TASER INTERNATIONAL ANNUAL REPORT 2014


AXON CAMERAS:
#1 IN MAJOR
CITY DEPLOYMENTS
Los Angeles. San Diego. San Francisco. Fort Worth.
The list is growing.
RISE
AXON | EVIDENCE.COM

To our shareowners:

2014 was a pivotal year for TASER International. In 2008, we began to invest in creating a technology platform that would bring a new level of transparency to public safety, and would do so with the ease of use and reliability we have all come to expect in the ever more connected world in which we live. It has been a long road, with many challenges along the way. As with most innovative new concepts, the idea of officer worn cameras was met with skepticism, as was the idea that public safety agencies would store their data in the cloud. However, we saw that the need for transparency was building to a tipping point. And, we knew that the same technology trends which have disrupted industry after industry would come to law enforcement as well. We believe that internet enabled business models, smart phone and wearable technology, