additional \$349,000 to pursue the concepts developed in Phase I of the award.

At the close of 2002, three years following our initial introduction of the ADVANCED TASER weapon system, we had more than 2000 law enforcement agencies worldwide testing and deploying our M26 weapon system. This number of agencies includes 134 departments have either purchased, or are in the process of purchasing one unit for each patrol or line level officer. This list of 134 departments includes two major departments, the City of Phoenix, a top-ten law enforcement agency in the U.S., and the Ohio State Troopers, a leader in the highway patrol community.

In 2002, our focus was to build an infrastructure capable of meeting the growing demand for our products, and to develop a research and development team that would assist in keeping the Company a leader in conducted energy weapon technology. We targeted Board of Director additions that could augment our expertise with strong backgrounds in medical research and law enforcement networks. We also hired leaders in electronic engineering and manufacturing to reduce our time from development to manufacture, and we added a general counsel to our executive team, not only to reduce litigation costs but also to better understand and manage potential risk.

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 target the AIR TASER line to the consumer market; however, in 2003, we plan to discontinue the manufacture of this model.

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

In addition to the law enforcement line of ADVANCED TASER products, we also developed a less powerful consumer version of the ADVANCED TASER M26 for the consumer market. This line includes the ADVANCED TASER M18L, with integrated laser sight, the ADVANCED TASER M18 without an

integrated laser sight, a cartridge that shoots two small, electrified probes up to 15 feet, and a number of holstering accessories.

Our 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 product, with a retail price of \$120. Our high-end consumer model, the ADVANCED TASER M18L with integrated laser sight, retails for \$600. THE ADVANCED TASER M26 is currently our best selling item. Law enforcement distributors sell the M26 to police and corrections agencies for \$400. Retail cartridge prices range from \$16 for law enforcement to \$30 per unit for consumer purchases. The M26 sales to the commercial airline industry, after they are approved for on-board use, will be sold directly by our direct sales personnel at law enforcement prices.

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

We offer a one year no-questions-asked replacement policy on the ADVANCED TASER. After the warranty expires, if the weapon fails to operate properly for any reason, we will replace it for a fee of \$75. This fee is intended to help defray the handling and repair costs associated with product returns. This policy is attractive to our law enforcement and corrections agency customers. In particular, it avoids disputes regarding the source or cause of any defect. Based upon our 2002 warranty return information, we have created a reserve for ADVANCED TASER product returns equivalent to the sales volume shipped in 2001, multiplied by a factor representing the historical scrap cost associated with each returned unit. Warranty costs under the ADVANCED TASER replacement policy totaled \$79,000 in 2002, and \$11,500 in 2001. The amount for 2002 includes \$25,000 recorded in connection with a series of ADVANCED TASERS that we recalled in the second quarter of 2002 due to a defective electronic component.

Markets

Law Enforcement and Corrections

Federal, state and local law enforcement agencies in the United States currently represent the primary target market for the ADVANCED TASER. In the law enforcement market, over 2,000 law enforcement agencies have made initial purchases of the ADVANCED TASER for testing or deployment. These agencies include the United States Secret Service, Los Angeles Police Department, Los Angeles County Sheriff's Department, New York Police Department, the Royal Canadian Mounted Police, Miami Police Department, Denver Police Department, Fort Worth (TX) Police Department, Orange County (FL) Sheriff's Department, Chandler (AZ) Police Department, Philadelphia Police Department, Seattle Police Department, and Minneapolis Police Department. In addition, 159 police departments, including Ohio State Troopers, Phoenix (AZ) Police Department, San Diego, Reno, Sacramento, Albuquerque, Citrus County (FL) Sheriff's Office and Clay County (FL) Sheriff's Office have purchased one ADVANCED TASER M26 to issue to each of their on duty patrol officers.

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

Commercial Airlines

The commercial airlines became a new market for us in 2001. Following the events of September 11, 2001, the commercial airline industry implemented added security measures to protect its passengers and crew. These measures included reinforcement of cockpit doors, increased airport security, and the testing of

effective weapons for storage and use on airlines. The ADVANCED TASER is one of the weapons being considered by the Transportation Security Administration (TSA).

Initially, management believed approval of less-than-lethal weapons for airline use would occur in 2002. However, because of the large backlog of legislative issues before the 107th Congress, this item was delayed. Two commercial carriers, United Airlines and Mesa Airlines continue to support the use of our ADVANCED TASER product for on board security. And both have now, in accordance with the Homeland Security Act of 2002, applied to the TSA for formal approval to deploy the ADVANCED TASER M26 weapon platform. Without this approval, neither carrier will be allowed to use or store these weapons on board their aircraft, and future orders from other U.S. carriers may not be received or may be delayed.

Private Security Firms and Guard Services

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

Consumer/Personal Protection

Prior to the introduction of the ADVANCED TASER in late 1999, the majority of our annual revenue was derived from consumer sales. However, since the introduction of the ADVANCED TASER in 2000, our annual revenue from consumer sales has dropped to a range of \$1.0 to \$1.5 million per year. We expect consumer sales to remain in the \$1.0 million range in 2003, with growth beginning in 2004, as a result of a new consumer initiative by the Company in mid 2003. We believe consumer sales could contribute a substantial portion of our revenues beyond 2003, particularly if the ADVANCED TASER becomes more established in the law enforcement and airline industries, resulting in an implied endorsement for consumer use.

Military

Military police forces may use the ADVANCED TASER for purposes similar to those of civilian police units and to reduce the possibility of civilian casualties resulting from combat operations in populated environments. We have not formally pursued sales opportunities in the military market, but are consulting with military experts regarding use of our products. In the last two years, we have sold fewer than 100 ADVANCED TASERS to the United States Air Force and the U.S. Marine Corps for their evaluation of the weapon. We have been advised that the M26's were deployed on a few strategic initiatives, and that an undisclosed quantity has been recommended for deployment.

In April of 2002, we were awarded the first phase of a four phase cost-plus-profit grant from the Office of Naval Research. The grant was to fund the development of less-than-lethal weapons systems for the U.S. military, and provided approximately \$130,000 of working capital for our research and development efforts. In September of 2002, our funding was increased by an additional grant of \$349,000, which provided total funding of \$479,000. We recognized \$180,000 as revenue during the year ended December 31, 2002. We believe our continued efforts in developing technologies for the military will provide us future revenue opportunities, as it is positioning the Company as a technology partner with the Office of Naval Research.

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. Depending on the size and cost of the weapon deployment, the decision may involve 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.

In 2002, the Company developed and implemented two distinct media campaigns. The first was a series of print and cable advertisements developed to test the consumer response to our new M18 product line. The second was the development of a CD/ DVD package geared toward the law enforcement community. This package was sent to more than 10,000 individuals working in the largest police departments in the United States and abroad. These two campaigns, coupled with other advertisements in law enforcement publications resulted in an annual increase of \$273,000 in advertising expenditures.

In 2002, the Company also targeted key regional and national law enforcement trade shows where it could demonstrate the ADVANCED TASER weapon system to leading departments. In addition, the Company sponsored its third annual U.S. tactical conference for the trained master instructors and law enforcement training officers, and initiated its first European tactical conference to reach law enforcement officials in more than 11 countries, including the United Kingdom, Germany, Israel, Greece, Romania and the Netherlands, who expressed an interest in or are deploying the M26. In total, the costs associated with conducting these trade shows and conferences increased our trade show and travel expenditures by \$387,000 to \$1.1 million in 2002.

The Company plans to continue investments in the area of law enforcement trade shows and conferences in 2003 and 2004, as it has provided the ability to mass market its products to a target audience. We believe these types of activities accelerate penetration of the law enforcement market with our ADVANCED TASER product line, which should lead to increased visibility in both the private security and consumer markets and will enforce the value of less-than-lethal weapons for self-defense. Once established in the law enforcement community, we will use our brand recognition and police endorsement to initiate a focused penetration of the retail consumer market. We have developed a consumer version of our ADVANCED TASER for individual use. These models, the M18L and M18, offer the consumer the same features sold to law enforcement, but with a shorter wire length for cartridge deployment and a slightly reduced power setting.

United States Distribution

With the exception of several accounts to which we sell directly, the vast majority of our law enforcement agency sales in the United States occur through our network of more than 25 law enforcement distributors. These distributors were selected based upon their reputation within the law enforcement community, their credit worthiness, and their distribution network. We maintain tight controls over our law enforcement distributors to ensure that our service standards are achieved. We also reserve the right to take any large agency order directly to secure our credit interest.

Sales in the consumer market are made through many of the same independent distributors, as well as through eleven additional commercial distributors added in December of 2001.

Due to the confidential nature of the relationships established with the major U.S. airlines, we intend to transact directly all future sales of our products to the commercial airline industry. These direct sales will enable us to assist the airlines in the development of training and tactical applications, and to provide on-site equipment maintenance services as they are required.

International Distribution

We concentrated our marketing resources on penetrating the United States law enforcement and corrections market since the development of the ADVANCED TASER. Accordingly, our international sales efforts in these years were limited to select presentations and training seminars conducted by TASER personnel. These presentations included the introduction of the ADVANCED TASER in Europe and parts of the Middle East, South America and Asia. Our sales outside the U.S. and Canada accounted for approximately 10% of our total sales in both fiscal 2002 and 2001. We believe the total sales generated outside the U.S. and Canada may exceed this percentage of our total sales in 2003.

We work with 30 foreign distributors around the world. 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 more than 6,000 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.

168 of our certified instructors have undergone further training and became certified as master instructors. We authorize these individuals to train other law enforcement and corrections agency trainers, not just end-users within these organizations. Approximately 150 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 regions. Beginning January 1, 2001, our charge for training is \$195 per attendee. We pay master instructors a per-session training fee for each session they conduct. These training sessions have led directly to the sale of ADVANCED TASERs to a number of police departments. During fiscal 2001, we conducted 120 training classes, resulting in more than 1,370 newly trained TASER instructors. In 2002, we conducted 167 training courses, with more than 2,760 individuals trained.

During 2002, we created a Training Board, consisting of Hans Marrero, our Chief Master Instructor, four active duty police officers, and one retired law enforcement trainer to coordinate the growing demands of our training program. This board annually reviews the qualifications of the master instructors, and provides retraining or certification as required. In addition, the Training Board oversees the trainers and curriculum to ensure new tactics and policies are properly communicated and implemented.

Manufacturing

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

With our current work force, on a single shift, we are able to produce approximately 50,000 cartridges per month, and more than 4,000 TASERs. We can expand our production capabilities by adding additional personnel and a second shift with negligible new investment in tooling and equipment.

We currently purchase finished circuit boards and injection-molded plastic components from suppliers located in the Phoenix area. Although we currently obtain these components from single source suppliers, we own the injection molded component tooling used in their production. As a result, we believe we could obtain alternative suppliers without incurring significant production delays. We also purchase small, machined parts from a vendor in Taiwan, custom cartridge assemblies from a proprietary vendor in Arizona, and electronic components from a variety of foreign and domestic distributors. 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

Law Enforcement and Corrections Market

In the law enforcement and corrections market, the ADVANCED TASER competes directly with the conducted energy weapon sold by Electronic Medical Research Laboratories, Inc., doing business as Taser

Technologies., formerly Tasertron. Taser Technologies is the sole remaining manufacturer of the original TASER weapon introduced in the 1970's. As of December 31, 2002, over 2,000 police departments had purchased, in the aggregate, more than 34,000 ADVANCED TASERS. We believe that fewer than 200 police departments currently deploy Taser Technologies weapons, with less than 5,000 units deployed, primarily at the tactical supervisor level. We believe the ADVANCED TASER also competes indirectly with a variety of other less-lethal alternatives.

Taser Technologies had an exclusive license to sell TASER products in the North American law enforcement and corrections market until February 1998. Since its introduction in late 1999, the ADVANCED TASER has competed successfully against the Taser Technologies unit, even in agencies that had previously purchased weapons from Taser Technologies. Other less-lethal weapons, such as pepper spray and impact weapons, sold by companies such as Armor Holdings Inc. and Jaycor, Inc., compete with our ADVANCED TASER indirectly. We believe the ADVANCED TASER's advanced technology, versatility, effectiveness, and low injury rate enable it to compete effectively against other less-lethal alternatives.

Consumer Market

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

In the consumer market, the AIR TASER formerly competed with a conducted energy weapon introduced by Bestex, Inc. in 1996, called the Dual Defense, and indirectly with other less-lethal alternatives. In July 2002, the Company purchased U.S. Patent No. 5,078,117, from Mr. John Cover. This patent covers the manufacturing design incorporated in our air cartridge, as well as the process used by Bestex in the production of its Dual Defense product. Prior to our purchase, Mr. Cover had granted licenses to both Bestex and TASER International for its use. However, at the time we purchased the patent, Bestex had not renewed its license, and subsequently lost its right to continue utilizing the covered technology. Therefore, we believe our products will only compete with remaining inventories of the Dual Defense system produced prior July 2002, as the continued manufacture by Bestex of the existing Dual Defense system beyond such date would be an infringement of our patent rights.

Regulation

United States Regulation

The AIR TASER and ADVANCED TASER, as well as the cartridges used by both weapons, are subject to identical regulations. Neither weapon is considered to be a "firearm" by the Bureau of Alcohol, Tobacco, Firearms and Explosives. Therefore, no firearms-related regulations apply to the sale and distribution of our weapons within the United States. In the 1980's 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 2002, we worked with several law enforcement agencies, government agencies and distributors to amend prior legislation preventing the sale of ADVANCED TASERS to law enforcement agencies in certain regions of the U.S. These combined efforts were successful in changing the legislation in the states of Michigan and Hawaii. We consider this to be a dramatic change in regulations as, for example, prior to the amendment to the Michigan Penal Code, the possession of a TASER or electronic weapon of any kind in Michigan could result in a felony conviction.

In many cases, the law enforcement and corrections market is subject to different regulations than the consumer market. Where different regulations exist, we assume the regulations affecting the consumer market also apply to the private security markets except as the applicable regulations otherwise specifically provide.

Based on a review of current regulations, we have determined the following states regulate the sale and use of our weapon systems:

| State | Law Enforcement | |
|----------------|-----------------|--------------------------------|
| | Use | Consumer Use |
| Connecticut | Legal | Legal, subject to restrictions |
| Florida | Legal | Legal, subject to restrictions |
| Hawaii | Legal | Prohibited |
| Illinois | Legal | Legal, subject to restrictions |
| Indiana | Legal | Legal, subject to restrictions |
| Massachusetts | Prohibited | Prohibited |
| Michigan | Legal | 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 | Legal | Prohibited |
| Washington | Legal | Legal, subject to restrictions |
| Wisconsin | Legal | Prohibited |

The following cities and counties also regulate our weapon systems:

| City or County | Law Enforcement | |
|-------------------|-----------------|--------------------------------|
| | Use | Consumer Use |
| Annapolis | Legal | Prohibited |
| Baltimore | Legal | Prohibited |
| Chicago | Legal | Prohibited |
| Howard County, MD | Legal | Prohibited |
| Lynn County, OH | Legal | Legal, subject to restrictions |
| New York City | Legal | Prohibited |
| Philadelphia | Legal | Prohibited |
| Washington, D.C. | Legal | Prohibited |

United States Export Regulation

Our weapon systems are considered a crime control product by the United States Department of Commerce. Accordingly, the export of our weapon systems is regulated under export administration regulations. As a result, we must obtain export licenses from the Department of Commerce for all shipments to foreign countries other than Canada. Most of our requests for export licenses have been granted, and the need to obtain these licenses has not caused a material delay in our shipments. The need to obtain licenses, however, has limited or impeded our ability to ship to certain foreign markets. Export regulations also prohibit the further shipment of our products from foreign markets in which we hold a valid export license 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 adopted new regulations restricting the export of technology used in our weapon systems. These regulations apply to both the technology incorporated in our weapon systems and in the processes used to produce them. The technology export regulations do not apply to production that takes place within the United States, but is applicable to all sub-assemblies and controlled items manufactured outside the United States.

Foreign Regulation

Foreign regulations which may affect our weapon systems are numerous and often unclear. We prefer to work with a distributor who is familiar with the applicable import regulations in each of our foreign markets. Experience with foreign distributors in the past indicates that restrictions may prohibit certain sales of our products in a number of countries. The countries in which we are aware of restrictions include: Belgium,

Denmark, Hong Kong, Italy, Japan, New Zealand, Norway, Sweden, and Switzerland. Additionally, Australia, Canada and India permit our products to be sold only to law enforcement and corrections agencies.

Previously, the United Kingdom was among the countries where TASER technologies were prohibited. However, in January 2003, the British Police announced that the national government would be backing a TASER pilot program for five police forces within the UK. The agencies participating in the trial program of the ADVANCED TASER M26 include: the Northamptonshire Police, Lincolnshire Police, Thames Valley Police, North Wales Police and Metropolitan Police. This decision came after the completion of two years of testing by the Police Scientific Development Branch of the Home Office in England, during which the product was reviewed for operational effectiveness and medical safety.

Intellectual Property

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

We hold United States Patent No. 5,771,663, on the construction of the gas cylinder used to store the compressed nitrogen in our cartridges. This patent expires in 2015. On July 2, 2002, we also purchased U.S. Patent No. 5,078,117 from Mr. John Cover. This 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. Previously we licensed the use of this patent from Mr. Cover. In addition, we have broad-based patent applications pending that cover the energy wave form developed for the ADVANCED TASER, as well as applications for new technologies currently under development.

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

Research and Development

Our research and development initiatives are categorized into two separate classifications. The first is internally funded research and development, and the second is research funded by the Office of Naval Research. Both categories focus on next generation technology, yet are differentiated by their time to completion and accounting treatment. Internally funded research has been primarily focused on improvements to existing TASER products, or the development of new applications for TASER technology. The work being done for the Office of Naval Research has been based upon the premise of developing weapon systems to be used in military combat or policing activities where a more extensive design set may be required. These projects are more long-term in nature, and involve several outside resources. Both avenues of research are led by our internal personnel and make use of specialized consultants when necessary. These initiatives include bio-medical research and electrical and mechanical engineering design. We expect that future development projects will focus on reducing the size, extending the range, and improving the functionality of our weapons.

Our investment in internally funded research totaled \$137,000 in 2002, and \$43,000 in 2001. The research funded by the Office of Naval Research (ONR) has been completed on a cost-plus-profit basis, and the grant proceeds in 2002 were \$179,545. Monthly, an invoice summarizing the reimbursable expenses is submitted to the ONR for payment. The payment request details the costs expensed in the period and adds a nominal profit. Because this project generates profit for the Company, the reimbursement is recognized as a component of revenue, and the associated expenditures are expensed as a component of cost of products sold. Prior to April 2002, there was no work performed for the ONR.

We expect as we progress with projects underway, that our research and development expenditures will increase as a percentage of sales. This is due to the costs associated with conducting and preparing biomedical studies, and contracting the services of medical experts to review our product developments. It is our intent to complete at least one new project by mid-to-late 2003, and to introduce a new line of cartridges to our law enforcement customers by June of 2003.

Employees

As of December 31, 2002, we had 73 full-time employees, 46 direct manufacturing employees and 27 administrative and manufacturing support employees. Of the 27 administrative and manufacturing employees; eight were involved in sales, marketing and training; five were employed in research, development and engineering; eight were employed in administrative functions inclusive of executive management, legal, finance, accounting and investor relations; three were employed in the information systems technologies; and three were employed in manufacturing support functions.

Our employees are not covered by any collective bargaining agreement, and we have never experienced a work stoppage. We believe that our relations with our employees are good.

Corporate Information

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

Item 2. Description of Property

Principal Location

We conduct our operations from a modern 11,800 square-foot leased facility in Scottsdale, Arizona. The monthly rent for this facility is approximately \$13,000. Our lease expires on December 31, 2005. We do not believe this facility will meet our needs for the next three years, and are currently negotiating for additional space.

Investment Policies

Our investment policy to date has been to focus resources on the development of our core business. To that end, our capital investments are made in the areas of fixed assets that will generate income through improved productivity or advanced technology. Cash reserves are invested in interest bearing accounts and government securities. As of December, 2002, we had no investments in real estate or public securities.

Item 3. Legal Proceedings

In February 2000, Thomas N. Hennigan, a distributor of our products from late 1997 through early 2000, sued us in the United States District Court, Southern District of New York. Mr. Hennigan claims the exclusive right to sell our products to many of the largest law enforcement, corrections, and military agencies in the United States. He seeks monetary damages in the aggregate amount of \$400 million against us and certain of our officers allegedly arising in connection with his service to us as a distributor on theories of our failure to pay commissions, breach of contract, interference with contract, and on related theories. We signed no contract with Mr. Hennigan. We also believe that he has no reasonable basis for claims to informal or implied contractual rights. As a result, we believe his claims are without merit, and the litigation will have no material adverse affect on our business, operating results or financial condition. Mr. Hennigan's suit was dismissed in February 2001 for lack of jurisdiction of the New York court and the case was transferred to the United States District Court for the District of Arizona. Mr. Hennigan died in April 2001. The case is now being prosecuted by his estate. We filed two motions for partial summary judgment in November 2002 which are currently pending before the court.

In 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 sought injunctive relief and unspecified monetary damages. In February 2002, we won a motion for summary judgement that limits Mr. McNulty's right to sue for damages only to dates after February 2001. On July 29, 2002, we again won a motion for summary judgment in which the Court ruled that no product manufactured by the Company infringed the claims of the patent licensed by McNulty. We were notified in August 2002 that the plaintiff filed an appeal. We intend to

respond to the appeal, and based upon the original decision by the lower court, we believe that the claims are without merit and that the litigation will not have a material adverse effect on the Company's financial condition or results of operations.

In May 2001, the Company filed a complaint against Electronic Medical Research Laboratories, Inc., doing business as Taser Technologies, formerly Tasertron, in the United States District Court for the District of Arizona. The complaint alleges trademark infringement, unfair competition and interference with contractual relations, and seeks monetary damages and injunctive relief. In December 2002, we filed a motion for summary judgment and the defendant filed a motion for summary judgment, both of which are currently pending before the court. A date has not yet been set for oral argument.

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

None.

PART II

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

Market Information

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

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

Common Stock "TASR"

| Fiscal Quarters | High | Low |
|------------------------|-------------|------------|
| June 30, 2001(1) | \$ 7.30 | \$ 5.35 |
| September 30, 2001 | \$ 9.31 | \$ 5.60 |
| December 31, 2001 | \$ 15.14 | \$ 8.25 |
| March 31, 2002 | \$ 19.70 | \$ 13.08 |
| June 30, 2002 | \$ 20.60 | \$ 11.86 |
| September 30, 2002 | \$ 12.20 | \$ 4.71 |
| December 31, 2002 | \$ 4.80 | \$ 3.40 |

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

Public Warrants “TASRW”

| Fiscal Quarters | High | Low |
|--------------------|----------|---------|
| June 30, 2001(1) | \$ 2.45 | \$ 1.40 |
| September 30, 2001 | \$ 3.20 | \$ 1.25 |
| December 31, 2001 | \$ 6.75 | \$ 2.55 |
| March 31, 2002 | \$ 10.95 | \$ 5.61 |
| June 30, 2002 | \$ 11.86 | \$ 6.15 |
| September 30, 2002 | \$ 6.49 | \$ 2.60 |
| December 31, 2002 | \$ 2.10 | \$ 1.42 |

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

Holders

As of February 28, 2003 there were approximately 40 holders of record of our Common Stock, and approximately 8 holders of record of our public warrants.

Dividends

We have never declared or paid dividends on our Common Stock, and cannot declare or pay dividends or make any other distributions upon any of our shares of capital without the express written consent of our bank.

Recent Sales of Unregistered Securities

No unregistered securities were sold in 2002.

Equity Compensation Plan Information

The following table provides details of our equity compensation plans at December 31, 2002:

| Plan Category | Number of Securities Authorized for Issuance Under the Plan | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants or Rights | Weighted Average Exercise Price of Outstanding Options | Number of Securities Remaining Available for Future Issuance |
|--|---|---|--|--|
| Equity compensation plans approved by security holders | 1,383,333 | 788,925(1) | \$ 9.27 | 509,354 |
| Equity compensation plans not approved by security holders | 0 | 0 | \$ 0.00 | 0 |
| Total | 1,383,333 | 788,925 | \$ 9.27 | 509,354 |

- (1) This figure excludes 85,054 exercised as of 12/31/02

Use of Proceeds from Registered Securities

On May 7, 2001, the SEC declared effective Amendment No. 4 of our Registration Statement on Form SB-2. We completed our related initial public offering of 800,000 units on May 11, 2001. The initial public offering price was \$13.00 per unit. The gross proceeds of the offering were \$10,400,000. Our net

proceeds from the offering, after deducting underwriter discount, fees and expenses, aggregated approximately \$8,400,000.

Through December 31, 2002, we had used approximately \$4.8 million of the net proceeds from the offering as follows:

| | | |
|--|----|-----------|
| Repayment of note payable to stockholder | \$ | 556,000 |
| Accrued interest on notes payable to stockholders | | 268,000 |
| Repayment of notes due to unrelated private lender, including accrued interest | | 612,800 |
| Repayment of note to third party lender | | 190,000 |
| Repayment of revolving line of credit | | 376,000 |
| Purchases of inventory | | 940,000 |
| Research and development expenditures | | 43,000 |
| Production tooling and equipment | | 203,000 |
| Other working capital/general corporate purposes | | 1,611,200 |
| Total | \$ | 4,800,000 |

Item 6. Management's Discussion and Analysis or Plan of Operation

Overview

We develop, assemble and market less-lethal, conducted energy weapons primarily for use in the law enforcement and corrections market. Over 2,000 police departments in the United States have made initial purchases of our products and 159 police departments, including the Cities of Phoenix, Reno, Sacramento, and Albuquerque, have purchased or plan to purchase our ADVANCED TASER M26 for every on duty patrol officer.

In 2001, we made several significant changes to support the growing demand for the ADVANCED TASER product line. We discontinued outsourcing of the final assembly of our products in Mexico, moved these operations to our Scottsdale headquarters, and developed a manufacturing infrastructure inclusive of direct assembly and material management to support product demand.

We completed an initial public offering of securities in May of 2001. In this offering, we sold 800,000 units for \$13.00 each, with net proceeds to us of \$8.4 million. Each unit included one and one half shares of common stock and one and one half warrants, each whole warrant to purchase one share each of common stock. The warrants are exercisable before May 2006, to purchase common stock for \$9.53 per share.

We concentrated our management efforts in developing our infrastructure in 2002. We evaluated our existing structure and management strengths, and expanded our team with new additions in the areas of research and development, executive management and legal counsel. We also organized our resources into three distinct divisions in order to better manage annual objectives, and improve our operating results. We added new personnel in Manufacturing with experience in larger volume production, and we expanded our production capabilities by investing in new equipment for testing and qualifying our finished products. We also trained new manufacturing employees, which temporarily reduced labor efficiencies.

During 2002, we also invested significantly in the area of sales and marketing. We developed our messages and print media, as well as expanded our reach into leading law enforcement organizations and sponsorships. We initiated targeted direct mail campaigns to the top law enforcement agencies, and added more direct sales employees to pursue the growing number of customer inquiries. And, we further developed our training programs in 2002, recognizing this is a valued tool in reducing the time from customer introduction to final purchase.

Although our investments in the organizational structure, sales and marketing programs and new product development resulted in a reduction of net income for 2002, we believe our emphasis in building teams focused on growth will accelerate our market penetration in the coming years.

Critical Accounting Policies

We have identified the following policies as critical to our business operations and the understanding of our results of operations. The preparation of this Annual Report on Form 10-KSB requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates. The effect of these policies on our business operations is discussed below where such policies affect our reported and expected financial results.

Revenue Recognition. Our revenue recognition policy is significant because our revenue is a key component of our results of operations. We recognize revenues when pervasive evidence of an arrangement exists, delivery has occurred or services have been rendered, title has transferred, the price is fixed and collectability is reasonably assured. In addition, all sales are final, with no right of return. We charge certain of our customers shipping fees, which are recorded as a component of net sales. We record training revenue as the service is provided.

Warranty Costs. We warrant our products from manufacturing defects for their lives and replace any defective AIR TASER unit with a new one for a \$25 fee and any defective ADVANCED TASER unit with a new one for a \$75 fee. We track historical data related to returns and related warranty costs on a quarterly basis, and estimate future warranty claims by applying our four quarter average return rate to our product sales for the period. We have also historically increased our reserve amount if we become aware of a component failure that could result in larger than anticipated returns from our customers.

Inventory. Our inventory balance includes the application of overhead expenditures. This calculation is based upon the standard manufacturing costs for each sub assembly and finished product in inventory at the period end, and includes allocations for indirect manufacturing, manufacturing overhead expenditures and engineering expenses incurred during the period.

Concentration of Credit Risk and Major Customers. Financial instruments that potentially subject us to concentrations of credit risk include accounts receivable. Sales are typically made on credit and we generally do not require collateral. We perform ongoing credit evaluations of our customers' financial condition and maintain an allowance for estimated potential losses. Uncollectible accounts are written off when deemed uncollectible, and accounts receivable are presented, net of an allowance for doubtful accounts.

Selected Financial Data

The following discussion of the results of operations and analysis of financial condition for the two years ended December 31, 2002 and 2001 may be understood more fully by reference to the financial statements and notes to the financial statements included elsewhere within this report.

The selected statement of income data and balance sheet data presented below set forth a summary of data relating to our results of operations as of, and for the years ended, December 31, 2002 and 2001. This data has been derived from our audited financial statements and should be read in conjunction with the financial statements and notes included elsewhere in this report.

| Statements of Operations Data: | December 31, 2002 | December 31, 2001 |
|--|----------------------|----------------------|
| Net sales | \$ 9,842,777 | \$ 6,853,272 |
| Gross margin | 5,536,226 | 3,938,842 |
| Sales, general and administrative expenses | 5,038,758 | 3,123,224 |
| Income from operations | 361,011 | 772,256 |
| Interest income | 57,931 | 90,285 |
| Interest expense | 38,196 | 246,776 |
| Income before taxes | 380,746 | 620,025 |
| Income tax provision | 171,843 | 104,996 |
| Net income | \$ 208,903 | \$ 515,029 |
| Basic earnings per share | \$ 0.07 | \$ 0.22 |
| Diluted earnings per share | \$ 0.07 | \$ 0.17 |
| Balance Sheet Data: | | |
| Working Capital | \$ 5,336,963 | \$ 4,966,184 |
| Total Assets | 7,904,213 | 8,054,679 |
| Total Current Liabilities | 1,804,305 | 2,455,656 |
| Long Term Portion of Capital Lease Obligations | 15,846 | 50,979 |
| Total Stockholders Equity (Deficit) | \$ 6,014,601 | \$ 5,528,733 |

Results of Operations

Net Sales. Net Sales increased by \$3.0 million, or 43.6%, to \$9.8 million in 2002 compared to \$6.9 million in 2001. This increase was almost entirely due to the increased sales of the ADVANCED TASER. Specifically, ADVANCED TASER sales increased \$3.0 million to \$8.5 million in 2002, compared with \$5.5 million recorded in 2001. AIR TASER sales decreased \$338,000 in 2002 to \$966,000 as compared with \$1.3 million in 2001. In 2002, grant funding from the Office of Naval Research (ONR) was included in the Company's net sales. In total, this revenue accounted for an increase of \$180,000 for 2002.

For the years ended December 31, 2002 and 2001, sales by product line were as follows (amounts in thousands):

| Product Line | 2002 | % | 2001 | % |
|---|----------|--------|----------|--------|
| ADVANCED TASER (including cartridges and accessories) | \$ 8,494 | 86.3% | \$ 5,460 | 79.7% |
| AIR TASER (including cartridges and accessories) | 966 | 9.8% | 1,304 | 19.0% |
| Miscellaneous sales (training, freight, services & equipment) | 203 | 2.1% | 0 | 0.0% |
| Grant Proceeds from the Office of Naval Research | 180 | 1.8% | 89 | 1.3% |
| Net Sales | \$ 9,843 | 100.0% | \$ 6,853 | 100.0% |

Cost of Products Sold. Cost of products sold increased by \$1.4 million, or 47.8%, to \$4.3 million in 2002 compared to \$2.9 million in 2001. As a percentage of net sales, cost of products sold increased 1.3% to 43.8% of net sales, from 42.5% in 2001. This increase was primarily a result of three factors: increased scrap, the addition of expenditures related to our research grant with the Office of Naval Research, and labor inefficiencies created by product upgrades and new hires. During 2002, the Company incurred a total charge of approximately \$163,000 associated with in-line production scrap, warranty returns, and replacement products resulting from a combination of training issues and defective electronic components provided by an external vendor. Warranty costs under the ADVANCED TASER replacement policy totaled \$79,200 in 2002, and \$43,000 in 2001. The amount for 2002 includes \$25,000 recorded in connection with a series of ADVANCED TASERS that we recalled in the second quarter of 2002 due to a defective electronic component.

Due to the projected ramp of product sales, 16 new direct assembly operators were hired and trained during the first and second quarters of 2002. Although by year end their efficiency had improved, this added labor cost negatively affected our direct labor to sales ratios for the year. Management believes that with the current levels of finished goods inventory, and the streamlining of production, additional new hires should not be required for growth during fiscal 2003.

Fiscal 2002 also marked the first year of expenses associated with research grant funding. Although the grant does allow the Company to recover costs on a cost-plus-profit basis, the margin generated by this work is significantly lower than the gross margins generated through the sale of the Company's manufactured products.

Gross Margin: Gross margins improved by \$1.6 million, or 40.6%, to \$5.5 million for the year ended December 31, 2002 compared to \$3.9 million for the year ended December 31, 2001. This increase is largely attributable to the higher level of ADVANCED TASER product sales. As a percentage of sales, gross margins declined 1.3% to 56.2% in 2002, down from 57.5% in 2001. This decrease was the result of increased labor and scrap charges, coupled with lower margins recognized from the ONR research grant.

Sales, General and Administrative Expenses. Sales, general and administrative expenses increased \$1.9 million, or 61.3%, to \$5.0 million in 2002 from \$3.1 million expensed in 2001. As a percent of sales, sales, general and administrative expenses increased by 5.6%, to 51.2%, from 45.6% in 2001. However, during fiscal 2002, administrative expenses were reduced by 0.6% of sales to 24.3% as compared with 24.9% for fiscal 2001. This reduction in administrative expenses was targeted in order to provide additional funding to promote a new marketing campaign in the third and fourth quarters. This reduction was achieved net of significant increases in the Company's legal, insurance and investor relations expenditures.

In 2002, the Company developed and implemented two new media campaigns. The first was a series of print ads and cable ads developed to test the consumer response to our new M18 product line. The second was the development of a CD/ DVD package geared toward the law enforcement community. The mailing of this package was sent to more than 10,000 individuals working in the largest police departments in the United States and abroad. These two campaigns, coupled with other advertisements in law enforcement publications resulted in an annual increase of \$273,000 in advertising expenditures from \$20,000 in 2001 to \$293,000 in 2002.

Trade shows and travel expenses comprised the second area of significant increases in selling expenses during 2002. The Company targeted key regional and national law enforcement trade shows where it could demonstrate the ADVANCED TASER weapon system to leading departments. In addition, the Company sponsored its third annual U.S. tactical conference for the trained master instructors, and law enforcement training officers, and initiated its first European tactical conference to reach more than 11 countries, including the United Kingdom, Germany, Israel, Greece, Romania and the Netherlands, who expressed an interest in, or are deploying the M26. In total, the costs associated with conducting these trade shows and conferences increased our trade show and travel expenditures by \$387,000 in 2002 to \$1.1 million from the \$730,000 expensed in 2001. The Company plans to continue investments in the area of trade shows and conferences in 2003 and 2004, as it has provided the ability to mass market its products to a target audience.

Commissions paid to outside sales representatives were the third largest component of increased selling expenses. In November of 2001, the Company contracted with several manufacturers' representatives to aid in promoting the sale of the ADVANCED TASER weapon system in the law enforcement industry. In 2001, \$422,000 was paid to these representatives for their efforts in the third and fourth quarters, which included the sale to United Airlines in December of 2001. In 2002, the amount paid to these representatives was more than \$624,000, an increase of \$200,000 for the year. The Company determined that these commissioned representatives, with a few minor exceptions, have not been productive in the law enforcement market. As a result, the Company has transitioned the majority of these commissioned representatives solely into the commercial consumer market in 2003.

The last significant increase in selling expenses was the investment in lobbying efforts to aid with government relations and sales to both the airline and law enforcement industry. During fiscal 2002, the

company spent \$90,000 with two lobbying firms. Of these expenses, \$67,000 was used to aid in promoting legislative issues pertaining to the use of our TASER products on board commercial aircraft. The remaining \$23,000 was paid to a local firm to assist with completion of the City of Phoenix sale in December 2002.

Interest Income. Interest income decreased \$32,000 to \$58,000 in 2002, from the \$90,000 recorded in fiscal 2001. The decline in income resulted from the use of approximately \$2.0 million of cash to reduce debt and purchase raw material inventory. As of December 31, 2002, \$2.6 million of cash was invested in interest bearing accounts.

Interest Expense. Interest expense decreased by \$209,000, or 84.5%, to \$38,000 in 2002 as compared to \$247,000 in 2001. This decrease was a result of the repayment of both long and short-term debt made possible by the proceeds of our initial public offering completed in May 2001.

Income Taxes. The provision for income tax increased by \$67,000, or 63.7%, to \$172,000 in 2002, as compared to \$105,000 in 2001. This was the result of both an increased effective tax rate and the effect of a deferred tax benefit in 2001 related to a change in the Company's tax structure which was effective January 1, 2001.

In early 2001, our tax reporting status was changed to that of a C-corporation. When our reporting status changed, our accumulated shareholder deficit was converted to additional paid-in capital. As a result of the conversion from an S-Corporation to a C-Corporation, there are no net operating loss carry forwards available to us. We did however, recognize a deferred tax benefit of \$140,000 in 2001. This benefit was the result of differences in basis between financial reporting and tax reporting that were recognized in the fourth quarter of 2001. The 2002 rate increase was due to the C corporation status and non-deductible lobbying expenses.

Net Income. Net income decreased by \$306,000, to \$209,000, in 2002 as compared to net income of \$515,000 in 2001. The decrease in net income resulted primarily from the increases in cost of products sold and selling expenses, as well as the change in our effective tax rate as described above. The decrease in net income resulted in a decline of \$0.15 of basic earnings per share to income per basic share of \$0.07 for 2002 compared to income per basic share of \$0.22 in 2001. Basic earnings per share calculations were based upon weighted average shares outstanding of 2,796,767 in 2002 and 2,303,386 outstanding in 2001. Additionally, diluted earnings per share decreased to \$0.07 in 2002 as compared with earnings of \$0.17 per share for 2001. Diluted earnings per share calculations were based upon weighted average shares outstanding of 2,909,617 in 2002 and 3,029,330 in 2001.

Liquidity and Capital Resources

Historically we sustained significant operating losses. From our inception through December 31, 2000, our operations were financed through advances from and investments by major stockholders, and bank financing guaranteed by major stockholders. In both 2002 and 2001, we generated net income.

Liquidity. As of December 31, 2002, we had working capital of \$5.3 million compared to working capital of \$5.0 million at December 31, 2001. The improvement in working capital from 2001 to 2002 was primarily due to the decrease in short term debt.

During 2002, we used \$835,000 of cash in operations compared to the \$555,000 used in operations in 2001. The increase in cash used in operations was due primarily to our increased investment in raw materials. The higher level of inventory was a result of purchases made in anticipation of strong fourth quarter revenue, which did not materialize. We believe we will be able to significantly reduce our investment in inventory by the end of fiscal 2003 through more efficient purchasing and improved inventory management.

We also used \$387,000 of cash in investing activities during 2002, compared to \$453,000 of cash used in investing activities in 2001. The funds invested in 2002 were used to purchase production equipment required to increase production capacity, to purchase office equipment and computers, to purchase the TASER trademark, and manufacturing patent, and to purchase the TASER.com web-site. The cash used for financing activities totaled \$838,000 in 2002 as compared with \$6.4 million provided by financing activities in 2001. The funds used in 2002 were applied to the payment of notes payable and our revolving line of credit. In 2001, the

\$5.4 million provided by financing activities was a direct result of the net proceeds from our initial public offering, less debt repayment.

Capital Resources. On December 31, 2002, we had cash of \$3.6 million and less than \$20,000 of long term debt outstanding. Additionally, the Company has generated net income of \$209,000 in 2002, and \$515,000 in 2001, with an expectation of being profitable in 2003. We believe after payment of debt and accounts payable outstanding as of December 31, 2002, our monthly cash flow from operations will be adequate to cover monthly obligations.

We obtained a revolving line of credit from a domestic bank with a total availability of \$2.5 million. The line is secured by substantially all of our assets, other than intellectual property, and bears interest at varying rates, ranging from LIBOR plus 1.5% to prime plus 1%. The line of credit matures on May 31, 2003 and requires monthly payments of interest only. The outstanding balance under the line of credit at December 31, 2002 was \$385,000, and \$2,115,000 was available for future borrowings. The \$385,000 was subsequently paid in full on January 9, 2003.

We believe that our projected operating income in 2003, when added to our cash reserves of \$3.6 million as of December 31, 2002, will be adequate to fund our operations in 2003. However, should our marketing efforts abroad, result in a large full scale deployment, or if during 2003 the Transportation Security Administration approves our weapons for use onboard commercial aircraft, we may require additional resources to expedite manufacturing in order to meet possible demand for our weapons in the law enforcement, commercial airline and consumer markets as early as the fourth quarter of 2003. We believe funding will be available at terms favorable to us, both through our existing credit lines and possible additional equity financing.

Item 7. *Financial Statements*

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

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

Change in Certifying Accountant

On June 10, 2002, the Company, at the request of the Board of Directors, filed a Form 8-K to disclose a change in registrant's certifying accountant from Arthur Andersen, LLP to Deloitte & Touche, LLP. There were no disagreements, adverse opinions or disclaimer of opinion by Arthur Andersen, LLP at the time of the change.

PART III

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

The information concerning the identification and business experience of directors is incorporated herein by reference to the information set forth in our definitive proxy statement for the 2003 Annual Meeting of Stockholders under the heading "Election of Directors," which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2002.

The information concerning the identification and business experience of our executive officers is incorporated herein by reference to the information set forth in our definitive proxy statement for the 2003 Annual Meeting of Stockholders under the heading "Executive Officers," which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2002.

The information concerning compliance with Section 16(a) of the Exchange Act is incorporated herein by reference to the information set forth in our definitive proxy statement for 2003 Annual Meeting of Stockholders under the heading “Security Ownership of Certain Beneficial Owners and Management — Section 16(a) Beneficial Ownership Reporting Compliance,” which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2002.

The information concerning significant employees and family relationships is incorporated herein by reference to the information set forth in our definitive proxy statement for the 2003 Annual Meeting of Stockholders under the heading “Significant Employees and Family Relationships,” which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2002.

Item 10. *Executive Compensation*

The information concerning executive compensation is incorporated herein by reference to the information set forth in our definitive proxy statement for the 2003 Annual Meeting of Stockholders under the heading “Executive Compensation,” which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2002.

Item 11. *Security Ownership of Certain Beneficial Owners and Management*

The information concerning security ownership of certain beneficial owners and management is incorporated herein by reference to the information set forth in our definitive proxy statement for the 2003 Annual Meeting of Stockholders under the heading “Security Ownership of Certain Beneficial Owners and Management,” which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2002.

Item 12. *Certain Relationships and Related Transactions*

The information concerning certain relationships and related transactions is incorporated herein by reference to the information set forth in our definitive proxy statement for the 2003 Annual Meeting of Stockholders under the heading “Certain Transactions,” which proxy statement we expect to file with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended December 31, 2002.

Item 13. *Exhibits and Reports on Form 8-K*

(a) Exhibits to Form 10-KSB

- 3.1 Company’s Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended)
- 3.2 Company’s Bylaws, as amended (incorporated by reference to Exhibit 3.2 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)
- 4.1 Reference is made to pages 1 – 4 of Exhibit 3.1 and pages 1 – 5 and 12 – 14 of Exhibit 3.2
- 4.2 Form of Common Stock Certificate (incorporated by reference to Exhibit 4.2 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)
- 4.3 Form of Public Warrant (incorporated by reference to Exhibit 4.3 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)
- 4.4 Form of Unit Certificate (incorporated by reference to Exhibit 4.4 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)
- 4.5 Form of Warrant and Unit Agreement (incorporated by reference to Exhibit 4.5 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)

- 4.6 Form of Underwriters' Warrant (incorporated by reference to Exhibit 4.6 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)
- 10.1 Employment Agreement with Patrick W. Smith, dated July 1, 1998 (incorporated by reference to Exhibit 10.1 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)(1)
- 10.2 Employment Agreement with Thomas P. Smith, dated November 15, 2000 (incorporated by reference to Exhibit 10.2 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)(1)
- 10.3 Employment Agreement with Kathleen C. Hanrahan, dated November 15, 2000 (incorporated by reference to Exhibit 10.3 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)(1)
- 10.4 Form of Indemnification Agreement between the Company and its directors (incorporated by reference to Exhibit 10.4 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)
- 10.5 Form of Indemnification Agreement between the Company and its officers (incorporated by reference to Exhibit 10.5 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)
- 10.6 1999 Employee Stock Option Plan (incorporated by reference to Exhibit 10.6 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)(1)
- 10.7 2001 Stock Option Plan (incorporated by reference to Exhibit 10.7 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)(1)
- 10.8 Form of Warrant issued to Bruce Culver and Phil Smith (incorporated by reference to Exhibit 10.8 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)
- 10.9 Promissory Note, dated October 24, 2000, payable to Bank of America in the amount of \$60,000 and related guarantee and security documents (incorporated by reference to Exhibit 10.12 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)
- 10.10 Lease between the Company and Norton P. Remes and Joan A. Remes Revocable Trust, dated November 17, 2000 (incorporated by reference to Exhibit 10.14 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)
- 10.11 Credit Agreement, dated May 31, 2002, between the Company and Bank One, NA (incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-QSB, filed August 12, 2002)
- 10.12 Form of Sales Representative Agreement with respect to services by and between the Company and Sales Representatives (incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-KSB, filed March 15, 2002), as amended
- 10.13 Lease Agreement, dated April 17, 2001, payable to GE Capital Corporation in the amount of \$37,945
- 10.14 Employment Agreement with Douglas E. Klint, dated December 15, 2002
- 23.1 Consent of Deloitte & Touche, LLP, independent auditors
- 99.1 Certain Factors to Consider in Connection with Forward-Looking Statements
- 99.2 Chief Executive Officer Certification pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.3 Chief Financial Officer Certification pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Management contract or compensatory plan or arrangement

(b) Reports on Form 8-K

None.

Financial Statements:

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

| | |
|---|-----|
| Independent Auditors' Report, Deloitte & Touche, LLP | F-1 |
| Report of Independent Public Accountants, Arthur Andersen, LLP | F-2 |
| Balance Sheets as of December 31, 2002 and 2001 | F-3 |
| Statements of Income for the Years Ended December 31, 2002 and 2001 | F-4 |
| Statements of Stockholders' Equity for the Years Ended December 31, 2002 and 2001 | F-5 |
| Statements of Cash Flows for the Years Ended December 31, 2002 and 2001 | F-6 |
| Notes to Financial Statements | F-7 |

Item 14. Controls & Procedures

Our Chief Executive Officer and Chief Financial Officer have reviewed the disclosure controls and procedures relating to the Company within the 90 days preceding the date of this report and concluded that such controls and procedures are effective to make known to us all material information about the financial and operational activities of the Company. The registrant's certifying officers have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TASER INTERNATIONAL, INC.
(Registrant)

/s/ PATRICK W. SMITH

Patrick W. Smith,
Chief Executive Officer

Date: March 14, 2003

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

Date: March 14, 2003

/s/ PATRICK W. SMITH
Patrick W. Smith,
Chief Executive Officer

Date: March 14, 2003

/s/ THOMAS P. SMITH
Thomas P. Smith,
President

Date: March 14, 2003

/s/ KATHLEEN C. HANRAHAN
Kathleen C. Hanrahan,
Chief Financial Officer
(*Principal Financial and Accounting Officer*)

Date: March 14, 2003

/s/ PHILLIPS W. SMITH
Phillips W. Smith,
Director

Date: March 14, 2003

/s/ MATTHEW R. MCBRADY
Matthew R. McBrady,
Director

Date: March 14, 2003

/s/ BRUCE R. CULVER
Bruce R. Culver,
Director

Date: March 14, 2003

/s/ BERNARD B. KERIK
Bernard B. Kerik,
Director

Date: March 14, 2003

/s/ MARK W. KROLL
Mark W. Kroll,
Director

CERTIFICATIONS

I, Patrick W. Smith, principal executive officer, certify that:

1. I have reviewed this annual report on Form 10-KSB of TASER International, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the date of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

By: /s/ PATRICK W. SMITH
Patrick W. Smith
Chief Executive Officer

CERTIFICATIONS

I, Kathleen C. Hanrahan, principal financial officer, certify that:

1. I have reviewed this annual report on Form 10-QSB of TASER International, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - d) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the date of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - c) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - d) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

By: /s/ KATHLEEN C. HANRAHAN
Kathleen C. Hanrahan
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
TASER International, Inc.

Scottsdale, AZ

We have audited the accompanying balance sheet of Taser International (the "Company") as of December 31, 2002, and the related statements of income, stockholders' equity, and cash flows for the year 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. The Company's financial statements for the year ended December 31, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 4, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

/s/ DELOITTE & TOUCHE, LLP

Phoenix, Arizona
January 24, 2003

THE FOLLOWING REPORT IS A COPY OF THE PREVIOUSLY ISSUED ARTHUR ANDERSEN, LLP REPORT. THIS REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN, LLP NOR HAS ARTHUR ANDERSEN, LLP PROVIDED A CONSENT TO THE INCLUSION OF ITS REPORT IN THIS FORM 10-KSB.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

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

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

ARTHUR ANDERSEN, LLP
/s/ ARTHUR ANDERSEN, LLP

Phoenix, Arizona
February 4, 2002

TASER INTERNATIONAL, INC.

BALANCE SHEETS

| | December 31, | |
|---|--------------|--------------|
| | 2002 | 2001 |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 3,576,937 | \$ 5,636,100 |
| Accounts receivable, net of allowance of \$20,000 in 2002 and \$29,000 in 2001 | 888,142 | 765,328 |
| Inventory | 2,334,809 | 801,926 |
| Prepays and other | 113,749 | 103,829 |
| Income tax receivable | 74,952 | 53,817 |
| Deferred income tax asset | 152,679 | 60,840 |
| Total current assets | 7,141,268 | 7,421,840 |
| Property and equipment, net | 661,374 | 560,423 |
| Intangible assets, net | 101,571 | 72,416 |
| Total assets | \$ 7,904,213 | \$ 8,054,679 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Current portion of notes payable to related parties | \$ — | \$ 455,691 |
| Current portion of capital lease obligations | 37,418 | 51,834 |
| Revolving line of credit | 385,000 | 760,838 |
| Accounts payable and accrued liabilities | 1,366,432 | 1,154,280 |
| Accrued interest | 727 | 890 |
| Customer deposits | 14,728 | 32,123 |
| Total current liabilities | 1,804,305 | 2,455,656 |
| Capital lease obligations, net of current portion | 15,486 | 50,979 |
| Deferred income tax liability | 69,821 | 19,311 |
| Total liabilities | 1,889,612 | 2,525,946 |
| Commitments and Contingencies (Notes 5, 7) | | |
| Stockholders' Equity: | | |
| Preferred stock, \$0.00001 par value per share; 25 million shares authorized; 0 shares issued and outstanding at December 31, 2002 and 2001 | — | — |
| Common stock, \$0.00001 par value per share; 50 million shares authorized; 2,809,393 and 2,734,473 issued and outstanding at 2002 and 2001 | 28 | 27 |
| Additional paid-in capital | 5,290,641 | 5,073,617 |
| Deferred compensation | — | (59,940) |
| Retained earnings | 723,932 | 515,029 |
| Total stockholders' equity | 6,014,601 | 5,528,733 |
| Total liabilities and stockholders' equity | \$ 7,904,213 | \$ 8,054,679 |

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

TASER INTERNATIONAL, INC.

STATEMENTS OF INCOME
For the Years Ended December 31, 2002 and 2001

| | 2002 | | 2001 |
|---|--------------|----|-----------|
| Net sales | \$ 9,842,777 | \$ | 6,853,272 |
| Cost of products sold: | | | |
| Direct manufacturing expense | 3,322,616 | | 2,304,669 |
| Indirect manufacturing expense | 983,935 | | 609,761 |
| Gross margin | 5,536,226 | | 3,938,842 |
| Sales, general and administrative expenses | 5,038,712 | | 3,123,224 |
| Research and development expenses | 136,503 | | 43,362 |
| Income from operations | 361,011 | | 772,256 |
| Interest income | 57,931 | | 90,285 |
| Other income | — | | 4,260 |
| Interest expense | 38,196 | | 246,776 |
| Income before income taxes | 380,746 | | 620,025 |
| Provision for income taxes | 171,843 | | 104,996 |
| Net income | \$ 208,903 | \$ | 515,029 |
| Net income per common share: | | | |
| Basic | \$ 0.07 | \$ | 0.22 |
| Diluted | 0.07 | | 0.17 |
| Weighted average number of common and common equivalent shares outstanding: | | | |
| Basic | 2,796,767 | | 2,303,386 |
| Diluted | 2,909,617 | | 3,029,330 |

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

TASER INTERNATIONAL, INC.

**STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2002 and 2001**

| | Common Stock | | Additional | Treasury Stock | | Deferred Compensation | Retained | Total |
|--|--------------|--------|--------------------|----------------|----------------|--------------------------|-----------------------|--------------------------------------|
| | Shares | Amount | Paid-in Capital | Shares | Amount | | Earnings (Deficit) | Stockholders' Equity (Deficit) |
| Balance, January 1, 2001 | 3,177,421 | \$ 32 | \$ 4,256,558 | (1,666,667) | \$ (1,000,000) | \$ (79,920) | \$ (6,793,885) | \$ (3,617,215) |
| Issuance of shares pursuant to IPO, net of issuance costs | 1,200,000 | 12 | 8,370,152 | — | — | — | — | 8,370,164 |
| Cancellation of treasury shares | (1,666,667) | (17) | (999,983) | 1,666,667 | 1,000,000 | — | — | — |
| Discount on retirement of related party note | — | — | 61,690 | — | — | — | — | 61,690 |
| Elimination of accumulated deficit upon conversion from S to C corporation | — | — | (6,793,885) | — | — | — | 6,793,885 | — |
| Conversion of stock options | 23,722 | — | 27,336 | — | — | — | — | 27,336 |
| Stock options and warrants granted for payment of consulting fees | — | — | 53,844 | — | — | — | — | 53,844 |
| Stock options and warrants granted for loan guarantees | — | — | 10,060 | — | — | — | — | 10,060 |
| Cancellation of partial shares | (3) | — | — | — | — | — | — | — |
| Income tax effect of stock options exercised | — | — | 87,845 | — | — | — | — | 87,845 |
| Amortization of deferred compensation | — | — | — | — | — | 19,980 | — | 19,980 |
| Net income | — | — | — | — | — | — | 515,029 | 515,029 |
| Balance, December 31, 2001 | 2,734,473 | 27 | 5,073,617 | — | — | (59,940) | 515,029 | 5,528,733 |
| Conversion of stock options | 61,332 | 1.00 | 37,198 | — | — | — | — | 37,199 |
| Conversion of warrants | 13,588 | — | 6,222 | — | — | — | — | 6,222 |
| Stock options granted for payment of consulting fees | — | — | 6,305 | — | — | — | — | 6,305 |
| Deferred compensation | — | — | (59,940) | — | — | 59,940 | — | — |
| Income tax effect of stock options exercised | — | — | 227,239 | — | — | — | — | 227,239 |
| Net income | — | — | — | — | — | — | 208,903 | 208,903 |
| Balance, December 31, 2002 | 2,809,393 | \$ 28 | \$ 5,290,641 | — | \$ — | \$ — | \$ 723,932 | \$ 6,014,601 |

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

TASER INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2002 and 2001

| | 2002 | 2001 |
|--|--------------|--------------|
| Cash Flows from Operating Activities: | | |
| Net income | \$ 208,903 | \$ 515,029 |
| Adjustments to reconcile net income to net cash (used in) provided by operating activities — | | |
| Loss on sale of fixed assets | 1,029 | — |
| Depreciation and amortization | 255,502 | 176,519 |
| Provision for doubtful accounts | 32,327 | — |
| Amortization of deferred compensation | — | 19,980 |
| Compensatory stock options and warrants | 6,305 | 63,904 |
| Deferred income taxes | (41,329) | (41,530) |
| Stock option tax benefits | 227,239 | 87,845 |
| Change in assets and liabilities: | | |
| Accounts receivable | (155,141) | (452,647) |
| Inventory | (1,532,883) | (580,757) |
| Prepays and other | (9,920) | (79,294) |
| Income tax receivable | (21,135) | (53,817) |
| Accounts payable and accrued liabilities | 212,150 | 564,331 |
| Customer deposits | (17,395) | (507,206) |
| Accrued interest | (161) | (267,243) |
| Net cash used in operating activities | (834,509) | (554,886) |
| Cash Flows from Investing Activities: | | |
| Purchases of property and equipment, net | (377,992) | (368,140) |
| Proceeds from sale of fixed assets | 41,355 | — |
| Purchases of intangible assets | (50,000) | (85,000) |
| Net cash used in investing activities | (386,637) | (453,140) |
| Cash Flows from Financing Activities: | | |
| Payments under capital leases | (49,909) | (45,228) |
| Payments on notes payable | (455,691) | (4,485,412) |
| Borrowings (payments) under line of credit | (375,838) | 2,260,838 |
| Payments under product financing payable | — | (189,980) |
| Proceeds from notes payable | — | 500,000 |
| Proceeds from Initial Public Offering, net of issuance costs | — | 8,370,164 |
| Proceeds from warrants exercised | 6,222 | — |
| Proceeds from options exercised | 37,199 | 27,336 |
| Net cash (used in) provided by financing activities | (838,017) | 6,437,718 |
| Net (Decrease) Increase in Cash and Cash Equivalents | (2,059,163) | 5,429,692 |
| Cash and Cash Equivalents, beginning of year | 5,636,100 | 206,408 |
| Cash and Cash Equivalents, end of year | \$ 3,576,937 | \$ 5,636,100 |
| Supplemental Disclosure: | | |
| Cash paid for interest | \$ 37,469 | \$ 514,020 |
| Income taxes paid | \$ 940 | \$ 112,500 |
| Noncash Investing and Financing Activities: | | |
| Acquisition of property and equipment under capital leases | \$ — | \$ 81,945 |
| Discount on prepayment of note payable | \$ — | \$ 61,690 |
| Fair value of stock options issued for payment of consulting and legal fees | \$ 6,305 | \$ 53,844 |
| Fair value of stock options and warrants issued for loan guarantees | \$ — | \$ 10,060 |

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

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2002 and 2001

1. 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. In February 2001, the Company reincorporated in the State of Delaware. On May 11, 2001, the Company completed its initial public offering (IPO) of 800,000 units at a price of \$13 per unit, consisting of one and one-half shares of common stock and one and one-half warrants, each whole warrant to purchase one share of common stock. The net proceeds received, after the underwriting discount and financing costs, totaled approximately \$8.4 million.

2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with accounting principals generally accepted in the United States of America.

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. Cash and cash equivalents included \$3.6 million and \$5.6 million deposited in highly liquid certificates of deposit and money market funds at December 31, 2002 and December 31, 2001 respectively. These accounts earned interest at an approximate rate of 1.5% during 2002 and 1.9% in 2001. Of the \$3.6 million and \$5.6 million on deposit at December 31, 2002 and 2001, \$1.0 million and \$1.5 million were required to be maintained as a compensating balances under the Company's line of credit agreement (Note 7).

b. Inventory

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

| | 2002 | | 2001 |
|-----------------------------------|--------------|----|---------|
| Raw materials and work-in-process | \$ 1,770,672 | \$ | 678,406 |
| Finished goods | 564,137 | | 123,520 |
| | \$ 2,334,809 | \$ | 801,926 |

c. Property and Equipment

Property and equipment are stated at cost net of accumulated depreciation. 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 continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets and identifiable intangible assets may warrant revision or that the remaining balance of these assets may not be recoverable. In performing the review for recoverability, the Company estimates the future undiscounted cash flows expected to result from the use of the assets and its eventual disposition. The amount of the impairment loss, if an impairment exists, would be calculated based

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

on the excess of the carrying amounts of the assets over its estimated fair value. No impairment losses were recorded in 2002 or 2001.

e. Customer Deposits

The Company requires certain deposits in advance of shipment for foreign customer sales orders.

f. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following as of December 31, 2002 and 2001:

| | 2002 | | 2001 |
|------------------|--------------|----|-----------|
| Accounts Payable | \$ 916,500 | \$ | 765,620 |
| Accrued Salaries | 71,264 | | 53,786 |
| Accrued Expenses | 378,668 | | 334,874 |
| Total | \$ 1,366,432 | \$ | 1,154,280 |

g. Cost of Products Sold

At December 31, 2002 and 2001, costs of products sold included the manufacturing costs, including materials, labor and overhead related to finished goods and components. Shipping costs incurred related to product delivery are also included in cost of products sold.

h. Revenue Recognition

The Company recognizes revenues when pervasive evidence of an arrangement exists, delivery has occurred or services have been rendered, title has transferred, the price is fixed and collectability is reasonably assured. In addition, all sales are final, with no right of return. Certain of the Company's customers are charged shipping fees, which are recorded as a component of net sales. Training revenue is recorded as the service is provided.

Also included as a component of revenue is development funding provided by the Office of Naval Research, under a cost-plus contract. Monthly, an invoice summarizing the reimbursable expenses is submitted to the ONR for payment. The payment request details the costs expensed in the period and adds a nominal profit. The total amount invoiced for this work in 2002 was \$179,545. The Company did not have grant funding in 2001.

i. 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.

j. Advertising Costs

In accordance with Statement of Position 93-7 "Reporting on Advertising Costs", the Company expenses the production cost of advertising as incurred. The Company incurred advertising costs of \$292,895 and \$19,872 in 2002 and 2001, respectively. Advertising costs are included

in sales, general and administrative expenses in the accompanying statements of operations.

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

k. Warranty Costs

The Company warrants its product from manufacturing defects, and will replace any defective AIR TASER units with a new one for a \$25 fee, and defective ADVANCED TASER units for a \$75 fee. A summary of changes in the warranty accrual for the two-year period ended December 31, 2002 is as follows:

| | 2002 | 2001 |
|--------------------------------|-----------|------------|
| Balance at beginning of period | \$ 43,250 | \$ 105,250 |
| Utilization of Accrual | 62,575 | 105,000 |
| Warranty Expense | 79,200 | 43,000 |
| Balance at end of period | 59,875 | 43,250 |

l. Research and Development Expenses

The Company expenses research and development costs as incurred. The Company incurred product development expense of \$136,503 and \$43,362 in 2002 and 2001, respectively.

m. Income Taxes

In 2001, the Company reincorporated in the State of Delaware and elected to be taxed as a C corporation. Net operating losses (NOLs) prior to the change to a C corporation accrued to the individual stockholders. Accordingly, such losses were not available to reduce future taxes payable by the Company as a C corporation. The accumulated deficit at the time of the S election termination was reclassified to additional paid-in capital.

Income taxes are accounted for under the asset and liability method. 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 carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in future years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognized in income in the period that includes the enactment date.

n. 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. The provision for bad debts totaled \$32,327 and \$0 for the year ended December 31, 2002 and 2001 respectively.

The Company sells primarily through a network of unaffiliated distributors. As such, the number of customers for the Company is small, although the number of end-users is much higher. Sales to one U.S. customer represented 13.6% of total product revenue for 2002. In 2001, three different customers accounted for 10% or more of sales in that year. The respective sales for Customers 1, 2, and 3 were 12.8%, 10.9% and 10.8% in 2001.

At December 31, 2002, the Company had receivables from three customers comprising 20.7%, 8.9% and 7.7% respectively of accounts receivable. At December 31, 2001, two customers represented 29.8% and 20.1% of accounts receivable.

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

o. 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 revolving line of credit and capital lease obligations approximate fair value as rates on these instruments approximate market rates currently available for instruments with similar terms and remaining maturities.

p. Segment Information

Management has determined that its operations are comprised of one reportable segment. Therefore, no separate segment disclosures have been included in the accompanying notes to the financial statements.

For the years ended December 31, 2002 and 2001, sales by product were as follows:

| | 2002 | 2001 |
|--|----------------|----------|
| | (In thousands) | |
| Sales by product line: | | |
| ADVANCED TASER | \$ 8,494 | \$ 5,460 |
| AIR TASER | 966 | 1,304 |
| Misc. (Training, freight, services & equipment) | 203 | 89 |
| Grant proceeds from the Office of Naval Research | 180 | — |
| | \$ 9,843 | \$ 6,853 |
| Geographic: | | |
| United States | 90% | 91% |
| Other countries | 10 | 9 |
| | 100% | 100% |

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

q. Stock-Based Compensation

At December 31, 2002, the Company had two stock-based employee compensation plans, which are described more fully in Note 9. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee based compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

| | Year Ended | |
|---|----------------|---------|
| | December 31, | |
| | 2002 | 2001 |
| | (In thousands) | |
| Net Income, as reported | \$ 209 | \$ 515 |
| Deduct: Total stock-based employee compensation determined under fair value based method for all awards, net of related tax effects | (870) | 407 |
| Pro forma net income | \$ (661) | \$ 108 |
| Basic net income (loss) per share: | | |
| As reported | \$ 0.07 | \$ 0.22 |
| Pro forma | (0.24) | 0.05 |
| Diluted net income (loss) per common share: | | |
| As reported | 0.07 | \$ 0.17 |
| Pro forma | (0.23) | 0.04 |

r. Income Per Common Share

The Company accounts for earnings per share in accordance with SFAS No. 128, "Earnings per Share". Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the periods presented. Diluted net income per share reflects the potential dilution that could occur if outstanding stock options were exercised. The calculation of the weighted average number of shares outstanding is as follows:

| | Year Ended December 31, | |
|---|-------------------------|-----------|
| | 2002 | 2001 |
| Weighted average shares outstanding — basic | 2,796,767 | 2,303,386 |
| Effect of dilutive outstanding stock options | 112,850 | 725,944 |
| Weighted average shares outstanding — diluted | 2,909,617 | 3,029,330 |

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

s. Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". Under the provisions of SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are subject to annual impairment tests. SFAS No. 142 also established a new method of testing goodwill for impairment. The Company adopted SFAS 142 on January 1, 2002. The adoption had no effect on the Company.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", and the accounting and reporting provisions of the Accounting Principles Board ("APB") Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in the Opinion). There was no effect from adopting SFAS No. 144 effective January 1, 2002.

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 supersedes guidance established in the FASB's Emerging Issues Task Force ("EITF") Issue No. 94-3 regarding certain exit and disposal costs. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 148's amendment of the transition and annual disclosure requirements of SFAS No. 123 are effective for fiscal years ending after December 15, 2002. SFAS No. 148's amendment of the disclosure requirements of APB Opinion No. 28 is effective for financial reports containing consolidated financial statements for interim periods beginning after December 15, 2002. The Company plans to continue to record stock based employee compensation using the intrinsic value method, according to APB Opinion No. 25, "Accounting for Stock Issued to Employees."

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accountings and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others," which clarifies the requirements of SFAS No. 5, "Accounting for Contingencies," relating to a guarantor's accounting for and disclosures of certain guarantees issued. FIN 45 requires enhanced disclosures for certain guarantees. FIN 45 also requires certain guarantees that are issued or modified after December 31, 2002, to be initially recorded on the balance sheet at fair value. For guarantees issued on or before December 31, 2002, liabilities are recorded when and if payments become probable and estimable.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities," which clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," relating to consolidation of certain entities. FIN 46 will require identification of the Company's participation in variable interest entities ("VIEs"), which are defined as entities with a level of invested equity that is not sufficient to fund future activities to permit it to operate on a standalone basis. For entities identified as a VIE, FIN 46 sets forth a model to evaluate potential consolidation based on an assessment of which party to the VIE (if any) bears a majority of the exposure to its expected losses or stands to gain from a majority of its expected returns. The interpretation is effective after January 31, 2003 for any VIE created after that date and is effective July 1, 2003 for VIEs created before February 1, 2003. The Company does not believe the adoption of FIN 46 will have a material impact on the Company's financial statements.

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

3. Property and Equipment

Property and equipment consist of the following at December 31, 2002 and 2001:

| | Estimated Useful Lives | 2002 | 2001 |
|--------------------------------|--|------------|------------|
| Leasehold improvements | lesser of life of asset or lease term | \$ 44,163 | \$ 63,393 |
| Production equipment | 5 years | 807,506 | 529,472 |
| Telephone and office equipment | 5 years | 35,555 | 32,786 |
| Computer equipment | 3-5 years | 604,698 | 467,057 |
| Furniture and fixtures | 5-7 years | 144,239 | 148,894 |
| | | 1,636,161 | 1,304,602 |
| Less: accumulated depreciation | | (974,787) | (744,179) |
| | | \$ 661,374 | \$ 560,423 |

Depreciation expense for the years ended December 31, 2002 and 2001 was \$234,657 and \$163,935 respectively.

4. Intangible Assets

Intangible assets consist of the following at December 31:

| | 2002 | 2001 |
|--------------------------------|------------|-----------|
| TASER Trademark | \$ 25,000 | \$ 25,000 |
| TASER.com domain name | 60,000 | 60,000 |
| U.S. Patent Number 5,078,117 | 50,000 | — |
| | 135,000 | 85,000 |
| Less: Accumulated amortization | (33,429) | (12,584) |
| | \$ 101,571 | \$ 72,416 |

These intangible assets are being amortized over a period of 5 to 7 years dependent upon their estimated useful lives. Amortization expense for the years ended December 31, 2002 and 2001 was \$20,845 and \$12,584 respectively.

Estimated amortization for intangible assets for the next five years is as follows:

| | |
|------|-----------|
| 2003 | \$ 24,692 |
| 2004 | 24,692 |
| 2005 | 24,692 |
| 2006 | 12,109 |
| 2007 | 7,692 |

5. Commitments and Contingencies

a. Operating Leases

The Company has entered into operating leases for office space and equipment. Rent expense under these leases for the years ended December 31, 2002 and 2001, was \$146,152 and \$139,033, respectively.

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Future minimum lease payments under operating leases as of December 31, 2002, are as follows for the years ending December 31:

| | | |
|------------|----|---------|
| 2003 | \$ | 144,126 |
| 2004 | | 138,647 |
| 2005 | | 142,593 |
| 2006 | | 7,127 |
| 2007 | | 3,563 |
| Thereafter | | 0 |
| Total | \$ | 582,208 |

b. Litigation

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

In February 2000, the Company was named a defendant in a suit with a former distributor in the state of New York asserting certain rights of exclusive representation with respect to the Company's products. The suit was dismissed in February 2001 for lack of jurisdiction of the New York court. In March 2001, the former distributor appealed the dismissal. The Company filed two motions for partial summary judgment in November 2002 which are currently pending before the court and a status conference is scheduled for late 2003. Management believes this matter will be resolved without a material effect on the Company's financial condition or results of operations.

In early April 2001 a patent licensee sued the Company in the United States District Court, Central District of California. The lawsuit alleges that certain technology used in the firing mechanism for the Company's weapons infringes upon a patent for which the licensee holds a license, and seeks injunctive relief and unspecified monetary damages. In February 2002, the Company won a motion for summary judgment that limits the licensee's right to sue for damages only to dates after February 2001. On July 29, 2002, the Company again won a motion for summary judgment in which the Court ruled that no product manufactured by the Company infringed the claims of the patent licensed by the patent licensee. The Company was notified in August 2002 that the plaintiff filed an appeal of this ruling with the Court. The Company intends to appeal, and based upon the original decision by the court, it believes that the claims are without merit and that the litigation will not have a material adverse effect on the Company's financial condition or results of operations.

c. Employment Agreements

The Company has employment agreements with its President, Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Vice President General Counsel. 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, CFO and Vice President are entitled to additional compensation. Under these circumstances, these officers may receive the amounts remaining under their contracts upon termination, which could total \$740,000 in the aggregate.

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

6. Income Taxes

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

| | December 31, 2002 | December 31, 2001 |
|--|------------------------------|------------------------------|
| Current deferred tax assets: | | |
| Net operating loss carryforward | \$ 91,610 | — |
| Nondeductible reserves | 61,069 | \$ 60,840 |
| Total deferred tax asset | \$ 152,679 | \$ 60,840 |
| Long-term deferred tax (assets) liabilities: | | |
| Tax over book depreciation of property and equipment | \$ 77,315 | \$ 22,666 |
| Amortization of other assets | (7,494) | (3,355) |
| Net deferred tax liability | \$ 69,821 | \$ 19,311 |

At December 31, 2002, the Company had a net operating loss carry forward ("NOL") for federal income tax purposes of approximately \$240,000. The Company's NOL will begin to expire in 2023.

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

| | Year Ended December 31, 2002 | Year Ended December 31, 2001 |
|----------------------------|---|---|
| Current: | | |
| Federal provision | \$ 110,072 | \$ 119,968 |
| State provision | 20,442 | 26,558 |
| Total current | 130,514 | 146,526 |
| Deferred: | | |
| Federal benefit | 37,460 | (35,300) |
| State benefit | 3,869 | (6,230) |
| Total deferred | 41,329 | (41,530) |
| Provision for income taxes | \$ 171,843 | \$ 104,996 |

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

| | | |
|---|-----|------|
| Federal statutory rate | 34% | 34% |
| State tax, net of federal benefit | 5 | 6 |
| Nondeductible lobbying expenses | 6 | |
| Change in method of accounting for income taxes | | (23) |
| | 45% | 17% |

7. Line of Credit

On May 31, 2002 the Company obtained a new revolving line of credit with a total commitment of up to \$2,500,000. The line is secured by substantially all of the Company's assets, other than intellectual property, and bears interest at varying rates, ranging from LIBOR plus 1.5% to prime plus 1%. The availability under this loan is computed on a monthly borrowing base. The Company's intellectual property has been excluded

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

from the bank pledges. As part of the agreement for this loan, the Company maintains a compensating balance of \$1,000,000 in a high balance savings account. The line of credit matures on May 31, 2003 and requires monthly payments of interest only. At December 31, 2002, the available borrowing under the line of credit was \$2.1 million, and the amount outstanding under the line of credit was \$385,000. This amount was subsequently paid in full on January 9, 2003.

The Company's agreement with the bank requires the Company to comply with certain financial and other covenants including maintenance of minimum tangible net worth and fixed charge coverage. For the year ended December 31, 2002, the Company was in compliance with all requirements.

8. Related Party Transactions and Notes Payable

At December 31, 2002 and 2001 debt obligations were as follows:

| | 2002 | | 2001 |
|---|-----------|----|-----------|
| Notes payable to stockholders, interest at varying rates of 9% to 27%, principal and \$ interest due through July 1, 2002 | — | \$ | 455,691 |
| Capital leases, interest at varying rates of 7% to 23%, due in monthly installments through December 2005, secured by equipment | 52,904 | | 102,813 |
| | 52,904 | | 558,504 |
| Less: current portion | (37,418) | | (507,525) |
| Total | \$ 15,486 | \$ | 50,979 |

At December 31, 2002, aggregate annual maturities of long-term debt and capital leases were as follows:

| | |
|------|--------|
| 2003 | 37,418 |
| 2004 | 10,844 |
| 2005 | 4,642 |
| \$ | 52,904 |

During 1998, 1999 and 2000 the Company had several notes due to stockholders and directors of the Company at rates ranging from 9.0% to 27%. Certain notes were converted to common stock and any remaining amounts were repaid.

In 2001, the Company leased an aircraft from its President and was obligated under an operating lease to pay a negotiated rate of \$1,560 per month for rent. The lease expires August 2013. Rent expense for this aircraft for each of the twelve months ended December 31, 2002 and 2001 \$4,650 and \$18,673. In October 2001, the Company entered into an agreement with the President to pay approximately \$29,000 for the replacement of the aircraft's engine. The Company capitalized the cost of the engine in leasehold improvements at December 31, 2001. On March 25, 2002 this lease was terminated, as the aircraft was sold by the President. The \$29,000 originally paid by the Company for the replacement of the aircraft's engine was returned to the Company, at which time the asset value and accumulated depreciation was removed from leasehold improvements.

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

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

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.

b. Preferred Stock

The Company is authorized to issue up to 25 million shares of preferred stock, \$0.00001 par value. The Board of Directors may authorize the issuance of shares of preferred stock of any class or any series of any class and establish designations, voting powers, preferences, and relative participating, optional or other rights, if any, or the qualifications, limitations, or restrictions applicable to such shares.

c. Warrants

At December 31, 2002, the Company has warrants outstanding to purchase 1,471,448 shares of common stock at prices ranging from \$0.22 to \$21.00 per share with an average exercise price of \$9.96 per share and a weighted average remaining life of 3.31 years. A summary of warrants outstanding and exercisable at December 31, 2002 is presented in the table below:

| Weighted Average Exercise Price | Outstanding Warrants | Expiration Date |
|--|-----------------------------|------------------------|
| \$ 0.22 | 8,333 | 1/1/03 |
| 21.00 | 3,333 | 7/31/05 |
| 3.30 | 22,727 | 7/31/05 |
| 10.00 | 5,000 | 1/22/06 |
| 9.53 | 1,199,533 | 5/8/06 |
| 12.57(1) | 232,522 | 5/8/06 |
| \$ 9.96 | 1,471,448 | |

(1) This price reflects the initial exercise price of \$15.60 to exercise the underwriter's 116,261 warrants and \$9.53 to exercise the 116,261 public warrants underlying the underwriter's warrants.

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 22, 2006. The fair value of these warrants of approximately \$10,060 was expensed ratably over the life of the debt. In May 2001, the Company issued 5,769 warrants to its legal counsel for consulting services related to the IPO. These warrants were exercisable at \$7.80 per share. The fair value of these warrants of approximately \$12,627 was recorded in the Company's financial statements in 2001. The warrants were exercised during 2002.

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

In May 2001, in connection with the Company's initial public offering, the Company issued 1,199,997 warrants to the public. These warrants are exercisable at \$9.53 per share and expire May 8, 2006. The Company has the right 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 at the time of notice, the basic net income per share of the Company's common stock for a 12-month period preceding the date of the notice is equal to or greater than \$1.00.

In May 2001, pursuant to the underwriting agreement associated with the Company's initial public offering, the Company issued 80,000 units consisting of 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. The underwriter warrants may be exercised at any time during the four-year period commencing May 8, 2002. The exercise price for each initial unit is \$15.60. The exercise price for the underlying warrant of each unit is \$9.53. As of December 31, 2002, 7,478 of the 240,000 underlying warrants were exercised.

d. Stock Option Plan

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

A summary of the Company's stock options at December 31, 2002 and 2001 and for the years then ended is presented in the table below:

| | 2002 | Weighted Average Exercise Price | 2001 | Weighted Average Exercise Price |
|--|----------|--|----------|--|
| | Options | | Options | |
| Options outstanding, beginning of year | 521,324 | \$ 5.88 | 143,322 | \$ 1.14 |
| Granted | 408,600 | 13.86 | 401,724 | 7.29 |
| Exercised | (61,332) | .61 | (23,722) | 1.15 |
| Expired/terminated | (79,667) | — | — | — |
| Options outstanding, end of year | 788,925 | \$ 9.27 | 521,324 | \$ 5.88 |
| Exercisable at end of year | 301,577 | \$ 8.38 | 223,670 | \$ 4.81 |
| Options available for grant at end of year | 509,354 | \$ — | 148,276 | \$ — |
| Weighted average fair value of options granted in the year | | \$ 8.29 | | \$ 4.08 |

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

Stock options outstanding and exercisable at December 31, 2002 are as follows:

| Range of Exercise Price | Options Outstanding | Average Life(a) | Options Exercisable Number Exercisable |
|----------------------------|------------------------|--------------------|---|
| \$ 0.60 | 38,834 | 6.00 | 38,834 |
| 0.66 | 1,642 | 1.00 | 1,642 |
| 3.30 | 500 | 8.33 | 431 |
| 3.30 | 6,667 | 8.83 | 3,333 |
| 3.40 | 20,000 | 8.83 | 556 |
| 3.47 | 5,000 | 9.83 | — |
| 3.74 | 10,000 | 9.75 | 278 |
| 3.75 | 40,000 | 9.75 | — |
| 4.86 | 1,000 | 9.42 | — |
| 6.09 | 3,000 | 9.42 | 83 |
| 6.55 | 14,224 | 3.33 | 14,224 |
| 6.55 | 171,500 | 9.00 | 81,925 |
| 7.20 | 3,958 | 7.92 | 3,958 |
| 7.21 | 120,000 | 4.00 | 57,500 |
| 8.25 | 1,500 | 7.83 | 438 |
| 8.82 | 500 | 7.67 | 167 |
| 10.80 | 17,500 | 7.92 | 17,500 |
| 11.88 | 20,000 | 3.92 | 20,000 |
| 14.21 | 25,000 | 9.42 | 4,861 |
| 16.00 | 198,700 | 9.42 | 38,636 |
| 16.16 | 25,000 | 9.25 | 4,688 |
| 17.60 | 64,400 | 4.42 | 12,523 |
| \$ 9.27 | 788,925 | 7.56 | 301,577 |

(a) Weighted average remaining contractual life in years.

The Company measures the compensation cost of its stock option plan, using the intrinsic value based method of accounting prescribed in Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees*. Accordingly, no compensation cost has been recognized for its stock option plan. For SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), we estimated the fair value of each option grant as of the date of grant using the Black Scholes option pricing model.

| | 2002 | 2001 |
|--------------------------|---------|----------|
| Volatility | 98.5% | 42.0% |
| Risk-free interest rate | 3.0% | 5.0% |
| Dividend rate | 0.0% | 0.0% |
| Expected life of options | 3 years | 10 years |

The Company has adopted two employee stock options plans, the 1999 Plan and the 2001 Plan. Both plans were registered on Form S-8 with the United States Securities and Exchange Commission. The total number of shares reserved under these plans were 833,333 under the Company's 1999 Plan, and 550,000 under

TASER INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS — (Continued)

the 2001 Plan. These plans provide for officers, key employees and consultants to receive nontransferable stock options to purchase an aggregate of 1,383,333 shares of the Company's common stock. As of December 31, 2002, 873,979 options were granted at prices equal or greater than the fair market value of the stock, 85,054 of the options granted had been exercised, and, 509,354 are remaining for future grants.

In February 2001, the Company granted options to a consultant at an exercise price equal or greater than the value of the common stock portion of the initial per unit public offering price in the Company's contemplated IPO. Total compensation costs associated with the option granted to the consultant is approximately \$2,898. In May 2001, the Company granted 11,449 five-year options to its outside legal counsel in return for legal services. The options are exercisable at \$6.55 per share and expire May 2006. The options have been recorded at their estimated fair value of \$33,177 and expensed in the accompanying financial statements. Also in May 2001, the Company granted 1,775 five-year options to consultants for services rendered. The options are exercisable at \$6.55 per share and expire May 2006. These options have been recorded at their estimated fair value of \$5,144 and expensed in the accompanying financial statements.

During 2002, the Company granted options to consultants at an exercise price equal or greater than the value of the common stock on the date of grant. The options vest over a three-year period. The total compensation cost associated with the options granted to consultants is approximately \$32,424.

EXHIBIT INDEX

| Exhibit Number | Description |
|-------------------|--|
| 3.1 | Company's Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to Registration Statement on Form SB-2 filed February 14, 2001 (Registration No. 333-55658), as amended) |
| 3.2 | Company's Bylaws, as amended (incorporated by reference to Exhibit 3.2 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended) |
| 4.1 | Reference is made to pages 1 – 4 of Exhibit 3.1 and pages 1 – 5 and 12 – 14 of Exhibit 3.2 |
| 4.2 | Form of Common Stock Certificate (incorporated by reference to Exhibit 4.2 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended) |
| 4.3 | Form of Public Warrant (incorporated by reference to Exhibit 4.3 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended) |
| 4.4 | Form of Unit Certificate (incorporated by reference to Exhibit 4.4 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended) |
| 4.5 | Form of Warrant and Unit Agreement (incorporated by reference to Exhibit 4.5 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended) |
| 4.6 | Form of Underwriters' Warrant (incorporated by reference to Exhibit 4.6 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended) |
| 10.1 | Employment Agreement with Patrick W. Smith, dated July 1, 1998 (incorporated by reference to Exhibit 10.1 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)(1) |
| 10.2 | Employment Agreement with Thomas P. Smith, dated November 15, 2000 (incorporated by reference to Exhibit 10.2 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)(1) |
| 10.3 | Employment Agreement with Kathleen C. Hanrahan, dated November 15, 2000 (incorporated by reference to Exhibit 10.3 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)(1) |
| 10.4 | Form of Indemnification Agreement between the Company and its directors (incorporated by reference to Exhibit 10.4 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended) |
| 10.5 | Form of Indemnification Agreement between the Company and its officers (incorporated by reference to Exhibit 10.5 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended) |
| 10.6 | 1999 Employee Stock Option Plan (incorporated by reference to Exhibit 10.6 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)(1) |
| 10.7 | 2001 Stock Option Plan (incorporated by reference to Exhibit 10.7 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended)(1) |
| 10.8 | Form of Warrant issued to Bruce Culver and Phil Smith (incorporated by reference to Exhibit 10.8 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended) |
| 10.9 | Promissory Note, dated October 24, 2000, payable to Bank of America in the amount of \$60,000 and related guarantee and security documents (incorporated by reference to Exhibit 10.12 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended) |
| 10.10 | Lease between the Company and Norton P. Remes and Joan A. Remes Revocable Trust, dated November 17, 2000 (incorporated by reference to Exhibit 10.14 to Registration Statement on Form SB-2 effective May 11, 2001 (Registration No. 333-55658), as amended) |
| 10.11 | Credit Agreement, dated May 31, 2002, between the Company and Bank One, NA (incorporated by reference to Exhibit 10.18 to the Quarterly Report on Form 10-QSB, filed August 12, 2002) |

| Exhibit Number | Description |
|-------------------|---|
| 10.12 | Form of Sales Representative Agreement with respect to services by and between the Company and Sales Representatives (incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-KSB, filed March 15, 2002), as amended |
| 10.13 | Lease Agreement, dated April 17, 2001, payable to GE Capital Corporation in the amount of \$37,945 |
| 10.14 | Employment Agreement with Douglas E. Klint, dated December 15, 2002 |
| 23.1 | Consent of Deloitte & Touche, LLP, independent auditors |
| 99.1 | Certain Factors to Consider in Connection with Forward-Looking Statements |
| 99.2 | Chief Executive Officer Certification pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 99.3 | Chief Financial Officer Certification pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

(1) Management contract or compensatory plan or arrangement

[GE CAPITAL CORPORATION LOGO]

Master Lease Agreement Account # 4070297

Dated and effective as of April 17, 2001 ("Effective Date"), this MASTER LEASE AGREEMENT ("Agreement") is entered into by and between GENERAL ELECTRIC CAPITAL CORPORATION, a New York corporation with offices at 10 Riverview Drive, Danbury, Connecticut 06810, (together with any successor or assignee, "Lessor") and the Lessee indicated below (together with any successor or permitted assignee, "Lessee").

| | | |
|---------|------------------------|--|
| LESSEE: | LEGAL NAME: | Taser International, Inc. |
| | TRADE NAME (if any): | |
| | ADDRESS: | 7860 E McClain Dr Suite 2 Scottsdale, Arizona 85260 |
| | CONTACT and TELEPHONE: | Tom Smith 480-905-2000 |
| | LEGAL ENTITY Type: | ----- |
| | State of Organization: | |

Date of Establishment:

LEASE TERMS AND CONDITIONS:

1. LEASING. Subject to the terms of this Agreement, Lessor agrees to lease to Lessee and Lessee agrees to lease from Lessor the equipment (collectively, the "Equipment" and individually a "unit of Equipment") described in any equipment schedule (a "Schedule") signed by Lessee and approved by Lessor. Each Schedule will incorporate all the terms of this Agreement and will constitute a separate agreement for lease of the Equipment (each, a "Lease"). With respect to each Lease, capitalized terms not defined in this Agreement will have the meanings stated in the applicable Schedule. Unless it purchases the Equipment under Section 14 ("Options"), Lessee does not have any right or interest in the Equipment except as a lessee. This Agreement is effective from the Effective Date, and will continue until all Leases have terminated or expired.

2. NET LEASE. EACH LEASE IS A NET LEASE. LESSEE IS UNCONDITIONALLY OBLIGATED TO PAY MONTHLY RENT AND OTHER AMOUNTS DUE UNDER SUCH LEASE REGARDLESS OF ANY DEFECT OR DAMAGE TO EQUIPMENT, OR LOSS OF POSSESSION, USE OR DESTRUCTION FROM ANY CAUSE WHATSOEVER, LESSEE'S OBLIGATIONS CONTINUE UNTIL SPECIFICALLY TERMINATED AS PROVIDED IN SUCH LEASE. LESSEE IS NOT ENTITLED TO ANY ABATEMENT, REDUCTION, RECOUPMENT, DEFENSE, OR SET-OFF AGAINST MONTHLY RENT OR OTHER AMOUNTS DUE TO LESSOR OR ITS ASSIGNEE, WHETHER ARISING OUT OF SUCH LEASE OR OUT OF LESSOR'S STRICT LIABILITY OR NEGLIGENCE, FROM ANY THIRD PARTY, OR OTHERWISE.

3. PURCHASE OF EQUIPMENT. Lessor is not obligated to purchase or lease a unit of Equipment unless before the Last Funding Date; (i) Lessor receives from Lessee a fully signed and completed Agreement, Schedule, Purchase Order Assignment in the form of Annex A attached to the applicable Schedule and such other documents as Lessor may require; (ii) Lessee has irrevocably accepted the unit of Equipment for lease from Lessor by properly signing and delivering to Lessor a Certificate of Acceptance in the form of Annex B attached to the applicable Schedule; (iii) Lessor has received from Supplier clear and unencumbered title to the Equipment and (iv) there is no Default (Section 13). If Lessor has accepted a Purchase Order Assignment but the Lease does not commence, Lessor may reassign the Purchase Order and the Equipment to Lessee without recourse or warranty and Lessee will reimburse Lessor for all expenses incurred, plus interest at the Overdue Rate (Section 15). So long as no Default has occurred, Lessor appoints Lessee its agent to inspect and accept the Equipment from Supplier simultaneously with acceptance of the Equipment for lease. For each Schedule, Lessee irrevocably authorizes Lessor to adjust the Equipment Price and Total Price to account for equipment change orders or returns, invoicing errors and similar matters, and agrees to any resulting adjustments in the TRANSACTION TERMS stated in the applicable Schedule. Lessor will send Lessee a written notice stating the final Equipment Price, Total Price and TRANSACTION TERMS, if different from those stated in the applicable Schedule.

4. TERM AND RENT. (a) The Initial Term begins on the acceptance by the Lessee of the Equipment (a "Lease Commencement Date"), and continues for the Initial Term stated in the applicable Schedule. The Monthly Rent accrues from the Lease Commencement Date. If Monthly Rent is not paid within ten (10) days of its due date, Lessee agrees to pay a late charge of ten cents (\$0.10) per dollar on, and in addition to, such Monthly Rent, but not exceeding the lawful maximum, if any. Advance Rent, if any, is applied to the first Monthly Rent due and then to the final Monthly Rents or, at Lessor's option, to the payment of any overdue obligation of Lessee. Lessor is not required to: (i) refund any Advance Rent or Monthly Rent; (ii) pay any interest on Advance Rent; or (iii) keep Advance Rent in a separate account. (b) Lessee agrees that the Monthly Rent and Advance Rent have been calculated on the assumption that the effective corporate income tax rate (exclusive of any minimum tax rate) for Lessor will be 35%. If Lessor is not taxed at such tax rate during the Initial Term because of Congressional enactment of any law, Lessor has the right to increase the Monthly Rent and Advance Rent and adjust the Casualty Value (Section 8) in such a manner as will both (i) take into account that such assumption is no longer correct and (ii) preserve Lessor's after tax

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

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

Lessee's Initials: x TA

6. USE, OPERATION, RETURN OF EQUIPMENT. (a) Lessee agrees at its own expense to : (i) maintain the Equipment under a manufacturer's service and maintenance contract for the term of the applicable Lease and in any event in good operating condition; (ii) use the Equipment solely for business purposes, in the manner for which it was intended and in compliance with all applicable laws and manufacturer requirements or recommendations; (iii) pay all expenses, fines, and penalties related to the use, operation, condition or maintenance of the Equipment; and (iv) comply with all license and copyright requirements of any software ("Software") used in connection with the Equipment. (b) Lessee agrees not to attach to the Equipment any accessory, equipment or device not leased from Lessor unless it is easily removable without damaging the Equipment. Lessee agrees to pay all costs for parts, alterations, and additions to the Equipment (including those required by law), all of which will become the property of Lessor. Lessee agrees not to install any Equipment or Software, if any. Inside any other personal property, Lessor and Lessee intend that the Equipment is to remain personal property of Lessor. (c) Provided that there is no Default (Section 13), Lessee is authorized on behalf of Lessor to enforce in its own name (and at its own expense) any warranty, indemnity or right to damages related to the Equipment which Lessor has against the Supplier. (d) At the end of the term of a Lessee, or in the event of a Default, Lessee agrees, at its own expense and risk, (i) to pay for any repairs required to place the Equipment in the same condition as when received by Lessee, reasonable wear and tear excepted; (ii) without unreasonable delay, to cause the Equipment to be disassembled, deinstalled, inspected, tested and crated in accordance with manufacturer recommendations, and any and all local, state and federal regulatory requirements then in effect and (iii) to deliver on Air Ride suspended Transport the Equipment, freight prepaid, to a carrier selected by Lessor for shipment to a location selected by Lessor. Any such Equipment shall be accompanied by all accessories originally included with the Equipment, including but not limited to, users manuals, service records and certification from the manufacturer that the Equipment performs in accordance with original specifications and qualifies for continued maintenance under a manufacturer's service and maintenance contract. Equipment that is returned will include the latest software release provided by the manufacturer to the Lessee for the Equipment. (e) At Lessor's request, Lessee, at its expense, shall store the Equipment for a period of up to ninety (90) days after the end of the term of the applicable Lease. During such period, Lessee shall comply with all of the terms of the Lease, except the obligation to pay Rent, and Lessor shall have access to the Equipment upon reasonable notice for the purpose of showing the Equipment to potential purchasers.

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

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

9. INSURANCE. Lessee agrees, at its own expense, to keep the Equipment insured with companies acceptable to Lessor and to maintain primary coverage consisting of (i) actual cash value all risk insurance on the Equipment, naming Lessor as loss payee and (ii) single limit public liability and property damage insurance of not less than \$300,000 per occurrence (or such other amounts as Lessor may require by notice to Lessee) naming Lessee as insured and Lessor as additional insured. The insurance will provide for not less than thirty (30) days notice to Lessor of material changes in or cancellation of the policy. Premiums for all such insurance will be prepaid. Lessee will deliver evidence of such insurance to Lessor upon request, and will promptly provide to Lessor all information pertinent to any occurrence which may become the basis of a claim. Lessee will not make claim adjustments with insurers except with Lessor's prior written consent. If Lessee fails to provide any insurance required by the Agreement, Lessor may but is not obligated to insure its own interest in the Equipment and Lessee agrees to pay the direct or financed cost thereof (at the highest annual rate permitted by applicable law) and charge for costs in connection therewith promptly

upon receipt of invoices.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. OPTION. (a) LEASE TYPE A ONLY: So long as no Default has occurred, Lessee has the option (i) to purchase all but not less than all of the Equipment under a Lease at the end of the Initial Term on an AS-IS WHERE-IS basis without representation or warranty, for a cash purchase price equal to the Equipment's Fair Market Value (plus any applicable sales taxes) determined as of the end of the Initial Term; or (ii)

to extend the Initial Term of a Lease at the then Fair Market Rental of the Equipment. Lessee must give irrevocable written notice at least sixty (60) days before the end of the Initial Term to Lessor that it will purchase the Equipment or extend the Initial Term. If the Lease is renewed, the Lessee's obligations (other than the amount of Monthly Rent to be paid) will remain unchanged. If Lessee fails to timely exercise one of such options, this Lease shall automatically continue on the same periodic basis in effect at such time with Rent payable in the same amount and frequency in effect at such time until the Equipment is returned or purchased in accordance with the terms hereof. Lessee's obligations and all other provisions of this Lease shall continue until such time. "Fair Market Value" or "Fair Market Rental" means the price or rental which a willing buyer or lessee (who is neither a lessee in possession nor a used equipment dealer) would pay for the Equipment in an arm's length transaction to a willing seller or lessor who is under no compulsion to sell or lease the Equipment. In determining "Fair Market Value" or "Fair Market Rental": (i) the Equipment is assumed to have been maintained and returned as required by the Lease; (ii) in the case of any installed Equipment, the Equipment will be valued on an installed basis; and (iii) cost of removal from the Equipment's current location will not be included.

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

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

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

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

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

(e) If Lessee fails to comply with any provision of a Lease, Lessor has the right, but is not obligated, to have such provision brought into compliance. This right is in addition to the Lessor's right to declare a Default. All expenses incurred by Lessor in bringing about such compliance will be considered Rent which is due to Lessor within five (5) days after the date Lessor sends to Lessee a written request for payment.

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

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

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

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

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

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

LESSOR: GENERAL ELECTRIC CAPITAL CORPORATION

LESSEE: Taser International, Inc.

By: /s/ Eileen Jewell

By: /s/ Thomas P. Smith

Eileen Jewell

X Thomas P. Smith

(Print or Type Name)

(Print or Type Name)

Operations Team Leader

X President

(Print or Type Name)

(Print or Type Name)

Date of Execution: 5/3/01

Date of Execution: X 4/17/01

Taser ID

Social Security #/Taxpayer ID:

X 860741227

[GE CAPITAL LETTERHEAD]

Schedule No. 4070297 001

MASTER LEASE AGREEMENT EFFECTIVE DATE: 04/17/2001

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

A. LESSEE: LEGAL NAME: Taser International, Inc.
TRADE NAME (if any):
ADDRESS: 7860 E. McClain Dr. Suite 2
Scottsdale, Arizona 85260

LEGAL ENTITY - Type:
State of Organization:
Date of Establishment:

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

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

D. DESCRIPTION OF EQUIPMENT:

Table with 2 columns: EQUIPMENT TYPE/MODEL/SERIAL/ID NUMBERS and Number of Units. Rows include PX 2000M Extended, Part # PX2000M-Computer Based X-Ray Warranty, Equipment Price (\$36,995.00), Sales Tax (\$ 0.00), Freight (\$ 450.00), Installation (\$ 500.00), and Total Price (\$37,945.00).

E. TRANSACTION TERMS:

Lease Type (check one): X A (Tax Lease, 0-year property; all Sections other than 14(b) and 15(a) apply).
Initial Term: 48 X Monthly Quarterly Annual Payments
Rent: 48 at \$953.66
Advance Rent: \$ 0.00
Sales tax: 0
Total Advance Rent: 0
Last Funding Date: 7/16/2001

F. ADDITIONAL TERMS (if any):

Lessee's periodic lease payments are calculated using a lease rate factor (the "Lease Rate Factor"). The Lease Rate Factor is calculated, in part, using an interest rate based on the interest rate for swaps (the "Swap Rate") that most closely approximates the initial term of the Lease as published in the Federal Reserve Statistical Release H.15 available at <http://www.federalreserve.gov/releases/h15/update> on 4/16/2001 (the "Initial Rate Date"). The Lease Rate Factor will be held until 5/16/2001 (the "Rate Expiration Date"). If Lessee does not accept the Equipment on or before the Rate Expiration Date, the Lease Rate Factor and Lessee's periodic lease payment may be adjusted if the Swap Rate as reported four (4) business days prior to acceptance of the Equipment is different than the Swap Rate as reported on the Initial Rate Date. Lessor will notify Lessee if the Lease Rate Factor changes.

If the Lease Commencement Date is not the first or the fifteenth day of any calendar month (a "Payment Date"), the Initial Term shall be extended by the number of days between the Lease Commencement Date and the Payment Date which first occurs after the Lease Commencement Date, and Lessee's first payment will be increased by 1/30th of the Monthly Rent multiplied by the number of days elapsed from the Lease Commencement Date to the day immediately preceding the Payment Date which first occurs after the Lease Commencement Date.

 Payments in Advance - If payments are in advance and the Lease Commencement Date is a Payment Date, the first payment is due on the Lease Commencement Date. If the Lease Commencement Date is after the first but before the fifteenth day of the month, the first payment is due on the fifteenth day of the month of the Lease Commencement Date. If the Lease Commencement Date is after the fifteenth day of the month, the first payment is due on the first day of the month following the Lease Commencement Date.

 X Payments in Arrears - If payments are in arrears and the Lease Commencement Date is the first day of the month, the first payment is due on the first day of the month following the month of the Lease Commencement Date. If payments are in arrears and the Lease Commencement Date is after the first but before (or on) the fifteenth day of the month, the first payment is due on the fifteenth day of the month following the month of the Lease Commencement Date. If the Lease Commencement Date is after the fifteenth day of the month, the first payment is due on the first day of the second month following the month of the Lease Commencement Date.

LESSOR: *General Electric Capital Corporation* LESSEE: *Taser International, Inc.*

By: */s/ Eileen Jewell*

By: *x /s/ Thomas P. Smith*

Eileen Jewell

x Thomas P. Smith

(Print or Type Name)

(Print or Type Name)

Operations Team Leader

x President

(Print or Type Title)

(Print or Type Title)

Date of Approval: *5/2/01*

Date of Execution: *x 4/17/01*

Taser ID
Social Security
Or Taxpayer ID No.: 860741227

B- Certificate of Acceptance Account Schedule # 4070297-001

Annex B to Schedule No.001 Effective Date: 4/17/2001 ("Schedule") Master Lease Agreement Effective Date: 4/17/2001 To General Electric Capital Corporation (LESSOR):

A. LESSEE: LEGAL NAME: Taser International, Inc.
 TRADE NAME (if any):
 ADDRESS: 7860 E. McClain Dr Suite 2
 Scottsdale, Arizona 85260

B. SUPPLIER: NAME: PerkinElmer Instruments
 STREET ADDRESS: 781 Main Ave
 CITY, STATE ZIP: Norwalk, Connecticut 06859

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

D. DESCRIPTION OF EQUIPMENT:

| Equipment Type/Model/Serial/ID Numbers | Number of Units |
|--|-----------------|
| PX 2000M Part # PX2000M-Computer based X-Ray | 1 |
| Extended Warranty | 1 |

LESSEE, THROUGH ITS AUTHORIZED REPRESENTATIVE CERTIFIES TO LESSOR THAT:

- (a) All the Equipment has been delivered to and inspected by Lessee on the Lease Commencement Date specified below pursuant to the above Schedule and Master Lease Agreement as it relates to such Schedule (the "Lease");
- (b) Lessee Irrevocably accepts the Equipment for lease under the Lease as of the Lease Commencement Date; and
- (c) No event which would allow the Lessor to declare a Default (Section 13 of the Master Lease Agreement) has occurred, and all of the representations and warranties made in the Lease are true as of the Lease Commencement Date.
- (d) Lessee hereby expressly authorizes General Electric Capital Corporation to Insert the Date of Acceptance/Lease Commencement Date in the space below upon the verbal instruction of Lessee.

LESSEE Taser International, Inc.

E:

By: *x /s/ Thomas P. Smith*

x Thomas P. Smith

 (Print or Type Name)

x President

(Print or Type Name)

Date of Acceptance/

Lease Commencement Date: 4/25/01

UPON EXECUTION, PLEASE MAIL TO:

General Electric Capital Corporation

Danbury Operations Center

ATTN: Marie Sefsik

10 Riverview Drive

Danbury, CT 06810

Exhibit 10.14

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into this 15th day of December, 2002, to be effective as of December 15, 2002 between TASER International, Incorporated (the "Company"), located at 7860 East McClain Drive, Suite 2, Scottsdale, Arizona 85260 and Douglas E. Klint (the "Executive"), residing at 165 Gideons Point Road, Tonka Bay, MN 55331

RECITALS:

WHEREAS, the Company wishes to provide for the employment of Executive as its Vice President, General Counsel 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 Vice President General Counsel, 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 Chief Executive or 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 December 15, 2003, but shall be automatically extended, unless otherwise terminated in accordance herewith, for additional consecutive one year term on each December 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.

(a) 2002-2003 Annual Base Salary. For services rendered under this Agreement during the first year (December 15, 2002 through December 14, 2003) 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 \$160,000, payable in accordance with existing payroll practices of the Company. 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 2002-2003 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 one 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. Executive shall be eligible to earn a first year annual bonus in the amount of \$15,000 payable as follows:

- 50% upon admission to the Arizona Bar; and

- 50% upon achievement of Company and individual business objectives to be established by your manager.

(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).

(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 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)(ii) below.

(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 semi-monthly basis, but shall terminate at the end of the six (6) 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.
- (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.

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);

(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 term of this Agreement as it existed at the time of termination, or twenty-four (24) months, 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 six (6) 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 for six (6) months (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 six (6) 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.

12. NO ADEQUATE REMEDY. The parties declare that it 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 hereinafter, 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:

Douglas E. Klint
165 Gideons Point Road Tonka Bay, MN 55331

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.

(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.

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

/s/ Patrick W. Smith

Its: Chief Executive Officer

EXECUTIVE

/s/ Douglas E. Klint

Douglas E. Klint

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-89434 and 333-88386 of Taser International, Inc. on Forms S-8 and S-3, respectively, of our report dated January 24, 2003, appearing in this Annual Report on Form 10-KSB of Taser International, Inc. for the year ended December 31, 2002.

DELOITTE & TOUCHE LLP

/s/Deloitte & Touche LLP

Phoenix, Arizona

March 14, 2003

EXHIBIT 99.1

CERTAIN FACTORS TO CONSIDER IN CONNECTION WITH FORWARD-LOOKING STATEMENTS

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

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

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

In 2002 and 2001, we derived our revenues predominantly from sales of the ADVANCED TASERs and related cartridges, and expect to depend on sales on this product for the foreseeable future. A decrease in the prices of or demand for this product line, or its failure to achieve broad market acceptance, would significantly harm our growth prospects, operating results and financial condition.

OUR BUSINESS IS DIFFICULT TO EVALUATE BECAUSE WE HAVE A LIMITED OPERATING HISTORY IN THE LAW ENFORCEMENT AND CORRECTIONS MARKET AND HAVE BEEN FOCUSED ON OUR CURRENT BUSINESS STRATEGY FOR ONLY THREE 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. If we are unsuccessful in addressing these risks and uncertainties, our business, results of operations, financial condition and prospects will be materially harmed.

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

We intend to expand our sales and marketing programs. Rapid expansion may strain our managerial, financial and other resources. If we are unable to manage our growth, our business, our operating results and financial condition could be adversely affected. We will need to continually improve our operations, financial and other internal systems to manage our growth effectively, and any failure to do so may lead to inefficiencies and redundancies, and result in reduced growth prospects and profitability.

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

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

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

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

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

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

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

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

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

GOVERNMENT REGULATION OF OUR PRODUCTS MAY ADVERSELY AFFECT SALES.

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

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

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

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

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

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

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

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

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

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

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

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

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

Complex components and assemblies used in our products may contain undetected defects that are subsequently discovered at any point in the life of the product. In 2002, we recalled a series of ADVANCED TASERs due to a defective component. In connection with the recall, we incurred expenses of approximately \$25,000. Defects in our products may result in a loss of sales, delay in market acceptance, injury to our reputation and increased warranty costs.

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

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

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

We depend on certain domestic and foreign suppliers for the delivery of components used in the assembly of our products. Our reliance on third-party suppliers creates risks related to our potential inability to obtain an adequate supply of components or subassemblies and reduced control over pricing and timing of delivery of components and sub-assemblies. Specifically, we depend on suppliers of sub-assemblies, machined parts, injection molded plastic parts, printed circuit boards, custom wire fabrications and other miscellaneous customer parts of our products. We also do not have long-term agreements with any of our suppliers. Any interruption of supply for any material components of our products could significantly delay the shipment of our products and have a material adverse effect on our revenues, profitability and financial condition.

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

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

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

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

USE OF ESTIMATES MAY DIFFER FROM ACTUAL FINANCIAL RESULTS.

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

EXHIBIT 99.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES -OXLEY ACT OF 2002

In connection with the Annual Report of TASER International, Inc. (the "Company") on Form 10-KSB for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Patrick W. Smith, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Patrick W. Smith

Patrick W. Smith
Chief Executive Officer
March 14, 2003

EXHIBIT 99.3

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES -OXLEY ACT OF 2002

In connection with the Annual Report of TASER International, Inc. (the "Company") on Form 10-KSB for the period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kathleen C. Hanrahan, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Kathleen C. Hanrahan

*Kathleen C. Hanrahan
Chief Financial Officer
March 14, 2003*

End of Filing

BOWNE Electronic Proof

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(8.5 x 11 inch) paper.**

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United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-QSB

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2002

or

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number 001-16391

TASER INTERNATIONAL, INC.
(Exact name of small business issuer as specified in its charter)

DELAWARE
(State or other jurisdiction
of incorporation or organization)

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

7860 E. MCCLAIN DRIVE, SUITE 2, SCOTTSDALE, ARIZONA
(Address of principal executive offices)

85260
(Zip Code)

(480) 991-0797
(Issuer's telephone number)

There were 2,805,277 shares of the issuer's common stock, par value \$0.00001 per share, outstanding as of June 30, 2002.

Transitional Small Business Disclosure Format (Check One): Yes No

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TASER INTERNATIONAL, INC.
QUARTERLY REPORT ON FORM 10-QSB
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TASER INTERNATIONAL, INC.

BALANCE SHEETS

June 30, 2002 and December 31, 2001

| | June 30, 2002 | December 31, 2001 |
|---|--------------------|--------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$3,557,147 | \$5,636,100 |
| Accounts receivable, net of allowance | 1,608,801 | 765,328 |
| Inventory | 1,349,828 | 801,926 |
| Prepays and other | 80,691 | 103,829 |
| Income tax receivable | 133,649 | 53,817 |
| Deferred income tax asset | 70,840 | 60,840 |
| Total current assets | 6,800,956 | 7,421,840 |
| Property and equipment, net | 481,698 | 560,423 |
| Other assets | 63,917 | 72,416 |
| Total assets | \$7,346,571 | \$8,054,679 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Current portion of notes payable to related parties | \$ — | \$ 455,691 |
| Revolving line of credit | — | 760,838 |
| Current portion of capital lease obligations | 44,694 | 51,834 |
| Accounts payable and accrued liabilities | 1,206,711 | 1,154,280 |
| Customer deposits | 26,677 | 32,123 |
| Accrued interest | 181 | 890 |
| Total current liabilities | 1,278,263 | 2,455,656 |
| Deferred income tax liability | 19,311 | 19,311 |
| Capital lease obligations, net of current portion | 36,405 | 50,979 |
| Total liabilities | 1,333,979 | 2,525,946 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, 0.00001 par value per share; 25 million shares authorized; 0 shares issued and outstanding at June 30, 2002 and December 31, 2001 | — | — |
| Common stock, 0.00001 par value per share; 50 million shares authorized; 2,805,277 and 2,734,473 shares issued and outstanding at June 30, 2002 and December 31, 2001 | 28 | 27 |
| Additional paid-in capital | 5,287,233 | 5,073,617 |
| Deferred compensation | — | (59,940) |
| Retained earnings | 725,331 | 515,029 |
| Total stockholders' equity | 6,012,592 | 5,528,733 |
| Total liabilities and stockholders' equity | \$7,346,571 | \$8,054,679 |

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

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TASER INTERNATIONAL, INC.
STATEMENTS OF INCOME
For the three months and six months ended June 30, 2002 and 2001
 (UNAUDITED)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 30, 2002 | June 30, 2001 | June 30, 2002 | June 30, 2001 |
| Net sales | \$2,689,582 | \$1,537,574 | \$5,056,457 | \$2,743,905 |
| Cost of products sold: | | | | |
| Direct manufacturing expense | 877,078 | 530,235 | 1,676,262 | 1,039,133 |
| Indirect manufacturing expense | 305,981 | 127,934 | 546,045 | 215,793 |
| Gross margin | 1,506,523 | 879,405 | 2,834,150 | 1,488,979 |
| Sales, general and administrative expenses | 1,390,589 | 596,476 | 2,456,546 | 1,044,841 |
| Research and development expenses | 32,541 | 13,304 | 73,937 | 13,454 |
| Research and development funding | (46,258) | — | (46,258) | — |
| Income from operations | 129,651 | 269,625 | 349,925 | 430,684 |
| Interest income | 13,901 | 15,761 | 32,653 | 18,940 |
| Interest expense | 5,431 | 89,975 | 24,524 | 191,737 |
| Other income (expense) | (462) | 14 | (534) | 442 |
| Income before taxes | 137,659 | 195,425 | 357,520 | 258,329 |
| Provision for income tax | 57,063 | 78,170 | 147,218 | 103,436 |
| Net income | \$ 80,596 | \$ 117,255 | \$ 210,302 | \$ 154,893 |
| Net income per share: | | | | |
| Basic | \$ 0.03 | \$ 0.05 | \$ 0.08 | \$ 0.08 |
| Diluted | \$ 0.02 | \$ 0.05 | \$ 0.05 | \$ 0.08 |
| Weighted average share: | | | | |
| Basic | 2,799,688 | 2,211,878 | 2,786,205 | 1,868,765 |
| Diluted | 3,862,080 | 2,357,327 | 3,848,598 | 2,014,215 |

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

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**TASER INTERNATIONAL INC.
 STATEMENTS OF CASH FLOWS
 For the six months ended June 30, 2001 and 2000
 (UNAUDITED)**

| | Six Months Ended | |
|---|------------------|---------------|
| | June 30, 2002 | June 30, 2001 |
| Cash flows from operating activities: | | |
| Net income | \$ 210,302 | \$ 154,893 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 116,595 | 75,442 |
| Amortization of deferred compensation | — | 9,990 |
| Compensatory stock options and warrants | 901 | — |
| Stock option tax benefits | 231,705 | (16,589) |
| Deferred income taxes | (10,000) | — |
| Change in assets and liabilities: | | |
| Accounts receivable, net | (843,472) | (266,135) |
| Inventory | (547,902) | (571,739) |
| Prepays and other | 23,138 | (34,145) |
| Income tax receivable | (79,832) | — |
| Accounts payable and accrued liabilities | 52,429 | 162,024 |
| Customer deposits | (5,447) | (427,342) |
| Accrued interest | (709) | (268,134) |
| Net cash used in operating activities | (852,292) | (1,181,735) |
| Cash flows from investing activities: | | |
| Proceeds from sale of property and equipment | 32,848 | — |
| Purchases of property and equipment, net | (62,218) | (215,800) |
| Purchase of other assets | — | (85,000) |
| Net cash used in investing activities | (29,370) | (300,800) |
| Cash flows from financing activities: | | |
| Payments under capital leases | (21,713) | (20,769) |
| Payments on notes payable | (455,691) | (2,220,874) |
| Payments on revolving line of credit | (760,838) | — |
| Payments under product financing payable | — | (189,980) |
| Proceeds from notes payable | — | 500,000 |
| Proceeds from initial public offering | — | 8,440,522 |
| Proceeds from warrants exercised | 6,222 | — |
| Proceeds from options exercised | 34,729 | — |
| Net cash provided (used in) by financing activities | \$(1,197,291) | \$ 6,508,899 |
| Net increase (decrease) in cash and cash equivalents | \$(2,078,953) | \$ 5,026,364 |
| Cash and cash equivalents, beginning of period | \$ 5,636,100 | \$ 206,407 |
| Cash and cash equivalents, end of period | \$ 3,557,147 | \$ 5,232,771 |
| Supplemental disclosure: | | |
| Cash paid for interest | \$ 25,792 | \$ 150,481 |
| Noncash investing and financing activities: | | |
| Fair value of stock warrants issued for IPO costs | \$ — | \$ 14,569 |
| Acquisition of property and equipment under capital leases | \$ — | \$ 81,945 |
| Fair value of stock options issued for payment of legal fees | \$ — | \$ 33,177 |
| Fair value of stock options issued for payment of consulting fees | \$ 3,809 | \$ 8,042 |
| Fair value of stock warrants issued for loan guarantees | \$ — | \$ 10,060 |

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

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**TASER INTERNATIONAL, INC.
 NOTES TO UNAUDITED FINANCIAL STATEMENTS**

NOTE 1 —GENERAL

The accompanying quarterly financial statements of TASER International, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles applicable to interim financial statements and include all adjustments (consisting only of normal recurring accruals) considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. They have been prepared in accordance with the instructions to Form 10-QSB, and, accordingly, do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

The results of operations for the three-month and six month periods are not necessarily indicative of the results to be expected for the full year and should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2001, dated March 14, 2002.

NOTE 2 —NET SALES

The components of net sales are as follows:

| Sales by Product Line: | For the Three Months Ended | | For the Six Months Ended | |
|------------------------|----------------------------|---------------|--------------------------|---------------|
| | June 30, 2002 | June 30, 2001 | June 30, 2002 | June 30, 2001 |
| ADVANCED TASER | \$2,346,093 | \$1,151,166 | \$4,197,962 | \$2,022,542 |
| AIR TASER | 293,645 | 367,698 | 742,160 | 665,951 |
| Other | 49,844 | 18,710 | 116,335 | 55,412 |
| Total | \$2,689,582 | \$1,537,574 | \$5,056,457 | \$2,743,905 |

NOTE 3 —INVENTORIES

The inventories are stated at the lower of cost or market; cost is determined using the first-in, first-out (FIFO) method.

| | June 30, 2002 | December 31, 2001 |
|-----------------------------------|---------------|-------------------|
| Raw materials and work-in-process | \$1,129,968 | \$678,406 |
| Finished goods | 219,860 | 123,520 |
| Total | \$1,349,828 | \$801,926 |

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NOTE 4 —EARNINGS PER SHARE

The following table reconciles average common shares outstanding – basic, to average common shares outstanding – diluted, that are used in the calculation of earnings per share.

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|---------------|------------------|---------------|
| | June 30, 2002 | June 30, 2001 | June 30, 2002 | June 30, 2001 |
| Numerator for basic and diluted earnings per share: | | | | |
| Net Income | \$ 80,596 | \$ 117,255 | \$ 210,302 | \$ 154,893 |
| Average common shares outstanding — basic | 2,799,688 | 2,211,878 | 2,786,205 | 1,868,765 |
| Dilutive effect of shares issuable under stock options and warrants outstanding | 1,062,392 | 145,449 | 1,062,393 | 145,450 |
| Average common shares outstanding — diluted | 3,862,080 | 2,357,327 | 3,848,598 | 2,014,215 |
| Basic earnings per share | \$ 0.03 | \$ 0.05 | \$ 0.08 | \$ 0.08 |
| Diluted earnings per share | \$ 0.02 | \$ 0.05 | \$ 0.05 | \$ 0.08 |

NOTE 5 —LINE OF CREDIT

The Company has obtained a new revolving line of credit from a domestic bank with a total availability of \$2.5 million. The line is secured by substantially all of the Company’s assets, other than intellectual property, and bears interest at varying rates of interest, ranging from LIBOR plus 1.5% to prime plus 1%. The line of credit matures on May 31, 2003 and requires monthly payments of interest only. The Company had no borrowings under the line of credit at June 30, 2002.

NOTE 6 —PATENT PURCHASE

On July 2, 2002, the Company purchased U.S. Patent Number 5,078,117 from its original owner, John Cover, for \$50,000. The patent expires in 2009, and covers the technology used to manufacture the gas capsule, or propellant module, used in the Company’s air cartridges. Previously, the Company was licensed to use this technology. The Company intends to amortize this investment over the remaining useful life of the patent.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following is a discussion and an analysis of operations for both the three months and the six months ended June 30, 2002 and an analysis of financial condition as of June 30, 2002. The following discussion may be understood more fully by reference to the financial statements, notes to the financial statements, and the Management's Discussion and Analysis of Financial Condition and Results of Operations section contained in the Company's Annual Report filed on Form 10-KSB, dated March 14, 2002.

Certain statements contained in this report may be deemed to be forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995, and the Company intends that such forward-looking statements be subject to the safe-harbor created thereby. Such forward-looking statements may relate to (1) expected revenue and earnings growth; (2) the Company's estimates regarding the size of its target markets; (3) the ability of the Company to successfully penetrate the law enforcement market; (4) the growth expectations for existing accounts; (5) the ability of the Company to expand its product sales to the private security, military and consumer self-defense markets; and (6) the Company's business model. The Company cautions that these statements are qualified by important factors that could cause actual results to differ materially from those reflected by the forward-looking statements herein. Such factors include, but are not limited to: (1) market acceptance of the Company's products; (2) the Company's ability to establish and expand its direct and indirect distribution channels; (3) the Company's ability to attract and retain the endorsement of key opinion-leaders in the law enforcement community; (4) the level of product technology and price competition for the Company's ADVANCED TASER products; (5) the degree and rate of growth of the markets in which the Company competes and the accompanying demand for its products; and (6) other factors detailed in the Company's filings with the Securities and Exchange Commission.

Critical Accounting Policies

The Company has identified the following policies as critical to its business operations and the understanding of its results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. The preparation of this Quarterly Report on Form 10-QSB requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

- **Revenue Recognition.** Our revenue recognition policy is significant because our revenue is a key component of our results of operations. We recognize revenues when products are shipped and title passes and all sales are final. We charge certain of our customers shipping fees, which are recorded as a component of net sales. The Company records training revenue as the service is provided.
- **Warranty costs.** We warrant our products from manufacturing defects for their lives and we replace any AIR TASER units with a new one for a \$25 fee and defective ADVANCED TASER units for a \$75 fee. The Company tracks historical data related to returns on a quarterly basis and as of June 30, 2002 and December 31, 2001 had accrued warranty costs of \$65,000 and \$43,000 respectively.
- **Concentration of Credit Risk and Major Customers.** Financial instruments that potentially subject us to concentrations of credit risk include accounts receivable and accounts payable. Sales are typically made on credit and we generally do not require collateral. We perform ongoing credit evaluations of our customers' financial condition and maintain an allowance for estimated potential losses. Uncollectible accounts are written off at the end of each quarter, and accounts receivable are presented, net of an additional allowance for doubtful accounts. Our allowance for bad debts as of June 30, 2002 and December 31, 2001 was \$28,000 and \$29,000 respectively.

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RESULTS OF OPERATIONS

THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2002 AND JUNE 30, 2001

Net sales. Net sales increased by \$1.2 million, or 74.9%, to \$2.7 million for the three months ended June 30, 2002 compared to \$1.5 million for the three months ended June 30, 2001. Net sales increased \$2.3 million, or 84.3%, to \$5.1 million for the six months ended June 30, 2002 compared to \$2.7 million in the corresponding period in 2001. These increases were primarily due to increased unit sales of the ADVANCED TASER to law enforcement distributors, law enforcement agencies and initial sales to U.S. commercial distributors.

For the three months and six months ended June 30, 2002 and 2001, sales by product line were as follows:

| Sales by Product Line: | For the Three Months Ended | | For the Six Months Ended | |
|------------------------|----------------------------|--------------------|--------------------------|--------------------|
| | June 30, 2002 | June 30, 2001 | June 30, 2002 | June 30, 2001 |
| ADVANCED TASER | \$2,346,093 | \$1,151,166 | \$4,197,962 | \$2,022,542 |
| AIR TASER | 293,645 | 367,698 | 742,160 | 665,951 |
| Other | 49,844 | 18,710 | 116,335 | 55,412 |
| Total | \$2,689,582 | \$1,537,574 | \$5,056,457 | \$2,743,905 |

Cost of products sold. Cost of products sold increased by approximately \$525,000, or 79.8%, to \$1.2 million in the three months ended June 30, 2002 compared to \$658,000 in the three months ended June 30, 2001. This increase was primarily due to the manufacturing costs associated with the increased unit sales of the ADVANCED TASER product line, coupled with increased indirect expenses in the areas of warranty charges, scrapped raw materials, and indirect labor. Specifically, the Company incurred a total charge of approximately \$100,000 associated with in-line production scrap, warranty returns, and replacement products resulting from a combination of training issues and a defective electronic component provided by an external vendor during the three months ended June, 30, 2002. As a percentage of total revenues, cost of products sold increased by 1.2% to 44.0% for the three months ended June 30, 2002 as compared with 42.8% for the three months ended June 30, 2001. This increase was the result of the labor inefficiencies and scrap incurred during the quarter. Cost of products sold for the six month period increased \$967,000, or 77.1%, to \$2.2 million in 2002 compared to \$1.3 in 2001. This increase was also due to the increased sales of the ADVANCED TASER products. As a percentage of total revenues, cost of products sold decreased 1.8% to 43.9% in the more recent six month period from the 45.7% recorded at the same time last year. This improvement is primarily attributed to bringing manufacturing and assembly operations back in house in early 2001, providing a full six months of reduced processing costs for fiscal 2002.

Sales, general and administrative expenses. Sales, general and administrative expenses increased by \$794,000, or 133.1%, to \$1.4 million in the three months ended June 30, 2002 compared to \$596,000 in the three months ended June 30, 2001. As a percentage of total revenues, sales, general and administrative expenses increased to 51.7% for the three months ended June 30, 2002 from 38.8% for the three months ended June 30, 2001. For the six month period ended June 30, 2002, expenses increased \$1.4 million, or 135.1%, to \$2.5 million compared to expenses of \$1.0 million for the corresponding period in 2001. As a percentage of total revenues, sales, general and administrative expenses increased to 48.6% from the six months ended June 30, 2002 from 38.1% for the six months ended June 30, 2001.

The increase in sales, general and administrative expenses in 2002 versus 2001 was a result of larger than anticipated expenditures in the areas of legal, employee severance, bad debt and investor relations. In late May of 2002, the Company entered into a severance agreement with an executive employee. As a result, the Company expensed more than \$75,000 of additional salary and benefit costs during the quarter. The Company was also notified in June that a commercial distributor owing in excess of \$30,000 for product shipped in April had filed for bankruptcy protection. Although the Chapter 11 proceedings may provide for partial payment in the future, a bad debt write off for this account was expensed in June. The Company also incurred more than \$50,000 in legal fees associated with SEC filings during the second quarter of 2002.

Sales expenses were also higher than anticipated in the quarter ended June 30, 2002. Specifically, year to date sales salary expense increased by \$136,000 due to new positions added to support the growing customer base. Outside sales representative commissions also increased during the three and six months ended June 30, 2002. During the second quarter of 2002, sales commissions totaled \$279,000 compared with \$21,000 paid for the same period in 2001. Year to date sales commissions total \$343,000 compared with \$51,000 for the six months ended June 30, 2001. Trade show and marketing collateral expenses also increased by nearly \$124,000

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over the same period in 2001. The other large increase in selling expenses was for advertising and printed materials. As of June 30, 2002, the Company spent \$71,000 in developing materials for and marketing the ADVANCED TASER product line. For the same period in 2001, the total investment in this area was \$15,000.

Research and development expenses increased \$19,200 for the three months ended June 30, 2002 to \$32,500, as compared with \$13,300 for the same period in 2001; and increased \$60,500 to \$74,000 in the six months ended June 30, 2002 as compared with \$13,500 for the same period in 2001. The increased investment in research and development for both the three months and six months ended June 30, 2002 has been for improvements to existing TASER products, as well as test and prototype work on the Company's next generation TASER technology. As of June 30, 2002, the total investment in research and development was offset by \$46,000 of funded research and development related to research funds granted to the Company by the Office of Naval Research during the second quarter of 2002. The grant provides for a cost-plus-profit arrangement for research performed by the Company under a contract with the Office of Naval Research.

Interest Income. For the three and six months ended June 30, 2002, the company generated interest income of \$14,000 and \$33,000 respectively. This income was associated with the investment of the unused IPO funds. For the three and six months ended June 30, 2001, interest income was \$16,000 and \$19,000 respectively. The increase in interest income for the six months ended June 30, 2002 is a result of a full six months of interest, versus the 45 days of interest income earned immediately following the Company's initial public offering in May of 2001.

Interest expense. Interest expense decreased by \$85,000 to \$5,000 in the three months ended June 30, 2002 from \$90,000 in the three months ended June 30, 2001. For the six month period ended June 30, 2002, interest expense decreased \$167,000, to \$25,000, compared to \$192,000 for the corresponding period in 2001. This decrease was the result of eliminating both short and long term debt with the proceeds received from the Company's IPO. Additionally, the Company paid off its former revolving line of credit, totaling \$761,000 in April 2002 in order to obtain more favorable rates with a new bank. The retirement of the Company's line of credit resulted in a monthly interest expense reduction of approximately \$4,000.

Income tax. The provision for income taxes in both 2002 and 2001 have been computed at a 40% rate. As of June 30, 2002, the Company has provided for \$147,000 in tax expense as compared with \$103,000 for the corresponding period of 2001. This increase in the income tax provision payable was the result of the increased income before taxes in 2002.

Net Income. Net income decreased to \$81,000 in the three months ended June 30, 2002 compared to net income of \$117,000 in the three months ended June 30, 2001. For the six months ended June 30, 2002, net income increased to \$210,000 compared to net income of \$155,000 for the corresponding period in 2001. The decrease in the quarterly performance from 2001, was primarily the result of the items discussed above. Net income was lower than originally predicted for the quarter, and for the six months ending June 30, 2002. As a result in the reduction in earnings, and forecasted increases in lobbying and marketing costs throughout the remainder of the year, the Company has revised its earnings per share guidance for 2002, to a range of \$0.30 to \$0.32 per basic share. This target represents a reduction of approximately \$0.20 per share from earlier predictions to allow for greater investments in consumer marketing programs and lobbying expenses to promote approval of the Company's products for use on commercial aircraft.

Diluted net income per share for the three months ended June 30, 2002 was \$0.02 compared to \$0.05 in the comparable prior period due to there being 1.5 million fewer shares average outstanding. Diluted income per share for the six months ended June 30, 2002 was \$0.05 compared to \$0.08 for the corresponding period in 2001, when there were 1.8 million fewer average shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity: As of June 30, 2002, the Company had working capital of \$5.5 million compared to \$5.0 million at December 31, 2001. In January, of 2002, the Company paid off a note payable, totaling \$456,000, and in April 2002, paid in full its revolving line of credit with a local bank. This reduction in debt reduced the monthly interest expense, and assisted the Company in obtaining an increased line of credit with a new bank.

In the six months ended June 30, 2002, the Company used \$852,000 of cash in operations compared to \$1.2 million used in operations for the six months ended June 30, 2001. The decrease in cash used in operations was due primarily to a \$232,000 tax benefit from the exercise of stock options by the Company employees, offset by an increase in accounts receivable. This increase in accounts receivable was the result of the increase in days sales outstanding from approximately 30 days in 2001 to approximately 43 days as of

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June 30, 2002, resulting from lower prepaid international sales.

The Company also used \$29,000 of cash in investing activities during the six months ended June 30, 2002, compared to \$301,000 for the same period in 2001. These funds were used to purchase production and office equipment required to support expanded staffing and production capacity.

Capital Resources. As of June 30, 2002, the company has generated retained earnings of \$725,000, and had cash and cash equivalents of \$3.6 million at June 30, 2002.

The Company has obtained a new revolving line of credit from a domestic bank with a total availability of \$2.5 million. The line is secured by substantially all of the Company's assets, other than intellectual property, and bears interest at varying rates of interest, ranging from LIBOR plus 1.5% to prime plus 1%. The security for this loan is computed on a monthly borrowing base. The Company's intellectual property has been excluded from the bank pledges. The line of credit matures on May 31, 2003 and requires monthly payments of interest only. The Company had no borrowings under the line of credit at June 30, 2002.

On July 13, 2002, the Company filed an S-8 with the U.S. Securities and Exchange Commission, registering the remaining 609,011 employee stock options authorized under the Company's 1999 Stock Option Plan. On May 29, 2002, the Company's Board of Director's authorized the grant of 264,000 options under this plan for distribution to the Company's key employees. These options were granted at fair market value on the date of grant, or \$16.00 per share for employees holding less than 5% of the Company's outstanding shares, and \$17.20 for employees with beneficial ownership greater than 5% of the total shares outstanding. All of the shares vest over a 36 month period, beginning July 1, 2002. As of the date of this filing, no options from this grant were exercised.

The Company anticipates that cash generated from operations, available borrowings under its line of credit and the residual proceeds from its initial public offering in May of 2001 will be sufficient to provide for its working capital needs and to fund future growth.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In early April 2001, a patent licensee sued the Company in the United States District Court, Central District of California, in an action entitled McNulty vs. Taser (Case No. SACV 01-395 DOC-ANx). The lawsuit alleged that certain technology used in the firing mechanism for the Company's weapons infringed upon a patent for which McNulty holds a license, and sought injunctive relief and unspecified monetary damages.

Subsequent to the end of the period, in an order filed on July 29, 2002, the Court granted a motion for summary judgment filed by the Company seeking a ruling that no product manufactured by the Company infringed the claims of the patent licensed by McNulty. Upon entry of a Final Judgment, plaintiff McNulty will have a period of thirty days in which to file an appeal.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On May 11, 2001, the Company completed its initial public offering of 800,000 units, at an aggregate offering price of \$10.4 million. Each unit consisted 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.

During the first six months of 2002, the Company applied approximately \$1.5 million of net proceeds from its initial public offering toward the repayment of notes payable and working capital. Of this amount, \$1.2 million was used to retire debt, and the remaining \$283,000 was used to purchase raw material inventory. Previously, during 2001, the Company used approximately \$3.6 million to retire debt, purchase inventory, and fund investments in equipment, research and technology, and fund working capital. The remaining proceeds were invested in short term liquid reserve accounts with a domestic bank as of June 30, 2002.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual meeting of shareholders on May 1, 2002. Voting common shareholders took the following actions at the meeting:

- The shareholders elected the following nominees to the Company’s Board of Directors to serve until the next annual meeting of the shareholders or until their successors are elected and qualified:

| Name | Shares Voted for | Shares Withheld | Shares Abstaining | Broker Non-votes |
|---|------------------|-----------------|-------------------|------------------|
| Phillips W. Smith, Class A (two year term) | 2,725,221 | 0 | 2,445 | 0 |
| Bruce R. Culver Class A (two year term) | 2,725,221 | 0 | 2,445 | 0 |
| Patrick W. Smith Class B (three year term) | 2,725,221 | 0 | 2,445 | 0 |
| Karl F. Walter* Class B (three year term) | 2,725,221 | 0 | 2,445 | 0 |

* Mr. Walter subsequently resigned from the Board of Directors on May 24, 2002.

- The shareholders voted to ratify management’s selection of auditors for fiscal 2002 by the affirmative vote of 2,554,134 shares, with 158,160 shares voting against ratification and 15,372 shares abstaining. There were no broker non-votes with respect to this proposition.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.18 Bank Line of Credit

99.2 Chief Executive Officer Certification pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.3 Chief Financial Officer Certification pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

Current Reports on Form 8-K were filed during the three months ended June 30, 2002:

Form 8-K: Change in Registrant’s Certifying Accountant from Arthur Andersen, LLP to Deloitte & Touche, LLP, as filed on June 10, 2002

Form 8-K/A: Amendment to Change in Registrant’s Certifying Accountant, as filed on June 27, 2002

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TASER INTERNATIONAL, INC.
(Registrant)

Date: August 12, 2002

/s/ Patrick W. Smith

Patrick W. Smith,
Chief Executive Officer

Date: August 12, 2002

/s/ Kathleen C. Hanrahan

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

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Exhibit Index

- 10.18 Bank Line of Credit
- 99.2 Chief Executive Officer Certification pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.3 Chief Financial Officer Certification pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



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EXHIBIT 10.18

[BANK ONE LOGO]

CREDIT AGREEMENT

This agreement between Bank One, NA, with its main office in Chicago, IL, and its successors and assigns, (the "Bank"), whose address is 201 N. Central Ave, 21st Floor, AZ1-1178, Phoenix, AZ 85004, and TASER International, Inc. (the "Borrower"), whose address is 7860 East McClain Drive #2, Scottsdale, AZ 85260-1627.

1. CREDIT FACILITIES.

1.1 SCOPE. This agreement governs Facility A and Facility B, and, unless otherwise agreed to in writing by the Bank and the Borrower or prohibited by applicable law, governs the Credit Facilities.

1.2 FACILITY A (LINE OF CREDIT). The Bank has approved a credit facility to the Borrower in the principal sum not to exceed \$1,500,000.00 in the aggregate at any one time outstanding ("Facility A"). Credit under Facility A shall be repayable as set forth in a Line of Credit Note executed concurrently with this agreement, and any renewals, modifications or extensions thereof. The proceeds of Facility A shall be used for the following purpose: to provide working funds and commercial letters of credit.

LETTER OF CREDIT SUB-LIMIT. At any time the Borrower is entitled to an advance under Facility A, the Bank agrees to issue letters of credit for the account of the Borrower in an amount not in excess of the maximum advance that the Borrower would then be entitled to obtain under Facility A, provided that (a) the aggregate maximum available amount which is drawn and unreimbursed or may be drawn under all letters of credit which are outstanding at any time, including without limitation all letters of credit issued for the account of the Borrower which are outstanding on the date of the Line of Credit Note, shall not exceed \$1,000,000.00, (b) the issuance of any letter of credit with an expiration date beyond the maturity date of the Line of Credit Note shall be entirely at the discretion of the Bank, (c) any letter of credit shall be a commercial letter of credit and the form of the requested letter of credit shall be satisfactory to the Bank, in the Bank's sole discretion, and (d) the Borrower shall have executed an application and reimbursement agreement for any letter of credit in the Bank's standard form. While any letter of credit is outstanding, the maximum amount of advances that may be outstanding under the Line of Credit Note shall be automatically reduced by the maximum amount available to be drawn under any and all such letters of credit. The Borrower shall pay the Bank a fee for each commercial letter of credit that is issued, equal to the greater of \$100.00 or 1.00% of the original maximum available amount of such commercial letter of credit. No credit shall be given for fees paid due to early termination of any letter of credit. The Borrower shall also pay the Bank's standard transaction fees with respect to any transactions occurring on an account of any letter of credit. Each fee shall be payable when the related letter of credit is issued, and transaction fees shall be payable upon completion of the transaction as to which they are charged. All fees may be debited by the Bank to any deposit account of the Borrower carried with the Bank without further authority and, in any event, shall be paid by the Borrower within ten (10) days following billing.

1.3 FACILITY B (LINE OF CREDIT). The Bank has approved a credit facility to the Borrower in the principal sum not to exceed \$1,000,000.00 in the aggregate at any one time outstanding ("Facility B"). Credit under Facility B shall be repayable as set forth in a Line of Credit Note executed concurrently with this agreement, and any renewals, modifications or extensions thereof. The proceeds of Facility B shall be used for the following purpose: to provide working capital.

1.4 BORROWING BASE. The aggregate principal amount of advances outstanding at any one time under Facility A and B shall not exceed the lesser of the Borrowing Base or \$2,500,000.00. If at any time the aggregate principal amount of advances outstanding under Facility A and B plus the aggregate maximum amount drawn and unreimbursed or available to be drawn under all outstanding letters of credit issued by the Bank for the account of the Borrower under the letter of credit sub-limit exceeds the Borrowing Base, the Borrower shall immediately pay to the Bank an amount equal to the difference between such aggregate principal amount of advances and the Borrowing Base. "Borrowing Base" means the aggregate of:

- A. 75% of Eligible Accounts;
- B. 50% of Eligible Equipment; plus
- C. 50% of Eligible Inventory, not to exceed the aggregate of \$500,000.00.
- D. 100% of cash in deposit accounts at Bank, in which Bank has a first perfected security interest.

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E. 95% of money market funds held in investment accounts in which Bank has a first perfected security interest.

2. DEFINITIONS. As used in this agreement, the following terms have the following respective meanings:

- 2.1 "Credit Facilities" means all extensions of credit from the Bank to the Borrower, whether now existing or hereafter arising, including but not limited to those described in Section 1.
- 2.2 "Liabilities" means all obligations, indebtedness and liabilities of the Borrower to any one or more of the Bank, BANK ONE CORPORATION, and any of their subsidiaries, affiliates or successors, now existing or later arising, including, without limitation, all loans, advances, interest, costs, overdraft indebtedness, credit card indebtedness, lease obligations, or obligations relating to any Rate Management Transaction, all monetary obligations incurred or accrued during the pendency of any bankruptcy, insolvency, receivership or other similar proceedings, regardless of whether allowed or allowable in such proceeding, and all renewals, extensions, modifications, consolidations or substitutions of any of the foregoing, whether the Borrower may be liable jointly with others or individually liable as a debtor, maker, co-maker, drawer, endorser, guarantor, surety or otherwise, and whether voluntarily or involuntarily incurred, due or not due, absolute or contingent, direct or indirect, liquidated or unliquidated. The term "Rate Management Transaction" in this agreement means any transaction (including an agreement with respect thereto) now existing or hereafter entered into among the Borrower, the Bank or BANK ONE CORPORATION, or any of its subsidiaries or affiliates or their successors, which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.
- 2.3 "Notes" means the Line of Credit Note(s) described in Section 1, and all promissory notes, instruments and/or contracts evidencing the terms and conditions of the Liabilities.
- 2.4 "Account" means a trade account, account receivable, other receivable, or other right to payment for goods sold or leased or services rendered owing to the Borrower (or to a third party grantor acceptable to the Bank).
- 2.5 "Account Debtor" means the person or entity obligated upon an Account.
- 2.6 "Affiliate" means any person, corporation or other entity directly or indirectly controlling, controlled by or under common control with the Borrower and any director or officer of the Borrower or any subsidiary of the Borrower.
- 2.7 "Distributions" means all dividends and other distributions made by the Borrower to its shareholders, partners, owners or members, as the case may be, other than salary, bonuses, and other compensation for services expended in the current accounting period.
- 2.8 "Eligible Accounts" means, at any time, all of the Borrower's Accounts which contain selling terms and conditions acceptable to the Bank. The net amount of any Eligible Account against which the Borrower may borrow shall exclude all returns, discounts, credits, and offsets of any nature. Unless otherwise agreed to by the Bank in writing, Eligible Accounts do not include Accounts: (1) with respect to which the Account Debtor is an employee or agent of the Borrower; (2) with respect to which the Account Debtor is affiliated with or related to the Borrower; (3) with respect to which goods are placed on consignment, guaranteed sale, or other terms by reason of which the payment by the Account Debtor may be conditional; (4) with respect to which the Account Debtor is not a resident of the United States, except to the extent such Accounts are supported by insurance, bonds or other assurances satisfactory to the Bank; (5) with respect to which the Borrower is or may become liable to the Account Debtor for goods sold or services rendered by the Account Debtor to the Borrower; (6) which are subject to dispute, counterclaim, or setoff; (7) with respect to which the goods have not been shipped or delivered, or the services have not been rendered, to the Account Debtor; (8) with respect to which the Bank, in its sole discretion, deems the creditworthiness or financial condition of the Account Debtor to be unsatisfactory; (9) of any Account Debtor who has filed or has had filed against it a petition in bankruptcy or an application for relief under any provision of any state or federal bankruptcy, insolvency, or debtor-in-relief acts; or who has had appointed a trustee, custodian, or receiver for the assets of such Account Debtor; or who has made an assignment for the benefit of creditors or has become insolvent or fails generally to pay its debts (including its payrolls) as such debts become due; (10) with respect to which the Account Debtor is the United States government or any department or agency of the United States; (11) which have standard terms (i.e., are due and payable within thirty (30) days of the invoice date) and have not been paid in full

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within ninety (90) days from the invoice date; (12) which (i) are in an amount of less than \$100,000.00, (ii) have extended terms (i.e., are due and payable within more than thirty (30) days, but not more than one hundred twenty (120) days of the invoice date), and (iii) have not been paid within one hundred fifty (150) days of the invoice date; (13) which (i) are in an amount of \$100,000.00 or more, (ii) have extended terms, and (iii) have not been expressly approved by Bank, in its sole and absolute discretion as an Eligible Account; (14) due from any one Account Debtor to the extent such Account constitutes more than 15% of all Accounts, if the portion of such Account which has not been paid within ninety (90) days from the invoice date is in excess of 25% of the total amount outstanding on the Account; (15) which are subject to any lien or security interest other than the lien or security interest in favor of Bank; and (16) which are not denominated in U.S. Dollars.

2.9 "Eligible Equipment" means, at any time, all of the Borrower's Equipment, except Equipment: (1) which is not owned by the Borrower free and clear of all security interests, liens, encumbrances, and claims of third parties; (2) which the Bank, in its sole discretion, deems to be obsolete, unsalable, damaged, defective, or unfit for operation; (3) which consists of titled vehicles; and (4) which is fixtures, including any equipment or trade fixtures which may be attached or affixed to the realty upon which the equipment is situated.

2.10 "Eligible Inventory" means, at any time, all of the Borrower's Inventory except: (1) Inventory which is not owned by the Borrower free and clear of all security interests, liens, encumbrances, and claims of third parties; (2) Inventory which the Bank, in its sole discretion, deems to be obsolete, unsalable, damaged, defective, or unfit for further processing; and (3) Work in process.

2.11 "Equipment" means all of the Borrower's goods used or bought for use primarily in the Borrower's business and which are not included in Inventory, whether now or hereafter existing.

2.12 "Inventory" means all of the Borrower's raw materials, work in process, finished goods, merchandise, parts and supplies, of every kind and description, and goods held for sale or lease or furnished under contracts of service in which the Borrower now has or hereafter acquires any right, whether held by the Borrower or others, and all documents of title, warehouse receipts, bills of lading, and all other documents of every type covering all or any part of the foregoing. Inventory includes inventory temporarily out of the Borrower's custody or possession and all returns on Accounts.

2.13 "Intangible Assets" means the aggregate amount of all assets classified as intangible assets under generally accepted accounting principles, including, without limitation, goodwill, trademarks, patents, copyrights, organization expenses, franchises, licenses, trade names, brand names, mailing lists, catalogs, excess of cost over book value of assets acquired, and bond discount and underwriting expenses.

2.14 "Tangible Assets" means total assets excluding Intangible Assets, stockholder and affiliate receivables

2.15 "Tangible Net Worth" means total assets less the sum of Intangible Assets, and total liabilities.

3. CONDITIONS PRECEDENT.

3.1 CONDITIONS PRECEDENT TO INITIAL EXTENSION OF CREDIT. Before the first extension of credit governed by this agreement, whether by disbursement of a loan, issuance of a letter of credit, or otherwise, the Borrower shall deliver to the Bank, in form and substance satisfactory to the Bank:

A. LOAN DOCUMENTS. The Notes, and as applicable, the letter of credit applications, the security agreements, the pledge agreements, financing statements, mortgages or deeds of trust, the guaranties, the subordination agreements, and any other loan documents which the Bank may reasonably require to give effect to the transactions described in this agreement;

B. EVIDENCE OF DUE ORGANIZATION AND GOOD STANDING. Evidence, satisfactory to the Bank, of the due organization and good standing of the Borrower and every other business entity that is a party to this agreement or any other loan document required by this agreement; and

C. EVIDENCE OF AUTHORITY TO ENTER INTO LOAN DOCUMENTS. Evidence that (i) each party to this agreement and any other loan document required by this agreement is authorized to enter into the transactions described in this agreement and the other loan documents, and (ii) the person signing on behalf of each such party is authorized to do.

D. FEES. Payment of the following fees, all of which the Borrower acknowledges have been earned by the Bank: a commitment fee in the amount of \$5,000.00.

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3.2 CONDITIONS PRECEDENT TO EACH EXTENSION OF CREDIT. Before any extension of credit governed by this agreement, whether by disbursement of a loan, issuance of a letter of credit or otherwise, the following conditions must be satisfied:

A. REPRESENTATIONS. The representations of the Borrower are true on and as of the date of the extension of credit;

B. NO EVENT OF DEFAULT. No default has occurred in any provision of this agreement and is continuing or would result from the extension of credit, and no event has occurred which would constitute the occurrence of any default but for the lapse of time until the end of any grace or cure period; and

C. ADDITIONAL APPROVALS, OPINIONS, AND DOCUMENTS. The Bank has received any other approvals, opinions and documents as it may reasonably request.

4. AFFIRMATIVE COVENANTS. The Borrower shall:

4.1 INSURANCE. Maintain insurance with financially sound and reputable insurers covering its properties and business against those casualties and contingencies and in the types and amounts as are in accordance with sound business and industry practices.

4.2 EXISTENCE. Maintain its existence and business operations as presently in effect in accordance with all applicable laws and regulations, pay its debts and obligations when due under normal terms, and pay on or before their due date, all taxes, assessments, fees and other governmental monetary obligations, except as they may be contested in good faith if they have been properly reflected on its books and, at the Bank's request, adequate funds or security has been pledged to insure payment.

4.3 FINANCIAL RECORDS. Maintain proper books and records of account, in accordance with generally accepted accounting principles, and consistent with financial statements previously submitted to the Bank.

4.4 INSPECTION. Permit the Bank to inspect and copy the Borrower's business records at such times and at such intervals as the Bank may reasonably require, and to discuss the Borrower's business, operations, and financial condition with the Borrower's officers and accountants.

4.5 FINANCIAL REPORTS. Furnish to the Bank whatever information, books and records the Bank may reasonably request, including at a minimum:

A. Within forty-five (45) days after each quarterly period, a balance sheet as of the end of that period and statements of income, cash flow and retained earnings, from the beginning of that fiscal year to the end of that period, certified as correct by one of its authorized agents.

B. Within ninety (90) days after and as of the end of each of its fiscal years, a detailed financial statement including a balance sheet and statements of income, cash flow and retained earnings, such financial statement, to be audited by an independent certified public accountant of recognized standing acceptable to the Bank in the Bank's sole discretion.

C. Within forty-five (45) days after and as of the end of each calendar month, the following lists, each certified as correct by one of its authorized agents:

(1) a list of accounts receivable, aged from date of invoice, and

(2) a list of accounts payable, aged from date of receipt.

D. Within forty-five (45) days after each monthly period, the Borrower shall deliver to the Bank a borrowing base certificate, in the form of the attached Exhibit "A", along with such supporting documentation as the Bank may request.

4.6 NOTICES OF CLAIMS, LITIGATION, DEFAULTS, ETC. Promptly inform the Bank in writing of (1) all existing and all threatened litigation, claims, investigations, administrative proceedings and similar actions affecting the Borrower which could materially affect the financial condition of the Borrower; (2) the occurrence of any event which gives rise to the Bank's option to terminate the Credit Facilities; (3) the institution of steps by the Borrower to withdraw from, or the institution of any steps to terminate, any employee benefit plan as to which the Borrower may have liability; (4) any additions to or changes in the locations of the Borrower's businesses; and (5) any alleged breach of any provision of this agreement or of any other agreement related to the Credit Facilities by the Bank.

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- 4.7 ADDITIONAL INFORMATION. Furnish such additional information and statements, as the Bank may request, from time to time.
- 4.8 INSURANCE REPORTS. Furnish to the Bank, upon request of the Bank, reports on each existing insurance policy showing such information as the Bank may reasonably request.
- 4.9 OTHER AGREEMENTS. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between the Borrower and any other party.
- 4.10 TITLE TO ASSETS AND PROPERTY. Maintain good and marketable title to all of the Borrower's assets and properties.
- 4.11 ADDITIONAL ASSURANCES. Make, execute and deliver to the Bank such other agreements as the Bank may reasonably request to evidence the Credit Facilities and to perfect any security interests.
- 4.12 EMPLOYEE BENEFIT PLANS. Maintain each employee benefit plan as to which the Borrower may have any liability, in compliance with all applicable requirements of law and regulations.
- 4.13 COMPLIANCE CERTIFICATES. Provide the Bank, within forty-five (45) days after the end of each fiscal quarter, with a certificate executed by the Borrower's chief financial officer, or other officer or a person acceptable to the Bank, certifying that, as of the date of the certificate, no default exists under any provision of this agreement.
5. NEGATIVE COVENANTS.
- 5.1 Unless otherwise noted, the financial requirements set forth in this section will be computed in accordance with generally accepted accounting principles applied on a basis consistent with financial statements previously submitted by the Borrower to the Bank.
- 5.2 Without the written consent of the Bank, the Borrower will not:
- A. DIVIDENDS. Acquire or retire any of its shares of capital stock, or declare or pay dividends or make any other distributions upon any of its shares of capital stock in excess of the current year's net profit, except in the absence of the occurrence of any default.
- B. DEBT. Incur, or permit to remain outstanding, debt for borrowed money or installment obligations, except debt reflected in the latest financial statement of the Borrower furnished to the Bank prior to execution of this agreement and not to be paid with proceeds of borrowings under the Credit Facilities. For purposes of this covenant, the sale of any account receivable is the incurring of debt for borrowed money.
- C. GUARANTIES. Guarantee or otherwise become or remain secondarily liable on the undertaking of another, except for endorsement of drafts for deposit and collection in the ordinary course of business.
- D. LIENS. Create or permit to exist any lien on any of its property, real or personal, except: existing liens known to the Bank; liens to the Bank; liens incurred in the ordinary course of business securing current nondelinquent liabilities for taxes, worker's compensation, unemployment insurance, social security and pension liabilities.
- E. USE OF PROCEEDS. Use, or permit any proceeds of the Credit Facilities to be used, directly or indirectly, for the purpose of "purchasing or carrying any margin stock" within the meaning of Federal Reserve Board Regulation U. At the Bank's request, the Borrower will furnish a completed Federal Reserve Board Form U-1.
- F. CONTINUITY OF OPERATIONS. (1) Engage in any business activities substantially different from those in which the Borrower is presently engaged; (2) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change its name, dissolve, or sell any assets out of the ordinary course of business; or (3) enter into any arrangement with any person providing for the leasing by the Borrower to any subsidiary of real or personal property which has been sold or transferred by the Borrower or subsidiary to such person.
- G. LIMITATION ON NEGATIVE PLEDGE CLAUSES. Enter into any agreement with any person other than the Bank which prohibits or limits the ability of the Borrower or any of its subsidiaries to create or permit to exist any lien on any of its property, assets or revenues, whether now owned or hereafter acquired.

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H. CONFLICTING AGREEMENTS. Enter into any agreement containing any provision which would be violated or breached by the performance of the Borrower's obligations under this agreement.

I. FIXED CHARGE COVERAGE RATIO. Permit as of each fiscal quarter end, its ratio of net income before taxes, plus interest expense, amortization and depreciation, rent and operating lease payments minus any Distributions, for the rolling 4 quarters period then ending to interest expense, taxes, rent and operating lease payments, prior period current maturities of long, term debt and capital leases, to be less than 1.25 to 1.00.

J. TANGIBLE NET WORTH RATIO. Permit as of each fiscal quarter end, its ratio of Tangible Net Worth to Tangible Assets to be less than 0.35 to 1.00.

6. REPRESENTATIONS.

6.1 REPRESENTATIONS BY THE BORROWER. Each Borrower represents that: (a) the execution and delivery of this agreement and the Notes, and the performance of the obligations they impose, do not violate any law, conflict with any agreement by which it is bound, or require the consent or approval of any governmental authority or other third party, (b) this agreement and the Notes are valid and binding agreements, enforceable according to their terms, (c) all balance sheets, profit and loss statements, and other financial statements and other information furnished to the Bank in connection with the Liabilities are accurate and fairly reflect the financial condition of the organizations and persons to which they apply on their effective dates, including contingent liabilities of every type, which financial condition has not changed materially and adversely since those dates, (d) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against the Borrower is pending or threatened, and no other event has occurred which may in any one case or in the aggregate materially adversely affect the Borrower's financial condition and properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by the Bank in writing, (e) all of the Borrower's tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being contested by the Borrower in good faith and for which adequate reserves have been provided, (f) the Borrower is not a "holding company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended, (g) the Borrower is not a "holding company", or a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, (h) there are no defenses or counterclaims, offsets or adverse claims, demands or actions of any kind, personal or otherwise, that the Borrower could assert with respect to this agreement or the Credit Facilities, (i) the Borrower owns, or is licensed to use, all trademarks, trade names, copyrights, technology, know-how and processes necessary for the conduct of its business as currently conducted, and (j) no part of the proceeds of the Credit Facilities will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System of the United States (the "Board") as now and from time to time hereafter in effect or for any purpose which violates the provisions of any regulations of the Board. Each Borrower, other than a natural person, further represents that: (a) it is duly organized, existing and in good standing pursuant to the laws under which it is organized, and (b) the execution and delivery of this agreement and the Notes and the performance of the obligations they impose (i) are within its powers, (ii) have been duly authorized by all necessary action of its governing body, and (iii) do not contravene the terms of its articles of incorporation or organization, its by-laws, or any partnership, operating or other agreement governing its affairs.

6.2 REPRESENTATIONS REGARDING ASSETS. With respect to any asset of the Borrower utilized in the calculation of the Borrowing Base set forth in this agreement, the Borrower represents and warrants to the Bank: (1) each asset represented by the Borrower to be eligible for Borrowing Base purposes of this agreement conforms to the eligibility definitions set forth in this agreement (2) all asset values delivered to the Bank will be true and correct, subject to immaterial variance; and be determined on a consistent accounting basis; (3) except as agreed to the contrary by the Bank in writing, each asset is now and at all times hereafter will be in the Borrower's physical possession and shall not be held by others on consignment, sale or approval, or sale or return; (4) except as reflected in schedules delivered to the Bank, each asset is now and at all times hereafter will be of good and merchantable quality, free from defects; (5) each asset is not now and will not at any time hereafter be stored with a bailee, warehouseman, or similar party without the Bank's prior written consent, and in such event, the Borrower will concurrently at the time of bailment cause any such bailee, warehouseman, or similar party to issue and deliver to the Bank, warehouseman receipts in the Bank's name evidencing the storage of the assets; and (6) the Bank, its assigns, or agents shall have the right at any time and at the Borrower's expense to inspect, examine and audit the Borrower's records, and if Accounts are included in the calculation of Borrowing Base, confirm with Account Debtors the accuracy of such Accounts, and inspect and examine the assets and to check and test the same as to quality, quantity, value, and condition.

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7. DEFAULT/REMEDIES. If any of the Credit Facilities are not paid at maturity, whether by acceleration or otherwise, or if a default by anyone occurs under the terms of this agreement, the Notes or any agreement related to the Credit Facilities, then the Bank shall have all of the rights and remedies provided by any law or agreement.
8. MISCELLANEOUS.
- 8.1 NOTICE. Any notices and demands under or related to this document shall be in writing and delivered to the intended party at its address stated herein, and if to the Bank, at its main office if no other address of the Bank is specified herein, by one of the following means: (a) by hand, (b) by a nationally recognized overnight courier service, or (c) by certified mail, postage prepaid, with return receipt requested. Notice shall be deemed given: (a) upon receipt if delivered by hand, (b) on the Delivery Day after the day of deposit with a nationally recognized courier service, or (c) on the third Delivery Day after the notice is deposited in the mail. "Delivery Day" means a day other than a Saturday, a Sunday or any other day on which national banking associations are authorized to be closed. Any party may change its address for purposes of the receipt of notices and demands by giving notice of such change in the manner provided in this provision.
- 8.2 No WAIVER. No delay on the part of the Bank in the exercise of any right or remedy waives that right or remedy. No single or partial exercise by the Bank of any right or remedy precludes any other future exercise of it or the exercise of any other right or remedy. No waiver or indulgence by the Bank of any default is effective unless it is in writing and signed by the Bank, nor shall a waiver on one occasion bar or waive that right on any future occasion.
- 8.3 INTEGRATION. This agreement, the Notes, and any agreement related to the Credit Facilities embody the entire agreement and understanding between the Borrower and the Bank and supersede all prior agreements and understandings relating to their subject matter. If any one or more of the obligations of the Borrower under this agreement or the Notes is invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining obligations of the Borrower shall not in any way be affected or impaired, and the invalidity, illegality or unenforceability in one jurisdiction shall not affect the validity, legality or enforceability of the obligations of the Borrower under this agreement or the Notes in any other jurisdiction.
- 8.4 JOINT AND SEVERAL LIABILITY. Each Borrower, if more than one, is jointly and severally liable.
- 8.5 GOVERNING LAW AND VENUE. This agreement is delivered in the State of Arizona and governed by Arizona law (without giving effect to its laws of conflicts). The Borrower agrees that any legal action or proceeding with respect to any of its obligations under this agreement may be brought by the Bank in any state or federal court located in the State of Arizona, as the Bank in its sole discretion may elect. By the execution and delivery of this agreement, the Borrower submits to and accepts, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of those courts. The Borrower waives any claim that the State of Arizona is not a convenient forum or the proper venue for any such suit, action or proceeding.
- 8.6 CAPTIONS. Section headings are for convenience of reference only and do not affect the interpretation of this agreement.
- 8.7 SUBSIDIARIES AND AFFILIATES OF THE BORROWER. To the extent the context of any provisions of this agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used in this agreement shall include all of the Borrower's subsidiaries and affiliates. Notwithstanding the foregoing, however, under no circumstances shall this agreement be construed to require the Bank to make any loan or other financial accommodation to any of the Borrower's subsidiaries or affiliates.
- 8.8 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. The Borrower understands and agrees that in extending the Credit Facilities, the Bank is relying on all representations, warranties, and covenants made by the Borrower in this agreement or in any certificate or other instrument delivered by the Borrower to the Bank under this agreement. The Borrower further agrees that regardless of any investigation made by the Bank, all such representations, warranties and covenants will survive the making of the Credit Facilities and delivery to the Bank of this agreement, shall be continuing in nature, and shall remain in full force and effect until such time as the Borrower's indebtedness to the Bank shall be paid in full.
- 8.9 NON-LIABILITY OF THE BANK. The relationship between the Borrower and the Bank created by this agreement is strictly a debtor and creditor relationship and not fiduciary in nature, nor is the relationship to be construed as creating any partnership or joint venture between the Bank and the Borrower. The Borrower is exercising the Borrower's own judgement with respect to the Borrower's business. All information supplied to the Bank is for the Bank's protection only and no other party is entitled to rely on such information. There is no duty for Bank to review, inspect, supervise or inform the Borrower of any matter with respect to the Borrower's business. The Bank and the Borrower intend that the

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Bank may reasonably rely on all information supplied by the Borrower to the Bank, together with all representations and warranties given by the Borrower to the Bank, without investigation or confirmation by the Bank and that any investigation or failure to investigate will not diminish the Bank's right to so rely.

- 8.10 INDEMNIFICATION OF THE BANK. The Borrower agrees to indemnify, defend and hold the Bank and BANK ONE CORPORATION, or any of its subsidiaries or affiliates or their successors, and each of their respective shareholders, directors, officers, employees and agents (collectively, the "Indemnified Persons") harmless from any and all obligations, claims, liabilities, losses, damages, penalties, fines, forfeitures, actions, judgments, suits, costs, expenses and disbursements of any kind or nature (including, without limitation, any Indemnified Person's attorneys' fees) (collectively, the "Claims") which may be imposed upon, incurred by or assessed against any Indemnified Person (whether or not caused by any Indemnified Person's sole, concurrent, or contributory negligence) arising out of or relating to this agreement; the exercise of the rights and remedies granted under this agreement (including, without limitation, the enforcement of this agreement and the defense of any Indemnified Person's action or inaction in connection with this agreement); and in connection with the Borrower's failure to perform all of the Borrower's obligations under this agreement, except to the limited extent that the Claims against any such Indemnified Person are proximately caused by such Indemnified Person's willful misconduct. The indemnification provided for in this section shall survive the termination of this agreement and shall extend to and continue to benefit each individual or entity who is or has at any time been an Indemnified Person.

The Borrower's indemnity obligations under this section shall not in any way be affected by the presence or absence of covering insurance, or by the amount of such insurance or by the failure or refusal of any insurance carrier to perform any obligation on its part under any insurance policy or policies affecting the Borrower's assets or the Borrower's business activities. Should any Claim be made or brought against any Indemnified Person by reason of any event as to which the Borrower's indemnification obligations apply, then, upon any Indemnified Person's demand, the Borrower, at its sole cost and expense, shall defend such Claim in the Borrower's name, if necessary, by the attorneys for the Borrower's insurance carrier (if such Claim is covered by insurance), or otherwise by such attorneys as any Indemnified Person shall approve. Any Indemnified Person may also engage its own attorneys at its reasonable discretion to defend the Borrower and to assist in its defense and the Borrower agrees to pay the fees and disbursements of such attorneys.

- 8.11 COUNTERPARTS. This agreement may be executed in multiple counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts, taken together, shall constitute one and the same agreement.
- 8.12 SOLE DISCRETION OF THE BANK. Whenever the Bank's consent or approval is required under this agreement, the decision as to whether or not to consent or approve shall be in the sole and exclusive discretion of the Bank and the Bank's decision shall be final and conclusive.
- 8.13 ADVICE OF COUNSEL. The Borrower acknowledges that it has been advised by counsel, or had the opportunity to be advised by counsel, in the negotiation, execution and delivery of this agreement and any documents executed and delivered in connection with the Credit Facilities.
- 8.14 RECOVERY OF ADDITIONAL COSTS. If the imposition of or any change in any law, rule, regulation, or guideline, or the interpretation or application of any thereof by any court or administrative or governmental authority (including any request or policy not having the force of law) shall impose, modify, or make applicable any taxes (except federal, state, or local income or franchise taxes imposed on the Bank), reserve requirements, capital adequacy requirements, or other obligations which would (A) increase the cost to the Bank for extending or maintaining the Credit Facilities, (B) reduce the amounts payable to the Bank under the Credit Facilities, or (C) reduce the rate of return on the Bank's capital as a consequence of the Bank's obligations with respect to the Credit Facilities, then the Borrower agrees to pay the Bank such additional amounts as will compensate the Bank therefor, within five (5) days after the Bank's written demand for such payment. The Bank's demand shall be accompanied by an explanation of such imposition or charge and a calculation in reasonable detail of the additional amounts payable by the Borrower, which explanation and calculations shall be conclusive in the absence of manifest error.
- 8.15 CONFLICTING TERMS. If this agreement is inconsistent with any provision in any agreement related to the Credit Facilities, the Bank shall determine, in the Bank's sole and absolute discretion, which of the provisions shall control any such inconsistency.

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- 8.16 EXPENSES. The Borrower agrees to pay or reimburse the Bank for all its out-of-pocket costs and expenses and reasonable attorneys' fees (including the fees of in-house counsel) incurred in connection with the development, preparation and execution of, and in connection with the enforcement or preservation of any rights under, this agreement, any amendment, supplement, or modification thereto, and any other documents prepared in connection herewith or therewith. These costs and expenses include without limitation any costs or expenses incurred by the Bank in any bankruptcy, reorganization, insolvency or other similar proceeding.
9. WAIVER OF SPECIAL DAMAGES. THE BORROWER WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT THE UNDERSIGNED MAY HAVE TO CLAIM OR RECOVER FROM THE BANK IN ANY LEGAL ACTION OR PROCEEDING ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.
10. JURY WAIVER. THE BORROWER AND THE BANK HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN THE BORROWER AND THE BANK ARISING OUT OF OR IN ANY WAY RELATED TO THIS DOCUMENT. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE BANK TO PROVIDE THE FINANCING DESCRIBED HEREIN.

Dated: May 15,2002

ADDRESS (ES) FOR NOTICES:
7860 East McClain Drive #2
Scottsdale, AZ 85260-1627

Attn: Kathy Hanrahan, CFO

BORROWER:
TASER International, Inc.

By: /s/ Thomas P. Smith

Thomas P. Smith President

Printed Name Title

Date: 6-6-02

ADDRESS FOR NOTICES:

201 N. Central Ave, 21st Floor, AZ1-1178
Phoenix, AZ 85004

Attn: Steven J. Krakoski

BANK:

Bank One, NA, with its main
office in Chicago, IL

By: /s/ Christine D. Peterson

Christine D. Peterson AVP

Printed Name Title

Date: 6-6-02

Christy MurphyAZ13044

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[BANK ONE LOGO]

LINE OF CREDIT NOTE

DUE: MAY 31,2003 \$1,500,000.00
DATE: MAY 31,2002

PROMISE TO PAY. On or before May 31,2003, for value received, TASER International, Inc. (the "Borrower") promises to pay to Bank One, NA, with its main office in Chicago, IL, whose address is 201 N. Central Ave, 21st Floor, AZ1-1178, Phoenix, AZ 85004 (the "Bank") or order, in lawful money of the United States of America, the sum of One Million Five Hundred Thousand and 00/100 Dollars (\$1,500,000.00) or such lesser sum as is indicated on Bank records, plus interest as-provided below.

DEFINITIONS. As used in this Note, the following terms have the following respective meanings:

"ADVANCE" means a Eurodollar Advance or a Prime Rate Advance and "ADVANCES" means all Eurodollar Advances and all Prime Rate Advances under this Note.

"APPLICABLE MARGIN" means with respect to any Prime Rate Advance, 0.00% per annum and with respect to any Eurodollar Advance, 3.00% per annum.

"BUSINESS DAY" means (i) with respect to any borrowing, payment or rate selection of Eurodollar Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Arizona and/or New York for the conduct of substantially all of their commercial lending activities and on which dealings in United States dollars are carried on in the London interbank market and (ii) for all other purposes, a day other than a Saturday, Sunday or any other day on which national banking associations are authorized to be closed.

"EURODOLLAR BASE RATE" means, with respect to the relevant Interest Period, the applicable British Bankers' Association LIBOR rate for deposits in U.S. dollars as reported by any generally recognized financial information service as of 11:00 a.m. (London time) two Eurodollar Days prior to the first day of such Interest Period, and having a maturity equal to such Interest Period, provided that, if no such British Bankers' Association LIBOR rate is available to the Bank, the applicable Eurodollar Base Rate for the relevant Interest Period shall instead be the rate determined by the Bank to be the rate at which BANK ONE CORPORATION or one of its affiliate banks offers to place deposits in U.S. dollars with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Eurodollar Days prior to the first day of such Interest Period, in the approximate amount of the principal amount outstanding on such date and having a maturity equal to such Interest Period.

"EURODOLLAR ADVANCE" means any borrowing under this Note when and to the extent that its interest rate is determined by reference to the Eurodollar Rate.

"EURODOLLAR RATE" means, with respect to a Eurodollar Advance for the relevant Interest Period, the sum of (i) the Applicable Margin plus (ii) the quotient of (a) the Eurodollar Base Rate applicable to such Interest Period, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period.

"INTEREST PERIOD" means, with respect to a Eurodollar Advance, a period of one (1), two (2), three (3) or six (6) month(s) commencing on a Business Day selected by the Borrower pursuant to this Note. Such Interest Period shall end on the day which corresponds numerically to such date one (1), two (2), three (3) or six (6) month(s) thereafter, as applicable, provided, however, that if there is no such numerically corresponding day in such first, second, third or sixth succeeding month(s), as applicable, such Interest Period shall end on the last Business Day of such first, second, third or sixth succeeding month(s), as applicable. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, provided, however, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"PRIME RATE" means a rate per annum equal to the prime rate of interest announced from time to time by the Bank or its parent (which is not necessarily the lowest rate charged to any customer), changing when and as said prime rate changes.

"PRIME RATE ADVANCE" means any Advance under this Note when and to the extent that its interest rate is determined by reference to the Prime Rate.

"PRINCIPAL PAYMENT DATE" is defined in the paragraph entitled "Principal Payments" below.

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"REGULATION D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

"RESERVE REQUIREMENT" means, with respect to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D.

INTEREST RATES. The Advance(s) evidenced by this Note may be drawn down and remain outstanding as up to five (5) Eurodollar Advances and/or a Prime Rate Advance. The Borrower shall pay interest to the Bank on the outstanding and unpaid principal amount of each Prime Rate Advance at the Prime Rate plus the Applicable Margin and each Eurodollar Advance at the Eurodollar Rate. Interest shall be calculated on the basis of the actual number of days elapsed in a year of 360 days. In no event shall the interest rate applicable to any Advance exceed the maximum rate allowed by law. Any interest payment which would for any reason be deemed unlawful under applicable law shall be applied to principal.

Borrower hereby agrees to pay an effective rate of interest that is the sum of the interest rate provided for in this Note together with any additional rate of interest resulting from any other charges of interest or in the nature paid or to be paid in connection with this Note or the Related Documents.

BANK RECORDS. The Bank shall, in the ordinary course of business, make notations in its records of the date, amount, interest rate and Interest Period of each Advance hereunder, the amount of each payment on the Advances, and other information. Such records shall, in the absence of manifest error, be conclusive as to the outstanding principal balance of and interest rate or rates applicable to this Note.

NOTICE AND MANNER OF ELECTING INTEREST RATES ON ADVANCES. The Borrower shall give the Bank written notice (effective upon receipt) of the Borrower's intent to draw down an Advance under this Note no later than 11:00 a.m. Mountain time, one (1) Business Day before disbursement, if the full amount of the drawn Advance is to be disbursed as a Prime Rate Advance and three (3) Business Days before disbursement, if any part of such Advance is to be disbursed as a Eurodollar Advance. The Borrower's notice must specify: (a) the disbursement date, (b) the amount of each Advance, (c) the type of each Advance (Prime Rate Advance or Eurodollar Advance), and (d) for each Eurodollar Advance, the duration of the applicable Interest Period. Each Eurodollar Advance shall be in a minimum amount of Five Hundred Thousand and 00/100 Dollars (\$500,000.00), with multiples of One Hundred Thousand and 00/100 Dollars (\$100,000.00). All notices under this paragraph are irrevocable. By the Bank's close of business on the disbursement date and upon fulfillment of the conditions set forth herein and in any other of the Related Documents, the Bank shall disburse the requested Advances in immediately available funds by crediting the amount of such Advances to the Borrower's account with the Bank.

CONVERSION AND RENEWALS. The Borrower may elect from time to time to convert one type of Advance into another or to renew any Advance by giving the Bank written notice no later than 11:00 a.m. Mountain time, one (1) Business Day before conversion into a Prime Rate Advance and three (3) Business Days before conversion into or renewal of a Eurodollar Advance, specifying: (a) the renewal or conversion date, (b) the amount of the Advance to be converted or renewed, (c) in the case of conversion, the type of Advance to be converted into (Prime Rate Advance or Eurodollar Advance), and (d) in the case of renewals of or conversion into a Eurodollar Advance, the applicable Interest Period, provided that (i) the minimum principal amount of each Eurodollar Advance outstanding after a renewal or conversion shall be Five Hundred Thousand and 00/100 Dollars (\$500,000.00), with multiples of One Hundred Thousand and 00/100 Dollars (\$100,000.00) and (ii) a Eurodollar Advance can only be converted on the last day of the Interest Period for the Advance. All notices given under this paragraph are irrevocable. If the Borrower fails to give the Bank the notice specified above for the renewal or conversion of a Eurodollar Advance by 11:00 a.m. Mountain time three (3) Business Days before the end of the Interest Period for that Advance, the Advance shall automatically be converted to a Prime Rate Advance on the last day of the Interest Period for the Advance.

INTEREST PAYMENTS. Interest on the Advances shall be paid as follows:

A. For each Prime Rate Advance, on the last day of each month beginning with the first month following disbursement of the Advance or following conversion of an Advance into a Prime Rate Advance, and at the maturity or conversion of the Advance into a Eurodollar Advance;

B. For each Eurodollar Advance, on the last day of the Interest Period for the Advance and, if the Interest Period is longer than three months, at three-month intervals beginning with the day three months from the date the Advance is disbursed.

PRINCIPAL PAYMENTS. All outstanding principal and interest is due and payable in full on May 31, 2003, which is defined herein as the "Principal Payment Date". The Borrower shall select interest rates and Interest Periods such that on each Principal Payment Date the sum of the principal amount of the Prime Rate Advance outstanding on that date plus the aggregate principal amount of the Eurodollar Advances with Interest Periods ending on that date is greater than or equal to the principal payment due on that date. Any election which does not comply with this requirement will be invalid and the Bank may, but will not be required to, honor such election.

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OVERDUE AMOUNTS. Any principal amount not paid when due (at maturity, by acceleration, or otherwise) shall bear interest thereafter until paid in full, payable on demand, at a per annum rate equal to the Prime Rate plus the Applicable Margin plus three percent (3.00%).

PREPAYMENT. The Borrower may prepay all or any part of any Prime Rate Advance at any time without premium or penalty. The Borrower may prepay any Eurodollar Advance only at the end of an Interest Period.

FUNDING LOSS INDEMNIFICATION. Upon the Banks request, the Borrower shall pay the Bank amounts sufficient (in the Bank's reasonable opinion) to compensate it for any loss, cost, or expense incurred as a result of:

A. Any payment of a Eurodollar Advance on a date other than the last day of the Interest Period for the Advance, including, without limitation, acceleration of the Advances by the Bank pursuant to this Note or the Related Documents; or

B. Any failure by the Borrower to borrow or renew a Eurodollar Advance on the date specified in the relevant notice from the Borrower to the Bank.

ADDITIONAL COSTS. If any applicable domestic or foreign law, treaty, government rule or regulation now or later in effect (whether or not it now applies to the Bank) or the interpretation or administration thereof by a governmental authority charged with such interpretation or administration, or compliance by the Bank with any guideline, request or directive of such an authority (whether or not having the force of law), shall (a) affect the basis of taxation of payments to the Bank of any amounts payable by the Borrower under this Note or the Related Documents (other than taxes imposed on the overall net income of the Bank by the jurisdiction or by any political subdivision or taxing authority of the jurisdiction in which the Bank has its principal office), or (b) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by the Bank, or (c) impose any other condition with respect to this Note or the Related Documents and the result of any of the foregoing is to increase the cost to the Bank of maintaining any Eurodollar Advance or to reduce the amount of any sum receivable by the Bank on such an Advance, or (d) affect the amount of capital required or expected to be maintained by the Bank (or any corporation controlling the Bank) and the Bank determines that the amount of such capital is increased by or based upon the existence of the Bank's obligations under this Note or the Related Documents and the increase has the effect of reducing the rate of return on the Bank's (or its controlling corporation's) capital as a consequence of the obligations under this Note or the Related Documents to a level below that which the Bank (or its controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy) by an amount deemed by the Bank to be material, then the Borrower shall pay to the Bank, from time to time, upon request by the Bank, additional amounts sufficient to compensate the Bank for the increased cost or reduced sum receivable. Whenever the Bank shall learn of circumstances described in this section which are likely to result in additional costs to the Borrower, the Bank shall give prompt written notice to the Borrower of the basis for and the estimated amount of any such anticipated additional costs. A statement as to the amount of the increased cost or reduced sum receivable, prepared in good faith and in reasonable detail by the Bank and submitted by the Bank to the Borrower, shall be conclusive and binding for all purposes absent manifest error in computation.

ILLEGALITY. If any applicable domestic or foreign law, treaty, rule or regulation now or later in effect (whether or not it now applies to the Bank) or the interpretation or administration thereof by a governmental authority charged with such interpretation or administration, or compliance by the Bank with any guideline, request or directive of such an authority (whether or not having the force of law), shall make it unlawful or impossible for the Bank to maintain or fund the Eurodollar Advances, then, upon notice to the Borrower by the Bank, the outstanding principal amount of the Eurodollar Advances, together with accrued interest and any other amounts payable to the Bank under this Note or the Related Documents on account of the Eurodollar Advances shall be repaid (a) immediately upon the Bank's demand if such change or compliance with such requests, in the Bank's judgment, requires immediate repayment, or (b) at the expiration of the last Interest Period to expire before the effective date of any such change or request provided, however, that subject to the terms and conditions of this Note and the Related Documents the Borrower shall be entitled to simultaneously replace the entire outstanding balance of any Eurodollar Advance repaid in accordance with this section with a Prime Rate Advance in the same amount.

INABILITY TO DETERMINE INTEREST RATE. If the Bank determines that (a) quotations of interest rates for the relevant deposits referred to in the definition of Eurodollar Rate are not being provided in the relevant amounts or for the relevant maturities for purposes of determining the interest rate on a Eurodollar Advance as provided in this Note, or (b) the relevant interest rates referred to in the definition of Eurodollar Rate do not accurately cover the cost to the Bank of making or maintaining Eurodollar Advances, then the Bank shall forthwith give notice of such circumstances to the Borrower, whereupon (i) the obligation of the Bank to make Eurodollar Advances shall be suspended until the Bank notifies the Borrower that the circumstances giving rise to the suspension no longer exists, and (ii) the Borrower shall repay in full the then outstanding principal amount of each Eurodollar Advance, together with accrued interest, on the last day of the then current Interest Period applicable to the Advance, provided, however, that, subject to the terms and conditions of this Note and the Related Documents, the Borrower shall be entitled to simultaneously replace the entire outstanding balance of any Eurodollar Advance repaid in accordance with this section with a Prime Rate Advance in the same amount.

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OBLIGATIONS DUE ON NON-BUSINESS DAY. Whenever any payment under this Note becomes due and payable on a day that is not a Business Day, if no default then exists under this Note, the maturity of the payment shall be extended to the next succeeding Business Day, except, in the case of a Eurodollar Advance, if the result of the extension would be to extend the payment into another calendar month, the payment must be made on the immediately preceding Business Day.

MATTERS REGARDING PAYMENT. The Borrower will pay the Bank at the Bank's address shown above or at such other place as the Bank may designate. Payments shall be allocated among principal, interest and fees at the discretion of the Bank unless otherwise agreed or required by applicable law. Acceptance by the Bank of any payment which is less than the payment due at the time shall not constitute a waiver of the Bank's right to receive payment in full at that time or any other time.

LATE FEE. If any payment is not received by the Bank within ten (10) days after its due date, the Bank may assess and the Borrower agrees to pay a late fee equal to the greater of: (a) five percent (5.00%) of the past due amount or (b) Twenty Five and 00/100 Dollars (\$25.00), up to the maximum amount of One Thousand Five Hundred and 00/100 Dollars (\$1,500.00) per late charge.

BUSINESS LOAN. The Borrower acknowledges and agrees that this Note evidences a loan for a business, commercial, agricultural or similar commercial enterprise purpose, and that all advances made under this Note shall not be used for any personal, family or household purpose.

CREDIT FACILITY. The Bank has approved a credit facility to the Borrower in a principal amount not to exceed the face amount of this Note. The credit facility is in the form of advances made from time to time by the Bank to the Borrower. This Note evidences the Borrower's obligation to repay those advances. The aggregate principal amount of debt evidenced by this Note is the amount reflected from time to time in the records of the Bank. Until the earliest of maturity, the occurrence of any default, or the occurrence of any event that would constitute the occurrence of any default but for the lapse of time until the end of any grace or cure period, the Borrower may borrow, pay down and reborrow under this Note.

LIABILITIES. The term "Liabilities" in this Note means all obligations, indebtedness and liabilities of the Borrower to any one or more of the Bank, BANK ONE CORPORATION, and any of their subsidiaries, affiliates or successors, now existing or later arising, including, without limitation, all loans, advances, interest, costs, overdraft indebtedness, credit card indebtedness, lease obligations, or obligations relating to any Rate Management Transaction, all monetary obligations incurred or accrued during the pendency of any bankruptcy, insolvency, receivership or other similar proceedings, regardless of whether allowed or allowable in such proceeding, and all renewals, extensions, modifications, consolidations or substitutions of any of the foregoing, whether the Borrower may be liable jointly with others or individually liable as a debtor, maker, co-maker, drawer, endorser, guarantor, surety or otherwise, and whether voluntarily or involuntarily incurred, due or not due, absolute or contingent, direct or indirect, liquidated or unliquidated. The term "Rate Management Transaction" in this Note means any transaction (including an agreement with respect thereto) now existing or hereafter entered into among the Borrower, the Bank or BANK ONE CORPORATION, or any of its subsidiaries or affiliates or their successors, which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

RELATED DOCUMENTS. The term "Related Documents" in this Note means all loan agreements, credit agreements, reimbursement agreements, security agreements, mortgages, deeds of trust, pledge agreements, assignments, guaranties, or any other instrument or document executed in connection with this Note or in connection with any of the Liabilities.

SECURITY. The term "Collateral" in this Note means all real or personal property described in all security agreements, pledge agreements, mortgages, deeds of trust, assignments, or other instruments now or hereafter executed in connection with this Note or in connection with any of the Liabilities. If applicable, the Collateral secures the payment of this Note and the Liabilities.

BANK'S RIGHT OF SETOFF. In addition to the Collateral, if any, the Borrower grants to the Bank a security interest in, and the Bank is authorized to setoff and apply, all Accounts, Securities and Other Property, and Bank Debt against any and all Liabilities of the Borrower. This right of setoff may be exercised at any time and from time to time, and without prior notice to the Borrower. This security interest and right of setoff may be enforced or exercised by the Bank regardless of whether or not the Bank has made any demand under this paragraph or whether the Liabilities are contingent, matured, or unmatured. Any delay, neglect or conduct by the Bank in exercising its rights under this paragraph will not be a waiver of the right to exercise this right of setoff or enforce this security interest. The rights of the Bank under this paragraph are in addition to other rights the Bank may have in the Related Documents or by law. In this paragraph: (a) the term "Accounts" means any and all accounts and deposits of the Borrower (whether general, special, time, demand, provisional or final) at any time held by the Bank (including all Accounts held jointly with another, but excluding any IRA or Keogh Account, or any trust Account in which a security interest would be prohibited by law); (b) the term "Securities and Other Property" means any and all securities and other property of the Borrower in the custody, possession or control

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of the Bank (other than property held by the Bank in a fiduciary capacity); and (c) the term "Bank Debt" means all indebtedness at any time owing by the Bank, to or for the credit or account of the Borrower.

REPRESENTATIONS BY BORROWER. Each Borrower represents that: (a) the execution and delivery of this Note and the performance of the obligations it imposes do not violate any law, conflict with any agreement by which it is bound, or require the consent or approval of any governmental authority or other third party; (b) this Note is a valid and binding agreement, enforceable according to its terms; and (c) all balance sheets, profit and loss statements, and other financial statements furnished to the Bank in connection with the Liabilities are accurate and fairly reflect the financial condition of the organizations and persons to which they apply on their effective dates, including contingent liabilities of every type, which financial condition has not changed materially and adversely since those dates. Each Borrower, other than a natural person, further represents that: (a) it is duly organized, existing and in good standing pursuant to the laws under which it is organized; and (b) the execution and delivery of this Note and the performance of the obligations it imposes (i) are within its powers and have been duly authorized by all necessary action of its governing body, and (ii) do not contravene the terms of its articles of incorporation or organization, its by-laws, or any partnership, operating or other agreement governing its affairs.

EVENTS OF DEFAULT/ACCELERATION. If any of the following events occurs this Note shall become due immediately, without notice, at the Bank's option:

1. The Borrower, or any guarantor of this Note (the "Guarantor"), fails to pay when due any amount payable under this Note, under any of the Liabilities, or under any agreement or instrument evidencing debt to any creditor.
2. The Borrower or any Guarantor (a) fails to observe or perform any other term of this Note; (b) makes any materially incorrect or misleading representation, warranty, or certificate to the Bank; (c) makes any materially incorrect or misleading representation in any financial statement or other information delivered to the Bank; or (d) defaults under the terms of any agreement or instrument relating to any debt for borrowed money (other than the debt evidenced by this Note) and the effect of such default will allow the creditor to declare the debt due before its maturity.
3. In the event (a) there is a default under the terms of any Related Document, (b) any guaranty of the loan evidenced by this Note is terminated or becomes unenforceable in whole or in part, (c) any Guarantor fails to promptly perform under its guaranty, or (d) the Borrower fails to comply with, or pay, or perform under any agreement, now or hereafter in effect, between the Borrower and BANK ONE CORPORATION, or any of its subsidiaries or affiliates or their successors.
4. There is any loss, theft, damage, or destruction of any Collateral not covered by insurance.
5. A "reportable event" (as defined in the Employee Retirement Income Security Act of 1974 as amended) occurs that would permit the Pension Benefit Guaranty Corporation to terminate any employee benefit plan of the Borrower or any affiliate of the Borrower.
6. The Borrower or any Guarantor becomes insolvent or unable to pay its debts as they become due.
7. The Borrower or any Guarantor (a) makes an assignment for the benefit of creditors; (b) consents to the appointment of a custodian, receiver, or trustee for itself or for a substantial part of its assets; or (c) commences any proceeding under any bankruptcy, reorganization, liquidation, insolvency or similar laws of any jurisdiction.
8. A custodian, receiver, or trustee is appointed for the Borrower or any Guarantor or for a substantial part of its assets without its consent.
9. Proceedings are commenced against the Borrower or any Guarantor under any bankruptcy, reorganization, liquidation, or similar laws of any jurisdiction, and they remain undischarged for thirty (30) days after commencement; or the Borrower or the Guarantor consents to the commencement of those proceedings.
10. Any judgment is entered against the Borrower or any Guarantor, or any attachment, levy, or garnishment is issued against any property of the Borrower or any Guarantor.
11. The Borrower or any Guarantor dies.
12. The Borrower or any Guarantor, without the Bank's written consent (a) is dissolved, (b) merges or consolidates with any third party, (c) leases, sells or otherwise conveys a material part of its assets or business outside the ordinary course of its business, (d) leases, purchases, or otherwise acquires a material part of the assets of any other business entity, except in the ordinary course of its business, or (e) agrees to do any of the foregoing (notwithstanding the foregoing, any subsidiary may merge or consolidate with any other subsidiary, or with the Borrower, so long as the Borrower is the survivor).
13. There is a substantial change in the existing or prospective financial condition of the Borrower or any Guarantor that the Bank in good faith determines to be materially adverse.
14. The Bank in good faith deems itself insecure.

REMEDIES. If this Note is not paid at maturity, whether by acceleration or otherwise, the Bank shall have all of the rights and remedies provided by any law or agreement. The Bank is authorized to cause all or any part of the Collateral to be transferred to or registered in its name or in the name of any other person or business entity, with or without designating the capacity of that nominee. Without limiting any other available remedy, the Borrower is liable for any deficiency remaining after disposition of any Collateral. The Borrower is liable to the Bank for all reasonable costs and expenses of every kind incurred in the making or collection of this Note, including without limitation reasonable attorneys' fees and court costs. These costs and expenses include without limitation any costs or expenses incurred by the Bank in any bankruptcy, reorganization, insolvency or other similar proceeding.

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WAIVERS. Any party liable on this Note waives (a) to the extent permitted by law, all rights and benefits under any laws or statutes regarding sureties, as may be amended; (b) any right to receive notice of the following matters before the Bank enforces any of its rights: (i) the Bank's acceptance of this Note, (ii) any credit that the Bank extends to the Borrower, (iii) the Borrower's default, (iv) any demand, diligence, presentment, dishonor and protest, or (v) any action that the Bank takes regarding the Borrower, anyone else, any Collateral, or any of the Liabilities, that it might be entitled to by law or under any other agreement; (c) any right to require the Bank to proceed against the Borrower, any other obligor or guarantor of the Liabilities, or any Collateral, or pursue any remedy in the Bank's power to pursue; (d) any defense based on any claim that any endorser or other parties' obligations exceed or are more burdensome than those of the Borrower; (e) the benefit of any statute of limitations affecting liability of any endorser or other party liable hereunder or the enforcement hereof; (f) any defense arising by reason of any disability or other defense of the Borrower or by reason of the cessation from any cause whatsoever (other than payment in full) of the obligation of the Borrower for the Liabilities; and (g) any defense based on or arising out of any defense that the Borrower may have to the payment or performance of the Liabilities or any portion thereof. Any party liable on this Note consents to any extension or postponement of time of its payment without limit as to the number or period, to any substitution, exchange or release of all or any part of the Collateral, to the addition of any other party, and to the release or discharge of, or suspension of any rights and remedies against, any person who may be liable for the payment of this Note. The Bank may waive or delay enforcing any of its rights without losing them. Any waiver affects only the specific terms and time period stated in the waiver. No modification or waiver of any provision of this Note is effective unless it is in writing and signed by the party against whom it is being enforced. Without limiting any foregoing waiver, consent or agreement, any party liable on this Note further waives any and all benefits under Arizona Revised Statutes Sections 12-1641 through 12-1646, inclusive, and Rule 17(f) of the Arizona Rules of Civil Procedure, including any revision or replacement of such statutes or rules hereafter enacted.

SUBORDINATION. Any rights of any party liable on this Note, whether now existing or hereafter arising, to receive payment on account of any indebtedness (including interest) owed to any party liable on this Note by the Borrower, or to withdraw capital invested by it in the Borrower, or to receive distributions from the Borrower, shall at all times be subordinate to the full and prior repayment to the Bank of the Liabilities. No party liable on this Note shall be entitled to enforce or receive payment of any sums hereby subordinated until the Liabilities have been paid in full and any such sums received in violation of this paragraph shall be received by such party in trust for the Bank. Any party liable on this Note agrees to stand still with regard to the Bank's enforcement of its rights, including taking no action to delay, impede or otherwise interfere with the Bank's rights to realize on the Collateral. The foregoing notwithstanding, until the occurrence of any default, any party liable on this Note is not prohibited from receiving distributions from the Borrower in an amount equal to any income tax liability imposed on such party liable on this Note attributable to an ownership interest in the Borrower, if any.

RIGHTS OF SUBROGATION. Any party liable on this Note waives and agrees not to enforce any rights of subrogation, contribution or indemnification that it may have against the Borrower, any person liable on the Liabilities, or the Collateral, until the Borrower and such party liable on this Note have fully performed all their obligations to the Bank, even if those obligations are not covered by this Note.

REINSTATEMENT. All parties liable on this Note agree that to the extent any payment is received by the Bank in connection with the Liabilities, and all or any part of such payment is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid by the Bank or paid over to a trustee, receiver or any other entity, whether under any bankruptcy act or otherwise (any such payment is hereinafter referred to as a "Preferential Payment"), then this Note shall continue to be effective or shall be reinstated, as the case may be, and whether or not the Bank is in possession of this Note, and, to the extent of such payment or repayment by the Bank, the Liabilities or part thereof intended to be satisfied by such Preferential Payment shall be revived and continued in full force and effect as if said Preferential Payment had not been made.

GOVERNING LAW AND VENUE. This Note is delivered in the State of Arizona and governed by Arizona law (without giving effect to its laws of conflicts). The Borrower agrees that any legal action or proceeding with respect to any of its obligations under this Note may be brought by the Bank in any state or federal court located in the State of Arizona, as the Bank in its sole discretion may elect. By the execution and delivery of this Note, the Borrower submits to and accepts, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of those courts. The Borrower waives any claim that the State of Arizona is not a convenient forum or the proper venue for any such suit, action or proceeding.

MISCELLANEOUS. The Borrower, if more than one, is jointly and severally liable for the obligations represented by this Note, the term "Borrower" means any one or more of them, and the receipt of value by any one of them constitutes the receipt of value by the others. This Note binds the Borrower and its successors, and benefits the Bank, its successors and assigns. Any reference to the Bank includes any holder of this Note. Section headings are for convenience of reference only and do not affect the interpretation of this Note. Any notices and demands under or related to this document shall be in writing and delivered to the intended party at its address stated herein, and if to the Bank, at its main office if no other address of the Bank is specified herein, by one of the following means: (a) by hand, (b) by a nationally recognized overnight courier service, or (c) by certified mail, postage prepaid, with return receipt requested. Notice shall be deemed given: (a) upon receipt if delivered by hand, (b) on the Delivery Day after the day of deposit with a nationally recognized

courier service, or (c) on the third Delivery Day after the notice is deposited in the mail. "Delivery Day" means a day other

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than a Saturday, a Sunday, or any other day on which national banking associations are authorized to be closed. Any party may change its address for purposes of the receipt of notices and demands by giving notice of such change in the manner provided in this provision. This Note and any Related Documents embody the entire agreement between the Borrower and the Bank regarding the terms of the loan evidenced by this Note and supercede all oral statements and prior writings relating to that loan. If any provision of this Note cannot be enforced, the remaining portions of this Note shall continue in effect. The Borrower agrees that the Bank may provide any information or knowledge the Bank may have about the Borrower or about any matter relating to this Note or the Related Documents to BANK ONE CORPORATION, or any of its subsidiaries or affiliates or their successors, or to any one or more purchasers or potential purchasers of this Note or the Related Documents. The Borrower agrees that the Bank may at any time sell, assign or transfer one or more interests or participations in all or any part of its rights and obligations in this Note to one or more purchasers whether or not related to the Bank.

WAIVER OF SPECIAL DAMAGES. THE BORROWER WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT THE UNDERSIGNED MAY HAVE TO CLAIM OR RECOVER FROM THE BANK IN ANY LEGAL ACTION OR PROCEEDING ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.

JURY WAIVER. THE BORROWER AND THE BANK (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN THE BORROWER AND THE BANK ARISING OUT OF OR IN ANY WAY RELATED TO THIS NOTE OR THE OTHER RELATED DOCUMENTS. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE BANK TO PROVIDE THE FINANCING EVIDENCED BY THIS NOTE.

BORROWER:

Address: 7860 East McClain Drive #2
Scottsdale, AZ 85260-1627

TASER International, Inc.

By: /s/ K. Hanrahan

| | |
|--------------|-------|
| K. Hanrahan | CFO |
| Printed Name | Title |

Christy Murphy AZ13044

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[BANK ONE LOGO]

LINE OF CREDIT NOTE

DUE: MAY 31,2003 \$1,000,000.00
DATE: MAY 31,2002

PROMISE TO PAY. On or before May 31,2003, for value received, TASER International, Inc. (the "Borrower") promises to pay to Bank One, NA, with its main office in Chicago, IL, whose address is 201 N. Central Ave, 21st Floor, AZ1-1178, Phoenix, AZ 85004 (the "Bank") or order, in lawful money of the United States of America, the sum of One Million and 00/100 Dollars (\$1,000,000.00) or such lesser sum as is indicated on Bank records, plus interest as provided below.

DEFINITIONS. As used in this Note, the following terms have the following respective meanings:

"ADVANCE" means a Eurodollar Advance or a Prime Rate Advance AND "ADVANCES" means all Eurodollar Advances and all Prime Rate Advances under this Note.

"APPLICABLE MARGIN" means with respect to any Prime Rate Advance, 1.00% per annum and with respect to any Eurodollar Advance, 1.50% per annum.

"BUSINESS DAY" means (i) with respect to any borrowing, payment or rate selection of Eurodollar Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Arizona and/or New York for the conduct of substantially all of their commercial lending activities and on which dealings in United States dollars are carried on in the London interbank market and (ii) for all other purposes, a day other than a Saturday, Sunday or any other day on which national banking associations are authorized to be closed.

"EURODOLLAR BASE RATE" means, with respect to the relevant Interest Period, the applicable British Bankers' Association LIBOR rate for deposits in U.S. dollars as reported by any generally recognized financial information service as of 11:00 a.m. (London time) two Eurodollar Days prior to the first day of such Interest Period, and having a maturity equal to such Interest Period, provided that, if no such British Bankers' Association LIBOR rate is available to the Bank, the applicable Eurodollar Base Rate for the relevant Interest Period shall instead be the rate determined by the Bank to be the rate at which BANK ONE CORPORATION or one of its affiliate banks offers to place deposits in U.S. dollars with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Eurodollar Days prior to the first day of such Interest Period, in the approximate amount of the principal amount outstanding on such date and having a maturity equal to such Interest Period.

"EURODOLLAR ADVANCE" means any borrowing under this Note when and to the extent that its interest rate is determined by reference to the Eurodollar Rate.

"EURODOLLAR RATE" means, with respect to a Eurodollar Advance for the relevant Interest Period, the sum of (i) the Applicable Margin plus (ii) the quotient of (a) the Eurodollar Base Rate applicable to such Interest Period, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period.

"INTEREST PERIOD" means, with respect to a Eurodollar Advance, a period of one (1), two (2), three (3) or six (6) month(s) commencing on a Business Day selected by the Borrower pursuant to this Note. Such Interest Period shall end on the day which corresponds numerically to such date one (1), two (2), three (3) or six (6) month(s) thereafter, as applicable, provided, however, that if there is no such numerically corresponding day in such first, second, third or sixth succeeding month(s), as applicable, such Interest Period shall end on the last Business Day of such first, second, third or sixth succeeding month(s), as applicable. If an Interest Period would otherwise end ON a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, provided, however, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"PRIME RATE" means a rate per annum equal to the prime rate of interest announced from time to time by the Bank or its parent (which is not necessarily the lowest rate charged to any customer), changing when and as said prime rate changes.

"PRIME RATE ADVANCE" means any Advance under this Note when and to the extent that its interest rate is determined by reference to the Prime Rate.

"PRINCIPAL PAYMENT DATE" is defined in the paragraph entitled "Principal Payments" below.

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"REGULATION D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

"RESERVE REQUIREMENT" means, with respect to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D.

INTEREST RATES, The Advance(s) evidenced by this Note may be drawn down and remain outstanding as up to five (5) Eurodollar Advances and/or a Prime Rate Advance. The Borrower shall pay interest to the Bank on the outstanding and unpaid principal amount of each Prime Rate Advance at the Prime Rate minus the Applicable Margin and each Eurodollar Advance at the Eurodollar Rate. Interest shall be calculated on the basis of the actual number of days elapsed in a year of 360 days. In no event shall the interest rate applicable to any Advance exceed the maximum rate allowed by law. Any interest payment which would for any reason be deemed unlawful under applicable law shall be applied to principal.

Borrower hereby agrees to pay an effective rate of interest that is the sum of the interest rate provided for in this Note together with any additional rate of interest resulting from any other charges of interest or in the nature paid or to be paid in connection with this Note or the Related Documents.

BANK RECORDS. The Bank shall, in the ordinary course of business, make notations in its records of the date, amount, interest rate and Interest Period of each Advance hereunder, the amount of each payment on the Advances, and other information. Such records shall, in the absence of manifest error, be conclusive as to the outstanding principal balance of and interest rate or rates applicable to this Note.

NOTICE AND MANNER OF ELECTING INTEREST RATES ON ADVANCES. The Borrower shall give the Bank written notice (effective upon receipt) of the Borrower's intent to draw down an Advance under this Note no later than 11:00 a.m. Mountain time, one (1) Business Day before disbursement, if the full amount of the drawn Advance is to be disbursed as a Prime Rate Advance and three (3) Business Days before disbursement, if any part of such Advance is to be disbursed as a Eurodollar Advance. The Borrower's notice must specify: (a) the disbursement date, (b) the amount of each Advance, (c) the type of each Advance (Prime Rate Advance or Eurodollar Advance), and (d) for each Eurodollar Advance, the duration of the applicable Interest Period. Each Eurodollar Advance shall be in a minimum amount of Five Hundred Thousand and 00/100 Dollars (\$500,000.00) with multiples of One Hundred Thousand and 00/100 Dollars (\$100,000.00). All notices under this paragraph are irrevocable. By the Banks close of business on the disbursement date and upon fulfillment of the conditions set forth herein and in any other of the Related Documents, the Bank shall disburse the requested Advances in immediately available funds by crediting the amount of such Advances to the Borrower's account with the Bank.

CONVERSION AND RENEWALS. The Borrower may elect from time to time to convert one type of Advance into another or to renew any Advance by giving the Bank written notice no later than 11:00 a.m. Mountain time, one (1) Business Day before conversion into a Prime Rate Advance and three (3) Business Days before conversion into or renewal of a Eurodollar Advance, specifying: (a) the renewal or conversion date, (b) the amount of the Advance to be converted or renewed, (c) in the case of conversion, the type of Advance to be converted into (Prime Rate Advance or Eurodollar Advance), and (d) in the case of renewals of or conversion into a Eurodollar Advance, the applicable Interest Period, provided that (i) the minimum principal amount of each Eurodollar Advance outstanding after a renewal or conversion shall be Five Hundred Thousand and 00/100 Dollars (\$500,000.00), with multiples of One Hundred Thousand and 00/100 Dollars (\$100,000.00) and (ii) a Eurodollar Advance can only be converted on the last day of the Interest Period for the Advance. All notices given under this paragraph are irrevocable. If the Borrower fails to give the Bank the notice specified above for the renewal or conversion of a Eurodollar Advance by 11:00 a.m. Mountain time three (3) Business Days before the end of the Interest Period for that Advance, the Advance shall automatically be converted to a Prime Rate Advance on the last day of the Interest Period for the Advance.

INTEREST PAYMENTS. Interest on the Advances shall be paid as follows:

A . For each Prime Rate Advance, on the last day of each month beginning with the first month following disbursement of the Advance or following conversion of an Advance into a Prime Rate Advance, and at the maturity or conversion of the Advance into a Eurodollar Advance;

B. For each Eurodollar Advance, on the last day of the Interest Period for the Advance and, if the Interest Period is longer than three months, at three-month intervals beginning with the day three months from the date the Advance is disbursed.

PRINCIPAL PAYMENTS. All outstanding principal and interest is due and payable in full on May 3 1, 2003, which is defined herein as the "Principal Payment Date". The Borrower shall select interest rates and Interest Periods such that on each Principal Payment Date the sum of the principal amount of the Prime Rate Advance outstanding on that date plus the aggregate principal amount of the Eurodollar Advances with Interest Periods ending on that date is greater than or equal to the principal payment due on that date. Any election which does not comply with this requirement will be invalid and the Bank may, but will not be required to, honor such election.

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OVERDUE AMOUNTS. Any principal amount not paid when due (at maturity, by acceleration, or otherwise) shall bear interest thereafter until paid in full, payable on demand, at a per annum rate equal to the Prime Rate plus the Applicable Margin plus three percent (3.00%).

PREPAYMENT. The Borrower may prepay all or any part of any Prime Rate Advance at any time without premium or penalty. The Borrower may prepay any Eurodollar Advance only at the end of an Interest Period.

FUNDING LOSS INDEMNIFICATION. Upon the Banks request, the Borrower shall pay the Bank amounts sufficient (in the Banks reasonable opinion) to compensate it for any loss, cost, or expense incurred as a result of:

A. Any payment of a Eurodollar Advance on a date other than the last day of the Interest Period for the Advance, including, without limitation, acceleration of the Advances by the Bank pursuant to this Note or the Related Documents; or

B. Any failure by the Borrower to borrow or renew a Eurodollar Advance on the date specified in the relevant notice from the Borrower to the Bank.

ADDITIONAL COSTS. If any applicable domestic or foreign law, treaty, government rule or regulation now or later in effect (whether or not it now applies to the Bank) or the interpretation or administration thereof by a governmental authority charged with such interpretation or administration, or compliance by the Bank with any guideline, request or directive of such an authority (whether or not having the force of law), shall (a) affect the basis of taxation of payments to the Bank of any amounts payable by the Borrower under this Note or the Related Documents (other than taxes imposed on the overall net income of the Bank by the jurisdiction or by any political subdivision or taxing authority of the jurisdiction in which the Bank has its principal office), or (b) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by the Bank, or (c) impose any other condition with respect to this Note or the Related Documents and the result of any of the foregoing is to increase the cost to the Bank of maintaining any Eurodollar Advance or to reduce the amount of any sum receivable by the Bank on such an Advance, or (d) affect the amount of capital required or expected to be maintained by the Bank (or any corporation controlling the Bank) and the Bank determines that the amount of such capital is increased by or based upon the existence of the Banks obligations under this Note or the Related Documents and the increase has the effect of reducing the rate of return on the Banks (or its controlling corporation's) capital as a consequence of the obligations under this Note or the Related Documents to a level below that which the Bank (or its controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy) by an amount deemed by the Bank to be material, then the Borrower shall pay to the Bank, from time to time, upon request by the Bank, additional amounts sufficient to compensate the Bank for the increased cost or reduced sum receivable. Whenever the Bank shall learn of circumstances described in this section which are likely to result in additional costs to the Borrower, the Bank shall give prompt written notice to the Borrower of the basis for and the estimated amount of any such anticipated additional costs. A statement as to the amount of the increased cost or reduced sum receivable, prepared in good faith and in reasonable detail by the Bank and submitted by the Bank to the Borrower, shall be conclusive and binding for all purposes absent manifest error in computation.

ILLEGALITY. If any applicable domestic or foreign law, treaty, rule or regulation now or later in effect (whether or not it now applies to the Bank) or the interpretation or administration thereof by a governmental authority charged with such interpretation or administration, or compliance by the Bank with any guideline, request or directive of such an authority (whether or not having the force of law), shall make it unlawful or impossible for the Bank to maintain or fund the Eurodollar Advances, then, upon notice to the Borrower by the Bank, the outstanding principal amount of the Eurodollar Advances, together with accrued interest and any other amounts payable to the Bank under this Note or the Related Documents on account of the Eurodollar Advances shall be repaid (a) immediately upon the Banks demand if such change or compliance with such requests, in the Bank's judgment, requires immediate repayment, or (b) at the expiration of the last Interest Period to expire before the effective date of any such change or request provided, however, that subject to the terms and conditions of this Note and the Related Documents the Borrower shall be entitled to simultaneously replace the entire outstanding balance of any Eurodollar Advance repaid in accordance with this section with a Prime Rate Advance in the same amount.

INABILITY TO DETERMINE INTEREST RATE. If the Bank determines that (a) quotations of interest rates for the relevant deposits referred to in the definition of Eurodollar Rate are not being provided in the relevant amounts or for the relevant maturities for purposes of determining the interest rate on a Eurodollar Advance as provided in this Note, or (b) the relevant interest rates referred to in the definition of Eurodollar Rate do not accurately cover the cost to the Bank of making or maintaining Eurodollar Advances, then the Bank shall forthwith give notice of such circumstances to the Borrower, whereupon (i) the obligation of the Bank to make Eurodollar Advances shall be suspended until the Bank notifies the Borrower that the circumstances giving rise to the suspension no longer exists, and (ii) the Borrower shall repay in full the then outstanding principal amount of each Eurodollar Advance, together with accrued interest, on the last day of the then current Interest Period applicable to the Advance, provided, however, that, subject to the terms and conditions of this Note and the Related Documents, the Borrower shall be entitled to simultaneously replace the entire outstanding balance of any Eurodollar Advance repaid in accordance with this section with a Prime Rate Advance in the same amount.

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OBLIGATIONS DUE ON NON-BUSINESS DAY. Whenever any payment under this Note becomes due and payable on a day that is not a Business Day, if no default then exists under this Note, the maturity of the payment shall be extended to the next succeeding Business Day, except, in the case of a Eurodollar Advance, if the result of the extension would be to extend the payment into another calendar month, the payment must be made on the immediately preceding Business Day.

MATTERS REGARDING PAYMENT. The Borrower will pay the Bank at the Bank's address shown above or at such other place as the Bank may designate. Payments shall be allocated among principal, interest and fees at the discretion of the Bank unless otherwise agreed or required by applicable law. Acceptance by the Bank of any payment which is less than the payment due at the time shall not constitute a waiver of the Bank's right to receive payment in full at that time or any other time.

LATE FEE. If any payment is not received by the Bank within ten (10) days after its due date, the Bank may assess and the Borrower agrees to pay a late fee equal to the greater of: (a) five percent (5.00%) of the past due amount or (b) Twenty Five and 00/100 Dollars (\$25.00), up to the maximum amount of One Thousand Five Hundred and 00/100 Dollars (\$1,500.00) per late charge.

BUSINESS LOAN. The Borrower acknowledges and agrees that this Note evidences a loan for a business, commercial, agricultural or similar commercial enterprise purpose, and that all advances made under this Note shall not be used for any personal, family or household purpose.

CREDIT FACILITY. The Bank has approved a credit facility to the Borrower in a principal amount not to exceed the face amount of this Note. The credit facility is in the form of advances made from time to time by the Bank to the Borrower. This Note evidences the Borrower's obligation to repay those advances. The aggregate principal amount of debt evidenced by this Note is the amount reflected from time to time in the records of the Bank. Until the earliest of maturity, the occurrence of any default, or the occurrence of any event that would constitute the occurrence of any default but for the lapse of time until the end of any grace or cure period, the Borrower may borrow, pay down and reborrow under this Note.

LIABILITIES. The term "Liabilities" in this Note means all obligations, indebtedness and liabilities of the Borrower to any one or more of the Bank, BANK ONE CORPORATION, and any of their subsidiaries, affiliates or successors, now existing or later arising, including, without limitation, all loans, advances, interest, costs, overdraft indebtedness, credit card indebtedness, lease obligations, or obligations relating to any Rate Management Transaction, all monetary obligations incurred or accrued during the pendency of any bankruptcy, insolvency, receivership or other similar proceedings, regardless of whether allowed or allowable in such proceeding, and all renewals, extensions, modifications, consolidations or substitutions of any of the foregoing, whether the Borrower may be liable jointly with others or individually liable as a debtor, maker, co-maker, drawer, endorser, guarantor, surety or otherwise, and whether voluntarily or involuntarily incurred, due or not due, absolute or contingent, direct or indirect, liquidated or unliquidated. The term "Rate Management Transaction" in this Note means any transaction (including an agreement with respect thereto) now existing or hereafter entered into among the Borrower, the Bank or BANK ONE CORPORATION, or any of its subsidiaries or affiliates or their successors, which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

RELATED DOCUMENTS. The term "Related Documents" in this Note means all loan agreements, credit agreements, reimbursement agreements, security agreements, mortgages, deeds of trust, pledge agreements, assignments, guaranties, or any other instrument or document executed in connection with this Note or in connection with any of the Liabilities.

SECURITY. The term "Collateral" in this Note means all real or personal property described in all security agreements, pledge agreements, mortgages, deeds of trust, assignments, or other instruments now or hereafter executed in connection with this Note or in connection with any of the Liabilities. If applicable, the Collateral secures the payment of this Note and the Liabilities.

BANK'S RIGHT OF SETOFF. In addition to the Collateral, if any, the Borrower grants to the Bank a security interest in, and the Bank is authorized to setoff and apply, all Accounts, Securities and Other Property, and Bank Debt against any and all Liabilities of the Borrower. This right of setoff may be exercised at any time and from time to time, and without prior notice to the Borrower. This security interest and right of setoff may be enforced or exercised by the Bank regardless of whether or not the Bank has made any demand under this paragraph or whether the Liabilities are contingent, matured, or unmatured. Any delay, neglect or conduct by the Bank in exercising its rights under this paragraph will not be a waiver of the right to exercise this right of setoff or enforce this security interest. The rights of the Bank under this paragraph are in addition to other rights the Bank may have in the Related Documents or by law. In this paragraph: (a) the term "Accounts" means any and all accounts and deposits of the Borrower (whether general, special, time, demand, provisional or final) at any time held by the Bank (including all Accounts held jointly with another, but excluding any IRA or Keogh Account, or any trust Account in which a security interest would be prohibited by law); (b) the term "Securities and Other Property" means any and all securities and other property of the Borrower in the custody, possession or control

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of the Bank (other than property held by the Bank in a fiduciary capacity); and (c) the term "Bank Debt" means all indebtedness at any time owing by the Bank, to or for the credit or account of the Borrower.

REPRESENTATIONS BY BORROWER. Each Borrower represents that: (a) the execution and delivery of this Note and the performance of the obligations it imposes do not violate any law, conflict with any agreement by which it is bound, or require the consent or approval of any governmental authority or other third party; (b) this Note is a valid and binding agreement, enforceable according to its terms; and (c) all balance sheets, profit and loss statements, and other financial statements furnished to the Bank in connection with the Liabilities are accurate and fairly reflect the financial condition of the organizations and persons to which they apply on their effective dates, including contingent liabilities of every type, which financial condition has not changed materially and adversely since those dates. Each Borrower, other than a natural person, further represents that: (a) it is duly organized, existing and in good standing pursuant to the laws under which it is organized; and (b) the execution and delivery of this Note and the performance of the obligations it imposes (i) are within its powers and have been duly authorized by all necessary action of its governing body, and (ii) do not contravene the terms of its articles of incorporation or organization, its by-laws, or any partnership, operating or other agreement governing its affairs.

EVENTS OF DEFAULT/ACCELERATION. If any of the following events occurs this Note shall become due immediately, without notice, at the Bank's option:

1. The Borrower, or any guarantor of this Note (the "Guarantor"), fails to pay when due any amount payable under this Note, under any of the Liabilities, or under any agreement or instrument evidencing debt to any creditor.
2. The Borrower or any Guarantor (a) fails to observe or perform any other term of this Note; (b) makes any materially incorrect or misleading representation, warranty, or certificate to the Bank; (c) makes any materially incorrect or misleading representation in any financial statement or other information delivered to the Bank; or (d) defaults under the terms of any agreement or instrument relating to any debt for borrowed money (other than the debt evidenced by this Note) and the effect of such default will allow the creditor to declare the debt due before its maturity.
3. In the event (a) there is a default under the terms of any Related Document, (b) any guaranty of the loan evidenced by this Note is terminated or becomes unenforceable in whole or in part, (c) any Guarantor fails to promptly perform under its guaranty, or (d) the Borrower fails to comply with, or pay, or perform under any agreement, now or hereafter in effect, between the Borrower and BANK ONE CORPORATION, or any of its subsidiaries or affiliates or their successors.
4. There is any loss, theft, damage, or destruction of any Collateral not covered by insurance.
5. A "reportable event" (as defined in the Employee Retirement Income Security Act of 1974 as amended) occurs that would permit the Pension Benefit Guaranty Corporation to terminate any employee benefit plan of the Borrower or any affiliate of the Borrower.
6. The Borrower or any Guarantor becomes insolvent or unable to pay its debts as they become due.
7. The Borrower or any Guarantor (a) makes an assignment for the benefit of creditors; (b) consents to the appointment of a custodian, receiver, or trustee for itself or for a substantial part of its assets; or (c) commences any proceeding under any bankruptcy, reorganization, liquidation, insolvency or similar laws of any jurisdiction.
8. A custodian, receiver, or trustee is appointed for the Borrower or any Guarantor or for a substantial part of its assets without its consent.
9. Proceedings are commenced against the Borrower or any Guarantor under any bankruptcy, reorganization, liquidation, or similar laws of any jurisdiction, and they remain undismissed for thirty (30) days after commencement; or the Borrower or the Guarantor consents to the commencement of those proceedings.
10. Any judgment is entered against the Borrower or any Guarantor, or any attachment, levy, or garnishment is issued against any property of the Borrower or any Guarantor.
11. The Borrower or any Guarantor dies.
12. The Borrower or any Guarantor, without the Banks written consent (a) is dissolved, (b) merges or consolidates with any third party, (c) leases, sells or otherwise conveys a material part of its assets or business outside the ordinary course of its business, (d) leases, purchases, or otherwise acquires a material part of the assets of any other business entity, except in the ordinary course of its business, or (e) agrees to do any of the foregoing (notwithstanding the foregoing, any subsidiary may merge or consolidate with any other subsidiary, or with the Borrower, so long as the Borrower is the survivor).
13. There is a substantial change in the existing or prospective financial condition of the Borrower or any Guarantor that the Bank in good faith determines to be materially adverse.
14. The Bank in good faith deems itself insecure.

REMEDIES. If this Note is not paid at maturity, whether by acceleration or otherwise, the Bank shall have all of the rights and remedies provided by any law or agreement. The Bank is authorized to cause all or any part of the Collateral to be transferred to or registered in its name or in the name of any other person or business entity, with or without designating the capacity of that nominee. Without limiting any other available remedy, the Borrower is liable for any deficiency remaining after disposition of any Collateral. The Borrower is liable to the Bank for all reasonable costs and expenses of every kind incurred in the making or collection of this Note, including without limitation reasonable attorneys' fees and court costs. These costs and expenses include without limitation any costs or expenses incurred by the Bank in any bankruptcy, reorganization, insolvency or other similar proceeding.

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WAIVERS. ANY party liable on this Note waives (a) to the extent permitted by law, all rights and benefits under any laws or statutes regarding sureties, as may be amended; (b) any right to receive notice of the following matters before the Bank enforces any of its rights: (i) the Bank's acceptance of this Note, (ii) any credit that the Bank extends to the Borrower, (iii) the Borrower's default, (iv) any demand, diligence, presentment, dishonor and protest, or (v) any action that the Bank takes regarding the Borrower, anyone else, any Collateral, or any of the Liabilities, that it might be entitled to by law or under any other agreement; (c) any right to require the Bank to proceed against the Borrower, any other obligor or guarantor of the Liabilities, or any Collateral, or pursue any remedy in the Bank's power to pursue; (d) any defense based on any claim that any endorser or other parties' obligations exceed or are more burdensome than those of the Borrower; (e) the benefit of any statute of limitations affecting liability of any endorser or other party liable hereunder or the enforcement hereof; (f) any defense arising by reason of any disability or other defense of the Borrower or by reason of the cessation from any cause whatsoever (other than payment in full) of the obligation of the Borrower for the Liabilities; and (g) any defense based on or arising out of any defense that the Borrower may have to the payment or performance of the Liabilities or any portion thereof. Any party liable on this Note consents to any extension or postponement of time of its payment without limit as to the number or period, to any substitution, exchange or release of all or any part of the Collateral, to the addition of any other party, and to the release or discharge of, or suspension of any rights and remedies against, any person who may be liable for the payment of this Note. The Bank may waive or delay enforcing any of its rights without losing them. Any waiver affects only the specific terms and time period stated in the waiver. No modification or waiver of any provision of this Note is effective unless it is in writing and signed by the party against whom it is being enforced. Without limiting any foregoing waiver, consent or agreement, any party liable on this Note further waives any and all benefits under Arizona Revised Statutes Sections 12-1641 through 12-1646, inclusive, and Rule 17(f) of the Arizona Rules of Civil Procedure, including any revision or replacement of such statutes or rules hereafter enacted.

SUBORDINATION. Any rights of any party liable on this Note, whether now existing or hereafter arising, to receive payment on account of any indebtedness (including interest) owed to any party liable on this Note by the Borrower, or to withdraw capital invested by it in the Borrower, or to receive distributions from the Borrower, shall at all times be subordinate to the full and prior repayment to the Bank of the Liabilities. No party liable on this Note shall be entitled to enforce or receive payment of any sums hereby subordinated until the Liabilities have been paid in full and any such sums received in violation of this paragraph shall be received by such party in trust for the Bank. Any party liable on this Note agrees to stand still with regard to the Bank's enforcement of its rights, including taking no action to delay, impede or otherwise interfere with the Bank's rights to realize on the Collateral. The foregoing notwithstanding, until the occurrence of any default, any party liable on this Note is not prohibited from receiving distributions from the Borrower in an amount equal to any income tax liability imposed on such party liable on this Note attributable to an ownership interest in the Borrower, if any.

RIGHTS OF SUBROGATION. Any party liable on this Note waives and agrees not to enforce any rights of subrogation, contribution or indemnification that it may have against the Borrower, any person liable on the Liabilities, or the Collateral, until the Borrower and such party liable on this Note have fully performed all their obligations to the Bank, even if those obligations are not covered by this Note.

REINSTATEMENT. All parties liable on this Note agree that to the extent any payment is received by the Bank in connection with the Liabilities, and all or any part of such payment is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid by the Bank or paid over to a trustee, receiver or any other entity, whether under any bankruptcy act or otherwise (any such payment is hereinafter referred to as a "Preferential Payment"), then this Note shall continue to be effective or shall be reinstated, as the case may be, and whether or not the Bank is in possession of this Note, and, to the extent of such payment or repayment by the Bank, the Liabilities or part thereof intended to be satisfied by such Preferential Payment shall be revived and continued in full force and effect as if said Preferential Payment had not been made.

GOVERNING LAW AND VENUE. This Note is delivered in the State of Arizona and governed by Arizona law (without giving effect to its laws of conflicts). The Borrower agrees that any legal action or proceeding with respect to any of its obligations under this Note may be brought by the Bank in any state or federal court located in the State of Arizona, as the Bank in its sole discretion may elect. By the execution and delivery of this Note, the Borrower submits to and accepts, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of those courts. The Borrower waives any claim that the State of Arizona is not a convenient forum or the proper venue for any such suit, action or proceeding.

MISCELLANEOUS. The Borrower, if more than one, is jointly and severally liable for the obligations represented by this Note, the term "Borrower" means any one or more of them, and the receipt of value by any one of them constitutes the receipt of value by the others. This Note binds the Borrower and its successors, and benefits the Bank, its successors and assigns. Any reference to the Bank includes any holder of this Note. Section headings are for convenience of reference only and do not affect the interpretation of this Note. Any notices and demands under or related to this document shall be in writing and delivered to the intended party at its address stated herein, and if to the Bank, at its main office if no other address of the Bank is specified herein, by one of the following means: (a) by hand, (b) by a nationally recognized overnight courier service, or (c) by certified mail, postage prepaid, with return receipt requested. Notice shall be deemed given: (a) upon receipt if delivered by hand, (b) on the Delivery Day after the day of deposit with a nationally recognized

courier service, or (c) on the third Delivery Day after the notice is deposited in the mail. "Delivery Day" means A day other

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than a Saturday, a Sunday, or any other day on which national banking associations are authorized to be closed. Any party may change its address for purposes of the receipt of notices and demands by giving notice of such change in the manner provided in this provision. This Note and any Related Documents embody the entire agreement between the Borrower and the Bank regarding the terms of the loan evidenced by this Note and supercede all oral statements and prior writings relating to that loan. If any provision of this Note cannot be enforced, the remaining portions of this Note shall continue in effect. The Borrower agrees that the Bank may provide any information or knowledge the Bank may have about the Borrower or about any matter relating to this Note or the Related Documents to BANK ONE CORPORATION, or any of its subsidiaries or affiliates or their successors, or to any one or more purchasers or potential purchasers of this Note or the Related Documents. The Borrower agrees that the Bank may at any time sell, assign or transfer one or more interests or participations in all or any part of its rights and obligations in this Note to one or more purchasers whether or not related to the Bank.

WAIVER OF SPECIAL DAMAGES. THE BORROWER WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT THE UNDERSIGNED MAY HAVE TO CLAIM OR RECOVER FROM THE BANK IN ANY LEGAL ACTION OR PROCEEDING ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.

JURY WAIVER. THE BORROWER AND THE BANK (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN THE BORROWER AND THE BANK ARISING OUT OF OR IN ANY WAY RELATED TO THIS NOTE OR THE OTHER RELATED DOCUMENTS. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE BANK TO PROVIDE THE FINANCING EVIDENCED BY THIS NOTE.

BORROWER:

Address: 7860 East McClain Drive #2
Scottsdale, AZ 85260-1627

TASER International, Inc.

By /s/ K. Hanrahan CFO

K. Hanrahan CFO
Printed Name Title

Christy Murphy AZ13044

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EXHIBIT A
 TASER INTERNATIONAL, INC. COMMERCIAL BORROWING BASE CERTIFICATE

Line of Credit Commitment \$2,300,000.00

Line of Credit Balance (including Letters of Credit) \$ _____ as of _____
 (Date)

A/R Agings should be as of the same date above

<TABLE>

| | | | |
|-----|--|----|------------|
| <S> | Total cash in deposit accounts at Bank One, in which Bank One has a first perfected security interest (at 100%) | \$ | <C> |
| | Total money market funds held in investment accounts in which Bank has a first perfected security interest | \$ | |
| | Advance Rate | | 95.00% |
| | Total Margined money market funds | \$ | |
| (A) | Total Eligible cash and money market funds | \$ | |
| | Total Assigned Inventory | \$ | |
| | DEDUCT Book Overdraft | \$ | |
| | Total Eligible Inventory | \$ | |
| | Advance Rate | | 50.00% |
| | Total Margined Eligible Inventory | \$ | |
| | Inventory CAP in Dollars | \$ | 500,000.00 |
| (B) | Lesser of Total Margined Eligible Inventory or CAP | \$ | |
| | Total Assigned Accounts Receivable with standard terms | \$ | |
| | Total Assigned Accounts Receivable with extended terms | \$ | |
| | DEDUCT the Following Standard Ineligibles: | | |
| | Accounts Receivable with standard terms 90 Days or More Past Due from Date of Invoice (only that portion over 90 Days is ineligible) | \$ | |
| | Accounts Receivable with extended terms 150 Days or More Past Due from Date of Invoice (only that portion over 150 Days is ineligible) | \$ | |
| | Concentration Accounts with standard terms in which more than 15% of the A/R is over 90 Days Past Due from Date of invoice (the entire A/R is ineligible). A Concentration Account is defined as any A/R representing more than 25% of Total A/R. | \$ | |
| | Concentration Accounts with extended terms in which more than 15% of the A/R is over 150 Days Past Due from Date of invoice (the entire A/R is ineligible). A Concentration Account is defined as any A/R representing more than 25% of Total A/R. | \$ | |
| | Related Accounts Receivable | \$ | |
| | Foreign Accounts Receivable | \$ | |
| | U.S. Government Accounts Receivable | \$ | |
| | A/R subject to any withholding, offset, counterclaim or other defense by the account debtor (Contra Accounts) | \$ | |
| | A/R from an account debtor to the extent that the Borrower is indebted to such account debtor regarding the underlying goods | \$ | |
| | A/R subject to any other lien than the lien in favor of the Bank or Agent | \$ | |
| | A/R not denominated in U.S. Dollars | \$ | |
| | Pre-billed accounts | \$ | |
| | Total Eligible Accounts Receivable | \$ | |
| | Advance Rate | | 75.00% |
| (C) | Total Margined Eligible Accounts Receivable | \$ | |
| | Net Fixed Assets excluding real estate, leasehold improvements, titled vehicles and capital leases | | |
| | Advance Rate | | 50.00% |
| (D) | Total Margined Eligible Net Fixed Assets | \$ | |
| (E) | TOTAL BORROWING POTENTIAL (SUM OF A, B, C AND D ABOVE) | \$ | |
| | OUTSTANDING BALANCE ON LINE OF CREDIT AT DATE OF REPORT | \$ | |
| | Collateral Margin (or Deficit): Total Borrowing Potential minus Outstandings on Line | \$ | |

</TABLE>

The Borrower, by the execution of this Borrowing Base Certificate, hereby certifies, represents and warrants: (1) that this Report is true, correct, complete and based upon information contained in Borrower's own financial records as of _____ (DATE), and (2) that no default has occurred in any provision of the Agreement and is continuing or would result from the extension of any credit contemplated by the Agreement, and no event has occurred which would constitute the occurrence of any default under the Agreement but for the lapse of time until the end of any grace or cure period.

BORROWER: TASER INTERNATIONAL, INC.

By: _____
 its: _____
 Date: _____

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[BANK ONE LOGO]

CONTINUING SECURITY AGREEMENT

NAME OF DEBTOR: TASER INTERNATIONAL, INC.
TAXPAYER I.D. NO.: 86-0741227
DEBTOR'S ADDRESS: 7860 EAST MCCLAIN DRIVE #2, SCOTTSDALE, AZ 85260-1627

GRANT OF SECURITY INTEREST. TASER International, Inc. (the "Debtor") grants to Bank One, NA, with its main office in Chicago, IL, whose address is 201 N. Central Ave, 21st Floor, AZ1-1178, Phoenix, AZ 85004, on behalf of itself and its successors and assigns (the "Bank"), as secured party, a continuing security interest in all of the "Collateral" (as hereinafter defined) to secure the payment and performance of the Liabilities.

BORROWER. The term "Borrower" in this agreement means TASER International, Inc.

LIABILITIES. The term "Liabilities" in this agreement means all obligations, indebtedness and liabilities of the Borrower to any one or more of the Bank, BANK ONE CORPORATION, and any of their subsidiaries, affiliates or successors, now existing or later arising, including, without limitation, all loans, advances, interest, costs, overdraft indebtedness, credit card indebtedness, lease obligations, or obligations relating to any Rate Management Transaction, all monetary obligations incurred or accrued during the pendency of any bankruptcy, insolvency, receivership or other similar proceedings, regardless of whether allowed or allowable in such proceeding, and all renewals, extensions, modifications, consolidations or substitutions of any of the foregoing, whether the Borrower may be liable jointly with others or individually liable as a debtor, maker, co-maker, drawer, endorser, guarantor, surety or otherwise, and whether voluntarily or involuntarily incurred, due or not due, absolute or contingent, direct or indirect, liquidated or unliquidated. The term "Rate Management Transaction" in this agreement means any transaction (including an agreement with respect thereto) now existing or hereafter entered into among the Borrower, the Bank or BANK ONE CORPORATION, or any of its subsidiaries or affiliates or their successors, which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

COLLATERAL. Accounts; Chattel Paper; Deposit Accounts; Documents; Equipment; General Intangibles; Instruments; Inventory; Investment Property; and Letter of Credit Rights.

DESCRIPTION OF COLLATERAL. As used in this agreement, the term "Collateral" means all of the Debtor's property of the types indicated above and defined below, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located, including but not limited to any items listed on any schedule or list attached hereto. In addition, the term "Collateral" includes all "proceeds", "products" and "supporting obligations" (as such terms are defined in the "UCC", meaning the Uniform Commercial Code of Arizona, as in EFFECT from time to time) of the Collateral indicated above, including but not limited to all stock rights, subscription rights, dividends, stock dividends, stock splits, or liquidating dividends, and all cash, accounts, chattel paper, "instruments," "investment property," and "general intangibles" (as such terms are defined in the UCC), arising FROM the sale, rent, lease, casualty loss or other disposition of the Collateral, and any Collateral returned to, repossessed by or stopped in transit by the Debtor, and all insurance claims relating to any of the Collateral (defined above). The term "Collateral" further includes all of the Debtor's right, title and interest in and to all books, records and data relating to the Collateral identified above, regardless of the form of media containing such information or data, and all software necessary or desirable to use any of the Collateral identified above or to access, retrieve, or process any of such information or data. Where the Collateral is in the possession of the Bank or the Banks agent, the Debtor agrees to deliver to the Bank any property that represents an increase in the Collateral or profits or proceeds of the Collateral.

1. "Accounts" means all of the Debtor's "accounts" as defined in Article 9 of the UCC.
2. "Chattel Paper" all of the Debtor's "chattel paper" as defined in Article 9 of the UCC.
3. "Deposit Accounts" means all of the Debtor's "deposit accounts" as defined in Article 9 of the UCC.
4. "Documents" means all of the Debtor's "documents" as defined in Article 9 of the UCC.
5. "Equipment" means all of the Debtor's "equipment" as defined in Article 9 of the UCC. In addition, "Equipment" includes any "documents" (as defined in Article 9 of the UCC) issued with respect to any of the Debtor's "equipment" (as defined in Article 9 of the

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UCC). Without limiting the security interest granted, the Debtor represents and warrants that the Debtor's Equipment is presently located at 7860 East McClain Drive #2, Scottsdale, AZ 85260-1627.

6. "General Intangibles" means all of the Debtor's "general intangibles", as defined in Article 9 of the UCC. In addition, "General a refund of taxes paid at any time to any governmental entity, excludes patents, and trademarks.
7. "Instruments" means all of the Debtor's "instruments" as defined in Article 9 of the UCC.
8. "Inventory" means all of the Debtor's "inventory" as defined in Article 9 of the UCC. In addition, "Inventory" includes any "documents" issued with respect to any of the Debtor's "inventory" (as defined in Article 9 of the UCC). Without limiting the security interest granted, the Debtor represents and warrants that the Debtor's Inventory is presently located at 7860 East McClain Drive #Q, Scottsdale, AZ 85260-1627.
9. "Investment Property" means all of the Debtor's "investment property" as defined in Article 9 of the UCC.
10. "Letter of Credit Rights" means all of the Debtor's "letter of credit rights" as defined in Article 9 of the UCC.

REPRESENTATIONS, WARRANTIES AND COVENANTS. The Debtor represents and warrants to, and covenants and agrees with the Bank that:

1. Its principal residence or chief executive office is at the address shown above;
2. The Debtor's name as it appears in this agreement is its exact name as it appears in the Debtor's organizational documents, as amended, including any trust documents;
3. It is or will become the owner of the Collateral free from any liens, encumbrances or security interests, except for this security interest and existing liens disclosed to and accepted by the Bank in writing, and it will defend the Collateral against all claims and demands of all persons at any time claiming any interest in the Collateral;
4. It will keep the Collateral free of liens, encumbrances and other security interests, except for this security interest, maintain the Collateral in good repair, not use it illegally and exhibit the Collateral to the Bank on demand;
5. At its own expense, the Debtor will maintain comprehensive casualty insurance on the Collateral against such risks, in such amounts, with such deductibles and with such companies as may be satisfactory to the Bank. Each insurance policy shall contain a lender's loss payable endorsement satisfactory to the Bank and a prohibition against cancellation or amendment of the policy or removal of the Bank as loss payee without at least thirty (30) days prior written notice to the Bank. In all events, the amounts of such insurance coverages shall conform to prudent business practices and shall be in such minimum amounts that the Debtor will not be deemed a co-insurer. The policies, or certificates evidencing them, shall, if the Bank so requests, be deposited with the Bank. The Debtor authorizes the Bank to endorse on the Debtor's behalf and to negotiate drafts reflecting proceeds of insurance of the Collateral, provided that the Bank shall remit to the Debtor such surplus, if any, as remains after the proceeds have been applied, at the Bank's option, to the satisfaction of all of the Liabilities (in such order of application as the Bank may elect) or to the establishment of a cash collateral account for the Liabilities;
6. It will not sell, lease, license or offer to sell, lease, license or otherwise transfer the Collateral or any rights in or to the Collateral, without the written consent of the Bank, except in the ordinary course of business;
7. It will not change the location of the Collateral from the locations of the Collateral described in this agreement, without providing at least ten (10) days prior written notice to the Bank.
8. It will pay promptly when due all taxes and assessments upon the Collateral, or for the use or operation of the Collateral;
9. No financing statement covering all or any part of the Collateral or any proceeds is on file in any public office, unless the Bank has approved that filing. From time to time at the Bank's request, the Debtor will execute one or more financing statements in form satisfactory to the Bank and will pay the cost of filing them in all public offices where filing is deemed by the Bank to be necessary or desirable. In addition, the Debtor shall execute and deliver, or cause to be executed and delivered, such other documents as the Bank may from time to time request to perfect or to further evidence the security interest created in the Collateral by this agreement including, without limitation: (a) any certificate or certificates of title to the Collateral with the security interest of the Bank noted thereon or executed applications for such certificates of title in form satisfactory to the Bank; (b) any assignments of claims under government contracts which are included as part of the Collateral, together with any notices and related documents as the Bank may from time to time request; (c) any assignment of any specific account receivable as the Bank may from time to time request; (d) a notice of security interest and a control agreement with respect to any Collateral, all in form and substance satisfactory to the Bank; (e) a notice to and acknowledgment from any person holding possession of any Collateral as a bailee for the

Banks benefit , all in form and substance satisfactory to the Bank, and (f) any consent to the assignment of proceeds of any letter of credit, all in form and substance satisfactory to the Bank;

10. It will not, without the Banks prior written consent, change the Debtor's name, the Debtor's business organization, the jurisdiction under which the Debtor's business organization is formed or organized, or the Debtor's chief executive office, or of any additional places of the Debtor's business;
11. It will provide any information that the Bank may reasonably request and will permit the Bank or the Banks agents to inspect and copy its books, records, data and the Collateral at any time during normal business hours;

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12. The Bank shall have the right now, and at any time in the future in its sole and absolute discretion, without notice to the Debtor, to (a) prepare, file and sign the Debtor's name on any proof of claim in bankruptcy or similar document against any owner of the Collateral and (b) prepare, file and sign the Debtor's name on any financing statement, notice of lien, assignment or satisfaction of lien or similar document in connection with the Collateral. The Debtor hereby authorizes the Bank to file financing statements containing the collateral description "All of the Debtor's assets whether now owned or hereafter acquired." or such lesser amount of assets as the Bank may determine, or the Bank may, at its option, file financing statements containing any collateral description which reasonably describes the Collateral in which a security interest is granted under this agreement;
13. Immediately upon the Debtor's receipt of any Collateral evidenced by an agreement, "instrument," "chattel paper," certificated "security" or "document" (as such terms are defined in the UCC) (collectively, "Special Collateral"), the Debtor shall mark the Special Collateral to show that it is subject to the Bank's security interest and shall deliver the original to the Bank together with appropriate endorsements and other specific evidence of assignment in form and substance satisfactory to the Bank;
14. The Debtor shall keep all tangible Collateral in good order and repair and shall not waste or destroy any of the Collateral, nor use any of the Collateral in violation of any applicable law or any policy of insurance thereon. To the extent that the Collateral consists of "farm products" (as defined in the UCC), the Debtor shall attend to and care for the crops and livestock in accordance with the best practices of good husbandry, and do, or cause to be done, any and all acts that may at any time be appropriate or necessary to grow, raise, harvest, care for, preserve and protect the farm products;
15. Except as may be otherwise disclosed in writing by the Debtor to the Bank, none of the Collateral is attached to real estate so as to constitute a "fixture" (as defined in the UCC) and none of the Collateral shall at any time hereafter be attached to real estate so as to constitute a fixture. If any of the Collateral is now or at any time hereafter becomes so attached to real estate so as to constitute a fixture, the Debtor shall, at any time upon the Banks request, furnish the Bank with a disclaimer of interest in the Collateral executed by each person or entity having an interest in such real estate.

ACCOUNTS; CHATTEL PAPER; GENERAL INTANGIBLES AND INSTRUMENTS. If the Collateral includes the Debtor's "Accounts, Chattel Paper, General Intangibles and Instruments" and until the Bank gives notice to the Debtor to the contrary, the Debtor will, in the usual course of its business and at its own expense, on the Banks behalf but not as the Banks agent, demand and receive and use its best efforts to collect all moneys due or to become due with respect to the Collateral. Until the Bank gives notice to the Debtor to the contrary or until the Debtor is in default, it may use the funds collected in its business. Upon notice from the Bank or upon default, the Debtor agrees that all sums of money it receives on account of OR in payment or settlement of the Accounts, Chattel Paper, General Intangibles and Instruments shall be held by it as trustee for the Bank without commingling with any of the Debtor's other funds, and shall immediately be delivered to the Bank with endorsement to the Banks order of any check or similar instrument. It is agreed that, at any time the Bank so elects, the Bank shall be entitled, in its own name or in the name of the Debtor or otherwise, but at the expense and cost of the Debtor, to collect, demand, receive, sue for or compromise any and all Accounts, Chattel Paper, General Intangible*, and Instruments, and to give good and sufficient releases, to endorse any checks, drafts or other orders for the payment of money payable to the Debtor and, in the Banks discretion, to file any claims or take any action or proceeding which the Bank may deem necessary or advisable. It is expressly understood and agreed, however, that the Bank shall not be required or obligated in any manner to make any demand or to make any inquiry as to the nature or sufficiency of any payment received by it or to present or tile any claim or take any other action to collect or enforce the payment of any amounts which may have been assigned to the Bank or to which the Bank may be entitled at any time or TIMES. All notices required in this paragraph will be immediately effective when sent. Such notices need not be given prior to the Banks taking action. The Debtor appoints the Bank or the Bank's designee as the Debtor's attorney-in-fact to do all things with reference to the Collateral as provided for in this section including without limitation (1) to notify the post office authorities to change the Debtor's mailing address to one designated by the Bank, (2) to receive, open and dispose of mail addressed to the Debtor, (3) to sign the Debtor's name on any invoice or bill of lading relating to any Collateral, on assignments and verifications of account and on notices to the Debtor's customers, and (4) to do all things necessary to carry out this agreement. The Debtor ratifies and approves all acts of the Bank as attorney-in-fact. The Bank shall not be liable for any act or omission, nor any error of judgment or mistake of fact or law, but only for its gross negligence or willful misconduct. This power being coupled with an interest is irrevocable until all of the Liabilities have been fully satisfied.

PLEDGE. If the Debtor is not liable for all or any part of the Liabilities, then the Debtor agrees that:

1. If any moneys become available from any source other than the Collateral that the Bank can apply to the Liabilities, the Bank may apply them in any manner it chooses, including but not limited to applying them against obligations, indebtedness or liabilities which are not secured by this agreement.
2. The Bank may take any action against the Borrower, the Collateral or any other collateral for the Liabilities, or any other person liable for any of the Liabilities.

3. The Bank may release the Borrower or anyone else from the Liabilities, either in whole or in part, or release the Collateral in whole or in part or any other collateral for the Liabilities, and need not perfect a security interest in the Collateral or any other collateral for the Liabilities.
4. The Bank does not have to exercise any rights that it has against the Borrower or anyone else, or make any effort to realize on the Collateral or any other collateral for the Liabilities, or exercise right of setoff.

* excluding patents and trademarks.

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5. Without notice or demand and without affecting the Debtor's obligations hereunder, from time to time, the Bank is authorized to: (a) renew, modify, compromise, extend, accelerate or otherwise change the time for payment of, or otherwise change the terms of the Liabilities or any part thereof, including increasing or decreasing the rate of interest thereon; (b) release, substitute or add any one or more sureties, endorsers, or guarantors; (c) take and hold other collateral for the payment of the Liabilities, and enforce, exchange, substitute, subordinate, waive or release any such collateral; (d) proceed against the Collateral or any other collateral for the Liabilities and direct the order or manner of sale as the Bank in its discretion may determine; and (e) apply any and all payments received by the Bank in connection with the Liabilities, or recoveries from the Collateral or any other collateral for the Liabilities, in such order or manner as the Bank in its discretion may determine.
6. The Debtor's obligations hereunder shall not be released, diminished or affected by (a) any act or omission of the Bank, (b) the voluntary or involuntary liquidation, sale or other disposition of all or substantially all of the assets of the Borrower, or any receivership, insolvency, bankruptcy, reorganization, or other similar proceedings affecting the Borrower or any of its assets, (c) any change in the composition or structure of the Borrower, including a merger or consolidation with any other person or entity, or (d) any payments made upon the Liabilities.
7. The Debtor expressly consents to any impairment of any other collateral for the Liabilities, including, but not limited to, failure to perfect a security interest and release of any other collateral for the Liabilities and any such impairment or release shall not affect the Debtor's obligations hereunder.
8. The Debtor waives and agrees not to enforce any rights of subrogation, contribution or indemnification that it may have against the Borrower, any person liable on the Liabilities, or the Collateral, until the Borrower and the Debtor have fully performed all their obligations to the Bank, even if those obligations are not covered by this agreement.
9. The Debtor waives (a) to the extent permitted by law, all rights and benefits under any laws or statutes regarding sureties, as may be amended, (b) any right the Debtor may have to receive notice of the following matters before the Bank enforces any of its rights: (i) the Bank's acceptance of this agreement, (ii) any credit that the Bank extends to the Borrower, (iii) the Borrower's default, (iv) any demand, diligence, presentment, dishonor and protest, or (v) any action that the Bank takes regarding the Borrower, anyone else, any other collateral for the Liabilities, or any of the Liabilities, which it might be entitled to by law or under any other agreement, (c) any right it may have to require the Bank to proceed against the Borrower, any other obligor or guarantor of the Liabilities, the Collateral or any other collateral for the Liabilities, or pursue any remedy in the Bank's power to pursue, (d) any defense based on any claim that the Debtor's obligations exceed or are more burdensome than those of the Borrower, (e) the benefit of any statute of limitations affecting the Debtor's obligations hereunder or the enforcement hereof, (f) any defense arising by reason of any disability or other defense of the Borrower or by reason of the cessation from any cause whatsoever (other than payment in full) of the obligation of the Borrower for the Liabilities, and (g) any defense based on or arising out of any defense that the Borrower may have to the payment or performance of the Liabilities or any portion thereof. The Bank may waive or delay enforcing any of its rights without losing them. Any waiver affects only the specific terms and time period stated in the waiver.
10. The Debtor agrees that to the extent any payment is received by the Bank in connection with the Liabilities, and all or any part of such payment is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid by the Bank or paid over to a trustee, receiver or any other entity, whether under any bankruptcy act or otherwise (any such payment is hereinafter referred to as a "Preferential Payment"), then this agreement shall continue to be effective or shall be reinstated, as the case may be, and whether or not the Bank is in possession of this agreement, and, to the extent of such payment or repayment by the Bank, the Liabilities or part thereof intended to be satisfied by such Preferential Payment shall be revived and continued in full force and effect as if said Preferential Payment had not been made. If this agreement must be reinstated, the Debtor agrees to execute and deliver to the Bank any new security agreements and financing statements, if necessary or if requested by the Bank, in form and substance acceptable to the Bank, covering the Collateral.
11. Any rights of the Debtor, whether now existing or hereafter arising, to receive payment on account of any indebtedness (including interest) owed to the Debtor by the Borrower, or to withdraw capital invested by the Debtor in the Borrower, or to receive distributions from the Borrower, shall at all times be subordinate to the full and prior repayment to the Bank of the Liabilities. The Debtor shall not be entitled to enforce or receive payment of any sums hereby subordinated until the Liabilities have been paid in full and any such sums received in violation of this agreement shall be received by the Debtor in trust for the Bank. The Debtor agrees to fully cooperate with the Bank and not to delay, impede or otherwise interfere with the efforts of the Bank to secure payment from the assets which secure the Liabilities including actions, proceedings, motions, orders, agreements or other matters relating to relief from automatic stay, abandonment of property, use of cash collateral and sale of the Banks collateral free and clear of all liens. The foregoing notwithstanding, until the occurrence of any default, the Debtor is not prohibited from receiving distributions from the Borrower in an amount equal to any income tax liability imposed on the Debtor attributable to

the Debtor's ownership interest in the Borrower, if any.

DEFAULT; REMEDIES. If any of the Liabilities are not paid at maturity, whether by acceleration or otherwise, or if a default by anyone occurs under the terms of any agreement related to any of the Liabilities, then the Bank shall have the rights and remedies provided by law or this agreement, including but not limited to the right to require the Debtor to assemble the Collateral and make it available to the Bank at a place to be designated by the Bank which is reasonably convenient to both parties, the right to take possession of the Collateral with or without demand and with or without process of law, and the right to sell and dispose of it and distribute the proceeds according to law. Should a

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default occur, the Debtor will pay to the Bank all costs reasonably incurred by the Bank for the purpose of enforcing its rights hereunder, to the extent not prohibited by law, including, without limitation: costs of foreclosure; costs of obtaining money damages; and a reasonable fee for the services of internal and outside attorneys employed or engaged by the Bank for any purpose related to this agreement, including, without limitation, consultation, drafting documents, sending notices or instituting, prosecuting or defending litigation or any proceeding. The Debtor agrees that upon default the Bank may dispose of any of the Collateral in its then present condition, that the Bank has no duty to repair or clean the Collateral prior to sale, and that the disposal of the Collateral in its present condition or without repair or clean-up shall not affect the commercial reasonableness of such sale or disposition. The Bank's compliance with any applicable state or federal law requirements in connection with the disposition of the Collateral will not adversely affect the commercial reasonableness of any sale of the Collateral. The Bank may disclaim warranties of title, possession, quiet enjoyment, and the like, and the Debtor agrees that any such action shall not affect the commercial reasonableness of the sale. In connection with the right of the Bank to take possession of the Collateral, the Bank may take possession of any other items of property in or on the Collateral at the time of taking possession, and hold them for the Debtor without liability on the part of the Bank. The Debtor expressly agrees that the Bank may enter upon the premises where the Collateral is believed to be located without any obligation of payment to the Debtor, and that the Bank may, without cost, use any and all of the Debtor's "equipment" (as defined in the UCC) in the manufacturing or processing of any "inventory" (as defined in the UCC) or in growing, raising, cultivating, caring for, harvesting, loading and transporting of any of the Collateral that constitutes "farm products" (as defined in the UCC). If there is any statutory requirement for notice, that requirement shall be met if the Bank sends notice to the Debtor at least ten (10) days prior to the date of sale, disposition or other event giving rise to the required notice, and such notice shall be deemed commercially reasonable. The Debtor is liable for any deficiency remaining after disposition of the Collateral.

MISCELLANEOUS.

1. Where the Collateral is located at, used in or attached to a facility leased by the Debtor, the Debtor will obtain from the lessor a consent to the granting of this security interest and a release or subordination of the lessor's interest in any of the Collateral, in form acceptable to the Bank.
2. At its option the Bank may, but shall be under no duty or obligation to, discharge taxes, liens, security interests or other encumbrances at any time levied or placed on the Collateral, pay for insurance on the Collateral, and pay for the maintenance and preservation of the Collateral, and the Debtor agrees to reimburse the Bank on demand for any payment made or expense incurred by the Bank, with interest at the highest rate at which interest may accrue under any of the instruments evidencing the Liabilities.
3. No delay on the part of the Bank in the exercise of any right or remedy waives that right or remedy, no single or partial exercise by the Bank of any right or remedy precludes any other exercise of it or the exercise of any other right or remedy, and no waiver or indulgence by the Bank of any default is effective unless it is in writing and signed by the Bank, nor does a waiver on one occasion waive that right on any future occasion.
4. If any provision of this agreement is invalid, it shall be ineffective only to the extent of its invalidity, and the remaining provisions shall be valid and effective.
5. Except as provided in the Accounts; Chattel Paper; General Intangibles; and Instruments paragraph above, any notices and demands under or related to this document shall be in writing and delivered to the intended party at its address stated herein, and if to the Bank, at its main office if no other address of the Bank is specified herein, by one of the following means: (a) by hand, (b) by a nationally recognized overnight courier service, or (c) by certified mail, postage prepaid, with return receipt requested. Notice shall be deemed given: (a) upon receipt if delivered by hand, (b) on the Delivery Day after the day of deposit with a nationally recognized courier service, or (c) on the third Delivery Day after the notice is deposited in the mail. "Delivery Day" means a day other than a Saturday, a Sunday, or any other day on which national banking associations are authorized to be closed. Any party may change its address for purposes of the receipt of notices and demands by giving notice of such change in the manner provided in this provision.
6. All rights of the Bank benefit the Banks successors and assigns; and all obligations of the Debtor bind the Debtor's heirs, executors, administrators, successors and assigns. If there is more than one Debtor, their obligations are joint and several.
7. A carbon, photographic or other reproduction of this agreement is sufficient as, and can be filed as, a financing statement. The Bank is irrevocably appointed the Debtor's attorney-in-fact to execute any financing statement on the Debtor's behalf covering the Collateral. Additionally, if permitted by applicable law, the Debtor authorizes the Bank to file one or more financing statements related to the security interests created by this agreement, and further authorizes the Bank, as secured party herein, instead of the Debtor, to sign such financing statements.

INDEMNIFICATION. The Debtor agrees to indemnify, defend and hold the Bank and BANK ONE CORPORATION, and any of its subsidiaries or affiliates or their successors, and each of their respective shareholders, directors, officers, employees and agents (collectively the "Indemnified Persons") harmless from any and all obligations, claims, liabilities, losses, damages, penalties, fines,

forfeitures, actions, judgments, suits, costs, expenses and disbursements of any kind or nature (including, without limitation, any Indemnified Person's attorneys' fees) (collectively the "Claims") which may be imposed upon, incurred by or assessed against any Indemnified Person (whether or not caused by any Indemnified Person's sole, concurrent, or contributory negligence) arising out of or relating to this agreement; the Debtor's use of the property covered by this agreement; the exercise of the rights and remedies granted under this agreement (including, without limitation, the enforcement of this agreement and the defense of any Indemnified Person's action or inaction in connection with this agreement); and in connection with the Debtor's failure to perform all of the Debtor's obligations under this agreement, except to the limited extent that the Claims against any such Indemnified Person are proximately



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caused by such Indemnified Person's gross negligence or willful misconduct. The indemnification provided for in this section shall survive the termination of this agreement and shall extend to and continue to benefit each individual or entity who is or has at any time been an Indemnified Person.

The Debtor's indemnity obligations under this section shall not in any way be affected by the presence or absence of covering insurance, or by the amount of such insurance or by the failure or refusal of any insurance carrier to perform any obligation on its part under any insurance policy or policies affecting the Debtor's assets or the Debtor's business activities. Should any Claim be made or brought against any Indemnified Person by reason of any event as to which the Debtor's indemnification obligations apply, then, upon any Indemnified Person's demand, the Debtor, at its sole cost and expense, shall defend such Claim in the Debtor's name, if necessary, by the attorneys for the Debtor's insurance carrier (if such Claim is covered by insurance), or otherwise by such attorneys as any Indemnified Person shall approve. Any Indemnified Person may also engage its own attorneys at its reasonable discretion to defend the Debtor and to assist in its defense and the Debtor agrees to pay the fees and disbursements of such attorneys.

GOVERNING LAW AND VENUE. This agreement is delivered in the State of Arizona and governed by Arizona law (without giving effect to its laws of conflicts), except to the extent that the laws regarding the perfection and priority of property of the state in which any property securing the Liabilities is located are applicable. The Debtor AGREES that any legal action or proceeding with respect to any of its obligations under this agreement may be brought by the Bank in any state or federal court located in the State of Arizona, as the Bank in its sole discretion may elect. By the execution and delivery of this agreement, the Debtor submits to and accepts, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of those courts. The Debtor waives any claim that the State of Arizona is not a convenient forum or the proper venue for any such suit, action or proceeding.

REPRESENTATIONS. Each Debtor represents that: (a) the execution and delivery of this agreement and the performance of the obligations it imposes do not violate any law, do not conflict with any agreement by which it is bound, and do not require the consent or approval of any governmental authority or any third party; (b) this agreement is a valid and binding agreement, enforceable according to its terms; and (c) all balance sheets, profit and loss statements, and other financial statements furnished to the Bank in connection with the Liabilities are accurate and fairly reflect the financial condition of the organizations and persons to which they apply on their effective dates, including contingent liabilities of every type, which financial condition has not changed materially and adversely since those dates. Each Debtor, other than a natural person, further represents that: (a) it is duly organized, existing and in good standing under the laws where it is organized; and (b) the execution and delivery of this agreement and the performance of the obligations it imposes (i) are within its powers and have been duly authorized by all necessary action of its governing body; and (iii) do not contravene the terms of its articles of incorporation or organization, its by-laws, or any agreement governing its affairs.

WAIVER OF SPECIAL DAMAGES. THE DEBTOR WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT THE UNDERSIGNED MAY HAVE TO CLAIM OR RECOVER FROM THE BANK IN ANY LEGAL ACTION OR PROCEEDING ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.

JURY WAIVER. THE DEBTOR AND THE BANK (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN OR AMONG THE DEBTOR AND THE BANK ARISING OUT OF OR IN ANY WAY RELATED TO THIS DOCUMENT. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE BANK TO PROVIDE THE FINANCING DESCRIBED HEREIN.

Dated: May 31, 2002

DEBTOR:

TASER International, Inc.

By: /s/ Thomas P. Smith

Thomas P. Smith President

Printed Name Title

Christy Murphy AZ13044

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[BANK ONE LOGO]

ASSIGNMENT OF DEPOSIT ACCOUNT

TASER International, Inc., whose address is 7860 East McClain Drive #2, Phoenix, Arizona 85260-1627 (the "Assignor"), pledges, assigns, transfers and grants a security interest to Bank One, NA, with its main office in Chicago, IL, whose address is 201 N. Central Ave, 21st Floor, AZL-1178, Phoenix, AZ 85001 (the "Bank"), and its successors and assigns, in account number(s) 1600587123 (the "Account") and any interest, additions and proceeds due or to become due on the Account and any substitutions, which Account is held at Bank One, NA, with its main office in Chicago, IL.

This Assignment secures the Liabilities. The term "Borrower" in this Assignment means TASER International, Inc.

The Assignor unconditionally guarantees payment of the Liabilities, provided that unless otherwise agreed in any other present or future contract between the Assignor and the Bank, the Bank agrees that its sole recourse under this Assignment shall be to exercise its rights against the Account as provided in this Assignment.

LIABILITIES. The term "Liabilities" in this Assignment means all obligations, indebtedness and liabilities of the Borrower to any one or more of the Bank, BANK ONE CORPORATION, and any of their subsidiaries, affiliates or successors; now existing or later arising, including, without limitation, all loans, advances, interest, costs, overdraft indebtedness, credit card indebtedness, lease obligations, or obligations relating to any Rate Management Transaction, all monetary obligations incurred or accrued during the pendency of any bankruptcy, insolvency, receivership or other similar proceedings, regardless of whether allowed or allowable in such proceeding, and all renewals, extensions, modifications, consolidations or substitutions of any of the foregoing, whether the Borrower may be liable jointly with others or individually liable as a debtor, maker, co-maker, drawer, endorser, guarantor, surety or otherwise, and whether voluntarily or involuntarily incurred, due or not due, absolute or contingent, direct or indirect, liquidated or unliquidated. The term "Rate Management Transaction" in this Assignment means any transaction (including an agreement with respect thereto) now existing or hereafter entered into among the Borrower, the Bank or BANK ONE CORPORATION, or any of its subsidiaries or affiliates or their successors, which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

WARRANTIES. The Assignor represents and warrants that it will not withdraw any moneys from the Account and that it has not previously assigned the Account or any part of it. The passbook, certificate or other evidence of the Account has been delivered to the Bank.

DEFAULT/REMEDIES. If any of the Liabilities are not paid at maturity, whether by acceleration or otherwise, or if a default by anyone occurs, under the terms of any agreement related to any of the Liabilities, then the Bank shall have the right immediately, without notice, at the Bank's option, to withdraw all or any portion of the Account and apply those moneys to the Liabilities whether or not the Liabilities have been declared to be due and owing; provided that, to the extent any Liabilities consist of extensions of credit to the Borrower by the issuance of letters of credit or other like obligations of the Bank to third parties which have not then been utilized, such proceeds shall be held by the Bank in a cash collateral account as security for the Liabilities.

PLEDGE. If the Assignor is not liable for all or any part of the Liabilities, then the Assignor agrees that:

1. If any moneys become available from any source other than the Account that the Bank can apply to the Liabilities, the Bank may apply them in any manner it chooses, including but not limited to applying them against obligations, indebtedness or liabilities which are not secured by this Assignment.
2. The Bank may take any action against the Borrower, the Account or any other collateral for the Liabilities, or any other person liable for any of the Liabilities.
3. The Bank may release the Borrower or anyone else from the Liabilities, either in whole or in part, or release the Account in whole or in part or any other collateral for the Liabilities, and need not perfect a security interest in the Account or any other collateral for the Liabilities.
4. The Bank does not have to exercise any rights that it has against the Borrower or anyone else, or make any effort to realize on the Account or any other collateral for the Liabilities, or exercise any right of setoff.
5. Without notice or demand and without affecting the Assignor's obligations hereunder, from time to time, the Bank is authorized to: (a) renew, modify, compromise, extend, accelerate or otherwise change the time for payment of, or otherwise change the terms of the Liabilities or any part thereof, including increasing or decreasing the rate of interest thereon; (b) release, substitute or add any one or more sureties, endorsers, or guarantors; (c) take and hold other collateral for the payment of the Liabilities, and enforce, exchange, substitute, subordinate, waive or release any such collateral; (d) proceed against the Account or any other collateral for the Liabilities and direct the order or manner of sale as the Bank in its discretion may determine; and (e) apply any

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and all payments received by the Bank in connection with the Liabilities, or recoveries from the Account or any other collateral for the Liabilities, in such order or manner as the Bank in its discretion may determine.

6. The Assignor's obligations hereunder shall not be released, diminished or affected by (a) any act or omission of the Bank, (b) the voluntary or involuntary liquidation, sale or other disposition of all or substantially all of the assets of the Borrower, or any receivership, insolvency, bankruptcy, reorganization, or other similar proceedings affecting the Borrower or any of its assets, (c) any change in the composition or structure of the Borrower, including a merger or consolidation with any other person or entity, or (d) any payments made upon the Liabilities.
7. The Assignor expressly consents to any impairment of any other collateral for the Liabilities, including, but not limited to, failure to perfect a security interest and release of any other collateral for the Liabilities and any such impairment or release shall not affect the Assignor's obligations hereunder.
8. The Assignor waives and agrees not to enforce any rights of subrogation, contribution or indemnification that it may have against the Borrower, any person liable on the Liabilities, or the Account, until the Borrower and the Assignor have fully performed all their obligations to the Bank, even if those obligations are not covered by this Assignment.
9. The Assignor waives (a) to the extent permitted by law, all rights and benefits under any laws or statutes regarding sureties, as may be amended, (b) any right the Assignor may have to receive notice of the following matters before the Bank enforces any of its rights: (i) the Bank's acceptance of this Assignment, (ii) any credit that the Bank extends to the Borrower, (iii) the Borrower's default, (iv) any demand, diligence, presentment, dishonor and protest, or (v) any action that the Bank takes regarding the Borrower, anyone else, any other collateral for the Liabilities, or any of the Liabilities, which it might be entitled to by law or under any other agreement, (c) any right it may have to require the Bank to proceed against the Borrower, any other obligor or guarantor of the Liabilities, the Account or any other collateral for the Liabilities, or pursue any remedy in the Banks power to pursue, (d) any defense based on any claim that the Assignor's obligations exceed or are more burdensome than those of the Borrower, (e) the benefit of any statute of limitations affecting the Assignor's obligations hereunder or the enforcement hereof, (f) any defense arising by reason of any disability or other defense of the Borrower or by reason of the cessation from any cause whatsoever (other than payment in full) of the obligation of the Borrower for the Liabilities, and (g) any defense based on or arising out of any defense that the Borrower may have to the payment or performance of the Liabilities or any portion thereof. The Bank may waive or delay enforcing any of its rights without losing them. Any waiver affects only the specific terms and time period stated in the waiver.
10. The Assignor agrees that to the extent any payment is received by the Bank in connection with the Liabilities, and all or any part of such payment is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid by the Bank or paid over to a trustee, receiver or any other entity, whether under any bankruptcy act or otherwise (any such payment is hereinafter referred to as a "Preferential Payment"), then this Assignment shall continue to be effective or shall be reinstated, as the case may be, and whether or not the Bank is in possession of this Assignment, and, to the extent of such payment or repayment by the Bank, the Liabilities or part thereof intended to be satisfied by such Preferential Payment shall be revived and continued in full force and effect as if said Preferential Payment had not been made. If this Assignment must be reinstated, the Assignor agrees to execute and deliver to the Bank any new assignments and agreements, if necessary or if requested by the Bank, in form and substance acceptable to the Bank, covering the Account.
11. Any rights of the Assignor, whether now existing or hereafter arising, to receive payment on account of any indebtedness (including interest) owed to the Assignor by the Borrower, or to withdraw capital invested by the Assignor in the Borrower, or to receive distributions from the Borrower, shall at all times be subordinate to the full and prior repayment to the Bank of the Liabilities. The Assignor shall not be entitled to enforce or receive payment of any sums hereby subordinated until the Liabilities have been paid in full and any such sums received in violation of this Assignment shall be received by the Assignor in trust for the Bank. The Assignor agrees to fully cooperate with the Bank and not to delay, impede or otherwise interfere with the efforts of the Bank to secure payment from the assets which secure the Liabilities including actions, proceedings, motions, orders, agreements or other matters relating to relief from automatic stay, abandonment of property, use of cash collateral and sale of the Banks collateral free and clear of all liens. The foregoing notwithstanding, until the occurrence of any default, the Assignor is not prohibited from receiving distributions from the Borrower in an amount equal to any income tax liability imposed on the Assignor attributable to the Assignor's ownership interest in the Borrower, if any.
12. Without limiting any foregoing waiver, consent or agreement, the Assignor further waives any and all benefits under Arizona Revised Statutes Section 12-1641 through 12-1646, inclusive, and Rule 17(f) of the Arizona Rules of Civil Procedure, including any revision or replacement of such statutes or rules hereafter enacted.

MISCELLANEOUS. The Assignor consents to any extension, postponement or renewal of any Liabilities, the release or discharge of all or any part of the security for the Liabilities, and the release or discharge or suspension of any rights

and remedies against any person who may be liable for any of the Liabilities. The Bank does not have to look to any other right, any other collateral, or any other person for payment before it exercises its rights under this Assignment. The Assignor's obligations to the Bank under this Assignment are not subject to any condition, precedent or subsequent. If this Assignment is signed by more than one person, all shall be jointly and severally bound. This Assignment is binding on the Assignor and its heirs, successors and assigns, and is for the benefit of the Bank and its successors and assigns. The use of section headings shall not limit the provisions of this Assignment. A carbon, photographic or other reproduction of this Assignment is sufficient as, and can be filed as, a financing statement. The Bank is irrevocably appointed the Assignor's attorney-in-fact to execute any financing statement on the Assignor's behalf covering the Account. Additionally, if permitted by applicable law, the Assignor

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authorizes the Bank to file one or more financing statements related to the security interests created by this Assignment and further authorizes the Bank, instead of the Assignor, to sign such financing statements.

GOVERNING LAW AND VENUE. This Assignment is delivered in the State of Arizona and governed by Arizona law (without giving effect to its laws of conflicts), except to the extent that the laws regarding the perfection and priority of property of the state in which any property securing the Liabilities is located are applicable. The Assignor agrees that any legal action or proceeding with respect to any of its obligations under this Assignment may be brought by the Bank in any state or federal court located in the State of Arizona, as the Bank in its sole discretion may elect. By the execution and delivery of this Assignment, the Assignor submits to and accepts, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of those courts. The Assignor waives any claim that the State of Arizona is not a convenient forum or the proper venue for any such suit, action or proceeding.

WAIVER OF SPECIAL DAMAGES. THE ASSIGNOR WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT THE UNDERSIGNED MAY HAVE TO CLAIM OR RECOVER FROM THE BANK IN ANY LEGAL ACTION OR PROCEEDING ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.

JURY WAIVER. THE ASSIGNOR AND THE BANK (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN THE ASSIGNOR AND THE BANK ARISING OUT OF OR IN ANY WAY RELATED TO THIS DOCUMENT. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE BANK TO PROVIDE THE FINANCING DESCRIBED HEREIN.

Dated: May 31, 2002
Address: 7860 East McClain Drive #2

Scottsdale, AZ 852604627

ASSIGNOR:

TASER International, Inc.

By: /s/ Thomas P. Smith

Thomas P. Smith

President

Printed Name

Title

Christy MurphyAZ13044

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May 31, 2002

Bank One, NA
Commercial Banking Group
ATTN: Steven J. Krakoski
201 North Central Avenue, 21st Floor
Phoenix, Arizona 85004

RE: CLN# ____/ \$1.5MM line # ____and \$ 1 MM line #____
Borrower: TASER International, Inc.

To Whom It May Concern:

Please accept this letter as your authorization to allow advances under the revolving line of credit/line of credit to be made by Bank One, NA at the oral or written request of the following:

1. Patrick W. Smith
2. Thomas P. Smith
3. Kathleen C. Hanrahan
4. _____

Please insert names of individuals authorized to request advances on behalf of the Borrower.

Any one acting alone, who are authorized to request advances and direct the disposition of any such advances until written notice of the revocation of such authority is received by Lender.

Sincerely,
TASER International, Inc.

By: /s/ K. Hanrahan

K. Hanrahan

Name: K. Hanrahan

Title: CFO, Corp. Secy.

Authorized Agent

cc: copy - CCS
original - file

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AGREEMENT TO PROVIDE INSURANCE

BORROWER: TASER International, Inc. BANK: Bank One, NA
7860 East McClain Drive #2 201 N. Central Avenue
Scottsdale, AZ 85260 Phoenix, AZ 85004

INSURANCE REQUIREMENTS. TASER INTERNATIONAL, INC. ("Borrower"), understands that insurance coverage is required in connection with the extending of a loan or the providing of other financial accommodations to Borrower by Bank. 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: INVENTORY AND EQUIPMENT

TYPE. All risks, including fire, theft and liability.
AMOUNT. Full insurable amount
BASIS. Replacement value.
ENDORSEMENTS. Banks loss payable clause with the stipulation that coverage will not be cancelled or diminished without a minimum of thirty (30) days' prior written notice to Bank.

INSURANCE COMPANY. Borrower may obtain insurance from any insurance company Borrower may choose that is reasonably acceptable to Bank. Borrower understands that credit may not be denied solely because insurance was not purchased through Bank.

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 One Loan Servicing
P O Box 901094
Fort Worth, TX 76101-9817

FAILURE TO PROVIDE INSURANCE. Borrower agrees to deliver to Bank, no later than on or before closing, evidence of the required insurance as provided above, with an effective date of _____ or earlier. Borrower acknowledges and agrees that if Borrower fails to provide any required insurance or fails to continue such insurance in force, Bank may do so at Borrower's expense as provided in the applicable security document. The cost of any such insurance, at the option of Bank, shall be payable on demand or shall be added to the indebtedness as provided in the security document. BORROWER ACKNOWLEDGES THAT IF BANK 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, BORROWER'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, Borrower authorizes Bank to provide to any person (including any insurance agent or company) all information Bank deems appropriate, whether regarding the Collateral, the loan or other financial accommodations, or both.

BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS AGREEMENT TO PROVIDE INSURANCE AND AGREE TO ITS TERMS. THIS AGREEMENT IS DATED MAY 31, 2002.

BORROWER:

X /s/ K Hanrahan 6/5/02

TASER International, Inc. DATE

FOR BANK USE ONLY
INSURANCE VERIFICATION

<TABLE>
<S> DATE: 6/13/02 <C> PHONE: 602-977-3652

AGENT'S NAME: Schaefer - Smith - Ankeney Insurance Agency Emma Martinez
INSURANCE COMPANY: Hartford

POLICY NUMBER: 59VVCFH9146

EFFECTIVE DATES: 9/1/01 - 9/1/02

COMMENTS:

</TABLE>

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[BANK ONE LOGO]

RESOLUTION OF BOARD OF DIRECTORS

By
TASER International, Inc.,
a(n) Delaware corporation (the "Corporation").

The Corporation desires to engage in financial transactions from time to time with Bank One, NA, with its main office in Chicago, IL, and its successors and assigns (the "Bank"); and

The Corporation desires to authorize certain of its officers to engage in these transactions for the Corporation; and

The Corporation desires to ratify all past transactions and eliminate the necessity of presenting separate individual resolutions to the Bank in the future; and

The Corporation has found that the transactions authorized by the resolutions are or will be in the Corporation's interest and to its financial benefit.

RESOLVED: The CEO, President and CFO, or any 1 of them, is authorized from time to time for the Corporation to enter into any agreements of any nature with the Bank, and those agreements will bind the Corporation. Specifically, but without limitation, the authorized person is authorized, empowered, and directed to do the following for and on behalf of the Corporation:

1. Borrow and incur any indebtedness, negotiate and procure loans, lines of credit, letters of credit, discounts, and any other credit or financial accommodations from the Bank in any form and in any amount and on any terms as may be agreed upon between the Corporation and the Bank.
2. Guarantee or act as a surety for loans or other financial accommodations of any person, entity or third party to the Bank on such guarantee or surety terms as may be agreed upon with the Bank.
3. Subordinate, in all respects, any and all present and future indebtedness, obligations, liabilities, claims, rights, demands, notes and leases, of any kind which may be owed, now or hereafter, from any person or entity to the Corporation to all present and future indebtedness, obligations, liabilities, claims, rights and demands of any kind which may be owed, now or hereafter, from such person or entity to the Bank ("Subordinated Indebtedness"), together with subordination by the Corporation of any and all security interests, liens and mortgages, of any kind, whether now existing or hereafter acquired, securing payment of the Subordinated Indebtedness, all on such terms as may be agreed upon between the Corporation's officers and the Bank and in such amounts as in his or her judgment should be subordinated.
4. Mortgage, pledge, transfer, endorse, hypothecate, or otherwise encumber and deliver to the Bank any property now or hereafter belonging to the Corporation or in which the Corporation now or hereafter may have an interest, including without limitation, all real property and all personal property, tangible or intangible, of the Corporation, as security for the payment of any credits, loans, or other financial accommodations so obtained by the Corporation or by any other person or entity, or any promissory notes so executed, including any amendments to or modifications, renewals, and extensions of such promissory notes, or any other or further indebtedness of the Corporation, including the guarantee of indebtedness by the Corporation for any other person or any other entity owed to the Bank at any time, however the same may be evidenced. Such property may be mortgaged, pledged, transferred, endorsed, hypothecated, or encumbered at the time such loans are obtained or such indebtedness is incurred, or at any other time or times, and may be either in addition to or in lieu of any property theretofore mortgaged, pledged, transferred, endorsed, hypothecated or encumbered.
5. Lease personal property as lessee and elect as to tax credit and depreciation deductions.
6. Sell, assign, pledge or transfer all or any present or future stocks or securities registered in the Corporation's name.
7. Enter into any agreement for any rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency swap transaction, currency option or any other similar transaction, including any option with respect to any of these transactions, or any combination

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thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

8. Draw, endorse, and discount with the Bank all drafts, trade acceptances, promissory notes, or other evidences of indebtedness payable to or belonging to the Corporation or in which the Corporation may have an interest, and either receive cash for the same or cause such proceeds to be credited to the Corporation's account with the Bank, or cause such other disposition of the proceeds derived therefrom as he or she may deem advisable.
9. Sign and deliver to the Bank, promissory notes or notes, drafts, acceptances, guaranties, subordination agreements, assignments, applications and reimbursement agreements for letters of credit, security agreements, financing statements, mortgages, deeds of trust, pledges, hypothecations, transfers, leases and any other instrument or document deemed necessary or required to carry out the authority contained in this resolution, and any one or more renewals, extensions, modifications, refinancings, consolidations or substitutions of any of the foregoing.
10. In the case of lines of credit, to designate additional or alternate individuals as being authorized to request advances under such lines.
11. Negotiate, consent to, and sign any instrument, writing, document or other agreement with the Bank containing a provision or provisions for waiver of the right to a trial before a jury; provisions for resolution of any and all disputes, claims, actions, issues, complaints, suits, or controversies, of any kind or nature, by arbitration; and provisions for cognovit, and confession of judgment and warrant of attorney for any indebtedness, or for any guaranty of indebtedness of the Company to the Bank.
12. Do and perform such other acts and things, pay any and all fees and costs, and execute and deliver such other documents and agreements as any authorized officer of the Corporation may in his or her discretion deem reasonably necessary or proper to carry into effect the provisions of this resolution.

FURTHER RESOLVED: The Corporation authorizes any one of the persons authorized above or any other person designated in writing by any of those persons to pay the proceeds of any action taken pursuant to these resolutions in the manner directed by any of the persons authorized to act, including (but not in limitation) directing the payment of such proceeds: (i) to any deposit or loan account of the Corporation; (ii) to the order of any of such persons in an individual capacity; or (iii) to the individual credit of any such person or the individual credit of any other person; and further to direct the payment from any of the Corporation's accounts in satisfaction of any of its obligations. These requests or authorizations may be made by telephone, facsimile, or any other means of communication. The Bank is released from any liability for following the instructions that the Bank believes in good faith to have been given by a person authorized to act under this resolution.

FURTHER RESOLVED: The authority given is retroactive, and any acts referred to which were performed prior to the adoption of these resolutions are ratified and affirmed. This resolution shall be continuing, shall remain in full force and effect, and the Bank may rely on it until written notice of its revocation shall have been delivered to and received by the Bank. Any such notice shall not affect any of the Corporation's agreements or commitments in effect at the time notice is given. The Corporation does indemnify and hold harmless the Bank from any loss or damage incurred by the Bank by acting in reliance upon this resolution.

FURTHER RESOLVED: The Corporation will notify the Bank prior to any (i) change in the Corporation's name; (ii) change in the Corporation's assumed business name(s); (iii) change in the management of the Corporation; (iv) change in the authorized signers; (v) change in the Corporation's chief executive office address; (vi) change in the jurisdiction under which the Corporation's business organization is formed or organized; (vii) conversion of the Corporation to a new or different type of business entity; or (viii) change in any other aspect of the Corporation that directly or indirectly relates to any agreements between the Corporation and the Bank. No change in the Corporation's name will take effect until after the Bank has been notified.

I CERTIFY that I am the duly elected and qualified Secretary of the Corporation and the keeper of the records and the corporate seal of the Corporation, and that the above is a true and correct copy of resolutions duly adopted at a meeting of the Board of Directors of the Corporation held in accordance with its by-laws on Jan. 6, 2001, or by a legally effective instrument of unanimous Directors' consent dated _____, 20____, and that they are in full force and effect. This resolution now stands of record on the books of the Corporation, and has not been modified or revoked in any manner whatsoever.

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I FURTHER CERTIFY that the individuals whose signatures appear below have been duly elected and are presently the incumbents of the offices set next to their respective signatures, and that the signatures are the genuine original signatures of each respectively.

| | | | |
|----------------------|--------------------------|-----------------|---------------------|
| <TABLE> | | | |
| <S> | <C> | <C> | <C> |
| CEO | | President | |
| PATRICK W. SMITH | /s/ Patrick W. Smith | THOMAS P. SMITH | /s/ Thomas P. Smith |
| | ----- | | ----- |
| CFO | | | |
| KATHLEEN C. HANRAHAN | /s/ Kathleen C. Hanrahan | | |
| | ----- | | |
| </TABLE> | | | |

I FURTHER CERTIFY that all statements and representations made in this resolution are true and correct.

EXECUTED on June 6, 2002

/s/ Kathleen C. Hanrahan

If the CFO/Secretary is designated to act alone by this resolution, this Certificate must be further signed by a different individual who is a director or an officer, unless there are no other individuals as directors or officers, in which case the boxed statement below should be completed. A

| | |
|-----------|---------------------|
| President | /s/ Thomas P. Smith |
| ----- | ----- |
| Title | Signature |

(APPLICABLE FOR SINGLE MANAGEMENT BUSINESS ORGANIZATIONS ONLY)

As permitted by law of the state of incorporation, there are no other individuals who are either officers or directors.

| | |
|-------------------------|--|
| <TABLE> | |
| <S> | <C> |
| EXECUTED on _____, 20__ | ----- |
| | President/Secretary, Treasurer and Sole Director |
| </TABLE> | |

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LANDLORD'S LIEN SUBORDINATION AGREEMENT

THIS AGREEMENT is made this 25th day of June, 2002 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 1, 1994 (the "Landlord"), TASER INTERNATIONAL INC., a Delaware corporation (the "Tenant"), and BANK ONE, N.A., (the "Bank").

W I T N E S S E T H

A. Bank has entered into certain loan agreements with Tenant represented by certain documents and instruments ("Loan Documents") creating and providing a security interest in favor of the Bank in all of the collateral (the "Collateral") described upon the Exhibit A attached hereto and incorporated herein by reference.

B. Tenant, in order to induce Bank to make such loans, has requested that Landlord agree to subordinate its landlord lien rights in and to the Collateral only, to the lien of the Loan Documents upon the terms and conditions herein contained.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, such parties do hereby agree as follows:

1. Landlord hereby acknowledges the execution and delivery by Tenant to Bank of the Loan Documents creating a security interest in the Collateral as security for the payment of the obligations of Tenant under and as security for the performance and discharge of the obligations of the Tenant to the Bank contained in the Loan Documents.

2. Landlord agrees that, subject to compliance with all the terms of this Agreement, for so long as and to the extent that Tenant is indebted to Bank pursuant to the Loan Documents, or any extension, modification, or amendment thereof, Landlord hereby subordinates and makes inferior any claim or right of landlord's lien Landlord has in or to the Collateral by virtue of or pursuant to (1) that certain Lease dated, November 17, 2000 (the "Lease") by and between Tenant, as Tenant, and Landlord, as Landlord; or (2) A.R.S. Section 33-341 and 33-342 relating to or granting landlord's liens in the Collateral to Landlord, such that Bank's security interest in the Collateral only, shall be and is superior to any such interest or claim of Landlord. Landlord is subordinating its rights to the Collateral only.

3. The parties agree that in the event of a default by Tenant in the performance of any of the terms and conditions of the Loan Documents, Bank may, upon reasonable prior written notice to Landlord, enter upon such Premises commonly known as 7860 East McClain Drive #2, Scottsdale, Arizona, 85260 (the "Premises") for the sole purpose of removing the Collateral and remove such Collateral therefrom, subject to the following terms and conditions: (1) Bank shall remove the Collateral within a reasonable time after entry; (2) Bank shall not remove or destroy any personal property of Tenant that is not Collateral; (3) at Landlord's discretion, Landlord may accompany Bank into the Premises; (4) upon removal of such Collateral from the Premises, at the election of Landlord, Bank shall promptly (a) repair any damage to the Premises resulting from or relating to the removal of such Collateral, or (b) reimburse Landlord for the reasonable cost of repair of any such damage; and (5) Bank agrees to indemnify, defend and save Landlord and its agents, servants and employees from any and all loss, damage, cost or expense (including reasonable attorney's fees and other litigation related costs and expenses) injury and liability arising out of or in connection with any entry into and upon the Premises or Property by or for Bank, including but not limited to, any claims, damages, losses, or liabilities asserted by Tenant, or any other secured creditors or purported secured creditors in Tenants personal property located in the Premises.

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4. In the event that during the term of this Agreement Tenant defaults under the terms of the Lease and Landlord thereafter re-enters the Premises, terminates, and/or cancels the Lease, or upon other expiration of the term of the Lease pursuant to its terms or applicable law while any debt remains unpaid from Tenant to Bank, Tenant and Bank agree that, at the option of Landlord, Tenant and/or Bank, or either of them, shall remove the Collateral from the Premises within thirty (30) days from the date of Landlord's written notice so to do, such removal to be subject to the terms of this Agreement; provided however, if Bank removes the collateral, then Bank shall pay rent for the period the Collateral remained in the Premises after Landlord's reentry, for a period not to exceed thirty (30) days. Failure to remove the Collateral from the Premises within such time period shall cause this Agreement to terminate and be of no further force or effect.

5. Landlord, Bank and Tenant agree that the Collateral is and shall continue to be considered at all times personal property and not fixtures notwithstanding the fact that some parts or portions of the Collateral may be resting upon or attached by nails, bolts, screws, etc. to the Premises.

6. Landlord agrees, upon reasonable prior written notice from Bank, to permit Bank to enter into the Premises from time to time during regular business hours for the purpose of inspecting the Collateral.

7. Landlord hereby agrees that Landlord will give to Bank at Bank One, NA, 201 N. Central Ave., 21st Floor, AZ1-1178, Phoenix, Arizona, 85004, Attn: Steven J. Krakoski, a copy of any notices of default given by Landlord to Tenant. Upon the occurrence of a default under the Lease, Bank shall have the right, but not the obligation, to cure such default but only if the default is cured in full within the time specified in the notice of default.

8. Landlord, Bank and Tenant agree that this Agreement shall inure to the benefit of and be binding upon the successors and assigns of the parties hereto.

9. The terms of this Agreement shall be governed by and construed in accordance with the laws of the State of Arizona.

10. In the event of litigation involving this Agreement, the unsuccessful party shall pay to the prevailing party all costs of suit, including but not limited to reasonable attorneys' fees.

11. This Agreement may be executed by the signing in counterparts. The execution by all of the parties hereto by each signing a counterpart of this Agreement shall constitute a valid execution, and this Agreement with all its counterparts so executed shall be deemed for all purposes to be a single document.

[THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK]

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement to be effective as of the day and year first above written.

LANDLORD:

NORTON P. REMES and JOAN A. REMES
REVOCABLE TRUST, dated November 17, 1994

/s/ Norton P. Remes

Norton P. Remes, Trustee

/s/ Joan A. Remes, Trustee

Joan A. Remes, Trustee

TENANT:

TASER INTERNATIONAL, INC.,
a Delaware corporation

By: /s/ K. Hanrahan

Its: CFO, Secy

BANK:

BANK ONE, N.A.

By: /s/ Christine Peterson

Its: AVP

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EXHIBIT "A"

Accounts; Chattel Paper; Deposit Accounts, Documents; Equipment; General Intangibles; Instruments; Inventory; Investment Property; and Letter of Credit Rights

Description of Collateral. As used in this agreement, the term "Collateral" means all of the Debtor's property of the types indicated above and defined below, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located, including but not limited to any items listed on any schedule or list attached hereto. In addition, the term "Collateral" includes all "proceeds", "products" and "supporting obligations" (as such terms are defined in the "UCC", meaning the Uniform Commercial Code of Arizona, as in effect from time to time) of the Collateral indicated above, including but not limited to all stock rights, subscription rights, dividends, stock dividends, stock splits, or liquidating dividends, and all cash, accounts, chattel paper, "instruments," "investment property," and "general intangibles" (as such terms are defined in the UCC) arising from the sale, rent, lease, casualty loss or other disposition of the Collateral, and any Collateral returned to, repossessed by or stopped in transit by the Debtor, and all insurance claims relating to any of the Collateral (defined above). The term "Collateral" further includes all of the Debtor's right, title and interest in and to all books, records and data relating to the Collateral identified above, regardless of the form of media containing such information or data, and all software necessary or desirable to use any of the Collateral identified above or to access, retrieve, or process any of such information or data. Where the Collateral is in the possession of the Bank or the Bank's agent, the Debtor agrees to deliver to the Bank any property that represents an increase in the Collateral or profits or proceeds of the Collateral.

1. "Accounts" means all of the Debtor's "accounts" as defined in Article 9 of the UCC.
2. "Chattel Paper" all of the Debtor's "chattel paper" as defined in Article 9 of the UCC.
3. "Deposit Accounts" means all of the Debtor's "deposit accounts" as defined in Article 9 of the UCC.
4. "Documents" means all of the Debtor's "documents" as defined in Article 9 of the UCC.
5. "Equipment" means all of the Debtor's "equipment" as defined in Article 9 of the UCC. In addition, "Equipment" includes any "documents" (as defined in Article 9 of the UCC) issued with respect to any of the Debtor's "equipment" (as defined in Article 9 of the UCC). Without limiting the security interest granted, the Debtor represents and warrants that the Debtor's Equipment is presently located at 7860 East McClain Drive #2, Scottsdale, AZ 85260-1627.
6. "General Intangibles" means all of the Debtor's "general intangibles", as defined in Article 9 of the UCC. In addition, "General Intangibles" further includes any right to a refund of taxes paid at any time to any governmental entity, excludes patents, and trademarks.
7. "Instruments" means all of the Debtor's "instruments" as defined in Article 9 of the UCC.
8. "Inventory" means all of the Debtor's "inventory" as defined in Article 9 of the UCC. In addition, "Inventory" includes any "documents" issued with respect to any of the Debtor's "inventory" (as defined in Article 9 of the UCC). Without limiting the security interest granted, the Debtor represents and warrants that the Debtor's Inventory is presently located at 7860 East McClain Drive #2, Scottsdale, AZ 85260-1627.
9. "Investment Property" means all of the Debtor's "investment property" as defined in Article 9 of the UCC.
10. "Letter of Credit Rights" means all of the Debtors "letter of credit rights" as defined in Article 9 of the UCC.

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Exhibit 99.2

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

In connection with the Quarterly Report of TASER International, Inc. (the "Company") on Form 10-QSB for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Patrick W. Smith, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/Patrick W. Smith

Patrick W. Smith
Chief Executive Officer
August 12, 2002

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Exhibit 99.3

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

In connection with the Quarterly Report of TASER International, Inc. (the "Company") on Form 10-QSB for the period ending June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kathleen C. Hanrahan, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/Kathleen C. Hanrahan

Kathleen C. Hanrahan
Chief Financial Officer
August 12, 2002
</TEXT>
</DOCUMENT>

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United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-QSB

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

For the quarterly period ended March 31, 2002

or

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

For the transition period from _____ to _____

Commission File Number 001-16391

TASER INTERNATIONAL, INC.

(Exact name of small business issuer as specified in its charter)

DELAWARE

(State or other jurisdiction
of incorporation or organization)

**7860 E. MCCLAIN DRIVE, SUITE 2, SCOTTSDALE,
ARIZONA**

(Address of principal executive offices)

86-0741227

(I.R.S. Employer
Identification Number)

85260

(Zip Code)

(480) 991-0797

(Issuer's telephone number)

There were 2,793,545 shares of the issuer's common stock, par value \$0.00001 per share, outstanding as of March 31, 2002.

Transitional Small Business Disclosure Format (Check One): Yes No

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TASER INTERNATIONAL, INC.
QUARTERLY REPORT ON FORM 10-QSB
FOR THE THREE MONTHS ENDED MARCH 31, 2002

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The accompanying unaudited financial statements of TASER International, Inc. (the “Company”) include all adjustments (consisting only of normal recurring accruals) which management considers necessary for the fair presentation of operating results, financial position and cash flows as of March 31, 2002 and March 31, 2001.

**TASER INTERNATIONAL, INC.
 BALANCE SHEETS
 March 31, 2002 and December 31, 2001**

| | March 31, 2002 | December 31, 2001 |
|--|--------------------|--------------------|
| | (Unaudited) | |
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$4,671,232 | \$5,636,100 |
| Accounts receivable, net of allowance | 1,212,311 | 765,328 |
| Inventory | 1,057,169 | 801,926 |
| Prepaid expenses | 67,828 | 103,829 |
| Income tax receivable | 53,817 | 53,817 |
| Deferred income tax asset | 60,840 | 60,840 |
| Total Current Assets | 7,123,197 | 7,421,840 |
| Property and Equipment, net | 489,020 | 560,423 |
| Other assets | 68,166 | 72,416 |
| Total Assets | \$7,680,383 | \$8,054,679 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Current portion of notes payable to related parties | \$ — | \$ 455,691 |
| Current portion of capital lease obligations | 46,990 | 51,834 |
| Bank revolving line of credit | 760,838 | 760,838 |
| Accounts payable and accrued liabilities | 1,070,909 | 1,154,280 |
| Customer deposits | 37,831 | 32,123 |
| Accrued interest | 612 | 890 |
| Total Current Liabilities | 1,917,180 | 2,455,656 |
| Capital Lease Obligations, net of current portion | 45,535 | 50,979 |
| Deferred Income Tax Liability | 19,311 | 19,311 |
| Total Liabilities | 1,982,026 | 2,525,946 |
| Commitments and Contingencies | | |
| Stockholders' Equity: | | |
| Preferred Stock, 0.00001 par value per share; 25 million shares authorized; 0 shares issued and outstanding at March 31, 2002 and December 31, 2001 | — | — |
| Common Stock, 0.00001 par value per share; 50 million shares authorized; 2,793,545 and 2,734,473 shares issued and outstanding at March 31, 2002 and December 31, 2001 | 28 | 27 |
| Additional paid-in capital | 5,108,537 | 5,073,617 |
| Deferred compensation | (54,944) | (59,940) |
| Retained Earnings | 644,736 | 515,029 |
| Total Stockholders' Equity | 5,698,357 | 5,528,733 |
| Total Liabilities and Stockholders' Equity | \$7,680,383 | \$8,054,679 |

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

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TASER INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS
For the three months ended March 31, 2002 and 2000
 (UNAUDITED)

| | Three Months Ended | |
|---|--------------------|----------------|
| | March 31, 2002 | March 31, 2001 |
| Net Sales | \$2,366,875 | \$1,206,331 |
| Cost of Products Sold: | | |
| Direct manufacturing expense | 799,185 | 508,897 |
| Indirect manufacturing expense | 248,384 | 88,009 |
| Gross Margin | 1,319,306 | 609,425 |
| Sales, general and administrative expenses | 1,065,958 | 448,438 |
| Research and development expenses | 33,075 | — |
| Income from Operations | 220,273 | 160,987 |
| Interest Income | 18,752 | 3,153 |
| Other Income (Expense), net | (72) | 525 |
| Interest Expense | 19,093 | 101,762 |
| Net Income before Taxes | 219,860 | 62,903 |
| Provision for Income Tax | 90,154 | 25,266 |
| Net Income | \$ 129,706 | \$ 37,637 |
| Net Income per common and common equivalent shares | | |
| Basic | \$ 0.05 | \$ 0.03 |
| Diluted | \$ 0.03 | \$ 0.02 |
| Weighted average number of common and common equivalent shares outstanding: | | |
| Basic | 2,793,545 | 1,510,754 |
| Diluted | 3,815,064 | 1,656,967 |

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

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TASER INTERNATIONAL INC.
STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2002 and 2001
 (UNAUDITED)

| | Three Months Ended | |
|---|--------------------|----------------|
| | March 31, 2002 | March 31, 2001 |
| Cash Flows from Operating Activities: | | |
| Net Income | \$ 129,706 | \$ 37,637 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 58,286 | 37,504 |
| Amortization of deferred compensation | 4,996 | 4,996 |
| Compensatory stock options and warrants | — | 25,585 |
| Deferred compensation | — | (5,030) |
| Change in assets and liabilities: | | |
| Accounts Receivable | (446,983) | (88,217) |
| Inventory | (255,243) | (162,669) |
| Prepays and other | 36,001 | (7,477) |
| Accounts payable and accrued liabilities | (83,371) | 395,170 |
| Customer Deposits | 5,708 | (31,937) |
| Accrued Interest | (278) | 41,148 |
| Net Cash provided by (used in) operating activities | (551,178) | 246,710 |
| Cash Flows from Investing Activities: | | |
| Purchases of property and equipment, net | (13,922) | (50,603) |
| Proceeds from sale of fixed assets | 31,290 | — |
| Purchase of other assets | — | (25,000) |
| Net Cash provided by (used in) investing activities | 17,368 | (75,603) |
| Cash Flows from Financing Activities: | | |
| Payments under capital leases | (10,288) | (8,592) |
| Payments on notes payable | (455,691) | (24,309) |
| Additions to deferred financing costs | — | (370,356) |
| Proceeds from notes payable | — | 500,000 |
| Proceeds from warrants exercised | 6,222 | — |
| Proceeds from options exercised | 28,699 | — |
| Net cash provided by (used in) financing activities | \$ (431,058) | \$ 96,743 |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ (964,868) | \$ 267,850 |
| Cash and Cash Equivalents, beginning of period | \$5,636,100 | \$ 206,407 |
| Cash and Cash Equivalents, end of period | \$4,671,232 | \$ 474,257 |
| Supplemental Disclosure: | | |
| Cash paid for interest | \$ 18,481 | \$ 60,686 |
| Cash paid for income taxes | \$ — | \$ — |
| Noncash Investing and Financing Activities: | | |
| Acquisition of property and equipment under capital leases | \$ — | \$ 44,000 |
| Fair value of stock options issued for payment of consulting fees | \$ — | \$ 2,898 |
| Fair value of stock warrants issued for loan guarantees | \$ — | \$ 10,060 |

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

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TASER INTERNATIONAL, INC.
NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 —GENERAL

The accompanying quarterly financial statements of TASER International, Inc. (the "Company") are unaudited and include all adjustments (consisting only of normal recurring accruals) considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. They have been prepared in accordance with the instructions to Form 10-QSB, and, accordingly, do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

The results of operations for the three month periods are not necessarily indicative of the results to be expected for the full year and should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB as filed on March 18, 2002, as amended. Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 2 —NET SALES

The components of net sales for the three months ended March 31, 2002 and 2001 are as follows:

| Sales by Product Line: | March 31, 2002 | March 31, 2001 |
|------------------------|--------------------|--------------------|
| ADVANCED TASER | \$1,851,869 | \$ 871,376 |
| AIR TASER | 448,515 | 298,253 |
| Other | 66,491 | 36,702 |
| Total | \$2,366,875 | \$1,206,331 |

NOTE 3 —INVENTORIES

The inventories are stated at the lower of cost or market; cost is determined using the most recent acquisition cost method that approximates the first-in, first-out (FIFO) method. A physical count was completed for both years prior to the quarter-end closing. The components of inventories are as follows:

| | March 31, 2002 | March 31, 2001 |
|-----------------------------------|--------------------|------------------|
| Raw materials and work-in-process | \$ 980,975 | \$349,138 |
| Finished goods | 76,194 | 34,700 |
| Total | \$1,057,169 | \$383,838 |

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NOTE 4 —EARNINGS PER SHARE

The Company follows SFAS No. 128, Earnings per Share, which requires the presentation of basic and diluted earnings per share. The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for net income:

| | Three Months Ended | |
|---|--------------------|----------------|
| | March 31, 2002 | March 31, 2001 |
| Numerator for basic and diluted earnings per share: | | |
| Net Income | \$ 129,706 | \$ 37,637 |
| Denominator for basic earnings per share weighted average shares: | 2,793,545 | 1,510,754 |
| Dilutive effect of shares issuable under stock options and warrants outstanding | 1,021,519 | 146,213 |
| Denominator for diluted earnings per share adjusted weighted average shares | 3,815,064 | 1,656,967 |
| Basic earnings per share | \$ 0.05 | \$ 0.03 |
| Diluted earnings per share | \$ 0.03 | \$ 0.02 |

NOTE 5 – RECENT ACCOUNTING PRONOUNCEMENTS

The Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets* on January 1, 2002. Management has determined that adoption of this standard did not have a material impact on the Company's financial statements.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following is a discussion of the results of operations and analysis of financial condition for the three months ended March 31, 2002 and March 31, 2001. The following discussion may be understood more fully by reference to the financial statements, notes to the financial statements, and the Management's Discussion and Analysis of Financial Condition and Results of Operations section contained in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2001, filed on March 18, 2002, as amended.

Certain statements contained in this report may be deemed to be forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995, and the Company intends that such forward-looking statements be subject to the safe-harbor created thereby. Such forward-looking statements may relate to: (1) expected revenue and earnings growth; (2) the Company's estimates regarding the size of its target markets; (3) the ability of the Company to successfully penetrate the law enforcement market; (4) the growth expectations for existing accounts; (5) the ability of the Company to expand its product sales to the commercial airline, private security, military and consumer self-defense markets; and (6) the Company's business model. The Company cautions that these statements are qualified by important factors that could cause actual results to differ materially from those reflected by the forward-looking statements herein. Such factors include, but are not limited to: (1) market acceptance of the Company's products; (2) the Company's ability to establish and expand its direct and indirect distribution channels; (3) the Company's ability to attract and retain the endorsement of key opinion-leaders in the law enforcement community; (4) the level of product technology and price competition for the Company's ADVANCED TASER products; (5) the degree and rate of growth of the markets in which the Company competes and the accompanying demand for its products; and (6) other factors detailed in the Company's filings with the Securities and Exchange Commission.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2002 AND MARCH 31, 2001

Net sales. Net sales increased by \$1.2 million, or 96.2%, to \$2.4 million for the three months ended March 31, 2002 compared to \$1.2 million for the three months ended March 31, 2001. The increase in sales was largely due to the increased sales of the ADVANCED TASER to U.S. law enforcement distributors and law enforcement agencies. Specifically, the ADVANCED TASER sales increased by \$980,000 to \$1.9 million in the three months ended March 31, 2002 as compared to \$871,000 for the three months ended March 31, 2001. AIR TASER sales also increased by \$150,000 to \$449,000 in the three months ended March 31, 2002, compared to \$298,000 for the three months ended March 31, 2001. The increase in AIR TASER sales resulted from the shipping of product ordered in the fourth quarter of 2001. The Company's policy is to record product revenues at the time the product is shipped. The Company records training revenue as the service is provided.

For the three months ended March 31, 2002 and 2001, sales by product line were as follows:

| Sales by Product Line: | For the Three Months Ended | |
|------------------------|----------------------------|----------------|
| | March 31, 2002 | March 31, 2001 |
| ADVANCED TASER | \$1,851,869 | \$ 871,376 |
| AIR TASER | 448,515 | 298,253 |
| Other | 66,491 | 36,702 |
| Total | \$2,366,875 | \$1,206,331 |

Cost of products sold. Cost of products sold increased by approximately \$450,000, or 75.5%, to nearly \$1.1 million in the three months ended March 31, 2002 compared to \$597,000 in the three months ended March 31, 2001. As a percentage of total revenues, cost of products sold decreased to 44.3% for the three months ended March 31, 2002 from 49.5% for the three months ended March 31, 2001. This decrease was due to the reduced labor and material costs associated with relocating manufacturing and final assembly operations back to the United States. Prior to the Company moving its manufacturing operations in early March of 2001, costs of products sold included an additional markup to compensate the third party supplier for administrative and manufacturing overhead expenses associated with the production of TASER products in Mexico.

Gross Margins. Gross margins increased by \$710,000 or 116.5%, to \$1.3 million in the three months ended March 31, 2002 compared to \$609,000 in the three months ended March 31, 2001. This increase was due to the increased sales volume of higher

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margin *ADVANCED TASER* products, a reduction in manufacturing expenses as a result of relocating manufacturing operations.

Sales, general and administrative expenses. Sales, general and administrative expenses increased by \$618,000, or 137.7%, to \$1.1 million in the three months ended March 31, 2002 compared to \$448,000 in the three months ended March 31, 2001. As a percentage of total revenues, sales, general and administrative expenses increased by 7.8% to 45.0% in the first quarter of 2002 compared to 37.2% for the same period in 2001. The increase in sales, general and administrative expenses in 2002 versus 2001 was a result of increased legal expenses, investments in corporate infrastructure, trade show participation and the development of sales and marketing programs to launch the *ADVANCED TASER* into consumer distribution.

Specifically, legal costs increased \$112,000 to \$122,000 for the three months ended March 31, 2002 compared to \$10,000 in the same quarter of 2001. The increase is attributed to fees incurred to defend the Company in a case alleging patent infringement, and another case in which a former distributor alleges breach of an oral contract pertaining exclusive rights to sell the Company's products. Management believes both of these cases are without merit.

The Company also incurred additional expenses in the areas of investor relations, corporate reporting, and salaries during the first quarter of 2002. Specifically, these costs increased \$148,000 during the three months ended March 31, 2002.

Sales and marketing expenditures also increased during the three months ended March 31, 2002 by \$354,000, or 242.5%, to \$500,000, compared to \$146,000 during the same period in 2001. These increases were a result of added sales and support positions, commissions paid to the new manufacturers' sales representatives, and costs associated with participating in the three of the largest consumer trade shows held in the U.S. and Germany during the first quarter of 2002.

Interest Income. For the three months ended March 31, 2002, the Company generated interest income of \$18,800. This income was associated with the investment of the unapplied proceeds from the Company's May 2001 initial public offering into a liquid reserves account that paid an annual interest rate of approximately 1.8% as of March 31, 2002. For the three months ended March 31, 2001, interest income was not significant.

Interest Expense. Interest expense decreased by \$82,700 to \$19,100 in the three months ended March 31, 2002 from \$101,800 in the three months ended March 31, 2001. This decrease was the result of retiring debt through the use of proceeds from the Company's initial public offering, as well as the refinancing, with a more favorable interest rate, of a note payable to a director and stockholder in July 2001 through the use of the Company's revolving line of credit. In addition, the Company retired its remaining note payable to a director and stockholder in January 2002, which further reduced the first quarter interest expense by approximately \$10,000.

Income Taxes. The Company recognizes a quarterly provision for corporate income taxes equal to 40% of pre-tax earnings. As of March 31, 2002, the Company accrued \$90,200 for income taxes, compared with \$25,300 accrued for the three months ended March 31, 2001.

Net Income. Net income increased \$92,000 to \$130,000 in the three months ended March 31, 2002 compared to net income of \$38,000 in the three months ended September 30, 2000. The increase in net income over the prior three-month period was the result of increased sales and product margins, offset by a significant increase in selling, general and administrative expenses as a percentage of total sales.

The weighted average basic earnings per share for the three months ended March 31, 2002 was \$0.05 compared to earnings per share of \$0.03 in the comparable prior period. In 2002 there were 1,282,791 more shares outstanding. The weighted average diluted income per share for the three months ended March 31, 2002 was \$0.03 compared to income per share of \$0.02 for the corresponding period in 2001. In 2002 there were 2,158,097 more shares diluted outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity: On May 11, 2001, the Company completed its initial public offering (IPO) and received net proceeds, after the underwriting discount and financing costs, of approximately \$8.4 million. As a result of the cash reserves generated by the IPO, coupled with net income of \$515,000 for the twelve months ended December 31, 2001 and, \$130,000 of net income for the quarter ended March 31, 2002, the Company achieved positive working capital of \$5.2 million as of March 31, 2002. The Company had working capital of \$5.0 million as of December 31, 2001.

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In the three months ended March 31, 2002, the Company used \$551,000 of cash in operations compared to \$247,000 of cash provided by operations for the three months ended March 31, 2001. The increase in cash used in operations was due primarily to increase investment in raw materials inventory to meet anticipated sales, and to an increase in accounts receivable created by large orders shipped in March of 2002.

The Company generated \$17,400 of cash from investing activities during the three months ended March 31, 2002, compared to \$76,000 used in the same period in 2001. The funds generated were the result of the termination of an operating lease with a stockholder and director that required the stockholder and director to repay approximately \$31,000 for a leasehold improvement that was installed and funded by the Company in the fourth quarter of 2001. These funds were offset by purchase of equipment of approximately \$14,000 during the first quarter of 2002.

The Company also used \$431,000 in financing activities during the three months ended March 31, 2002, as compared with \$97,000 generated through financing activities for the three months ended March 31, 2001. The cash used in the first quarter of 2002 was to prepay a note payable to a shareholder and director, which was scheduled to mature on July 1, 2002, and carried an annual interest rate of 10%. This early payment will result in a decrease in interest expense of approximately \$26,000 over the remaining seven months of the loan.

Capital Resources. For the quarter ended March 31, 2002, the Company generated \$130,000 of cash from net income. In addition, the Company had cash and cash equivalents of \$4.7 million at March 31, 2002 as a result of the remaining proceeds from its initial public offering coupled with net income generated in the twelve months ended December 31, 2001, as well as in the first quarter of 2002.

As of March 31, 2002, the Company had a revolving line of credit from a domestic bank with a total availability of \$1.5 million. The line is secured by substantially all of the Company's assets, other than intellectual property, and bears interest at prime plus 1.0%, or approximately 4.9% at March 31, 2002. The line of credit matured on April 30, 2002 and required monthly payments of interest only. The outstanding balance under the line of credit at March 31, 2002 was \$761,000. Subsequently, on April 14, 2002, the line of credit was repaid in full from the Company's cash reserves.

The Company has negotiated a new revolving line of credit from a domestic bank with a total availability of \$2.5 million. The line will be secured by substantially all of the Company's assets, other than intellectual property. The Company has received a commitment letter from the bank, with terms more favorable than the previous line of credit, and intends to enter into a formal loan agreement before the end of May 2002.

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

PART II—OTHER INFORMATION

ITEM 2. LEGAL PROCEEDINGS

In early April 2001, James F. McNulty Jr. sued the Company in the United States District Court, Central District of California (CV. SACV 01-395-DOC-ANX). The lawsuit alleges that certain technology used in the firing mechanism for the Company's weapons infringes upon a patent for which Mr. McNulty holds a license, and seeks injunctive relief and unspecified monetary damages. During March 2002, United States District Court conducted a three day Markman claim interpretation hearing to enable the appointed judge to interpret the patent claim as a matter of law. Within ten days of the hearing, both McNulty and the Company filed motions for summary judgment. Mr. McNulty requested a summary judgment finding that the Company's products infringe, while the Company requested a summary judgment ruling of non-infringement which would result in the dismissal of McNulty's complaint. The ruling on those pending summary judgment motions is expected in the near term.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On May 11, 2001, the Company completed its initial public offering of 800,000 units, at an aggregate offering price of \$10.4 million.

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Each unit consisted 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 was \$13.00 per unit. The units sold in the offering were registered under the Securities Act of 1933 on a Registration Statement on Form SB-2, as amended (Registration No. 001-16391), which became effective on May 7, 2001.

During the three months ended March 31, 2002, the Company utilized \$460,000 of the funds raised through the offering for early payment of a note payable to a related party. In addition, the Company used an additional \$761,000 in April of 2002 to pay down its revolving line of credit. The balance of the initial public offering proceeds, or \$3.6 million, remains in short term liquid reserves accounts.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(b) Reports on Form 8-K

No Current Reports on Form 8-K were filed during the three months ended March 31, 2002.

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TASER INTERNATIONAL, INC.
(Registrant)

Date: May 10, 2002

/s/ Patrick W. Smith

Patrick W. Smith,
Chief Executive Officer

Date: May 10, 2002

/s/ Kathleen C. Hanrahan

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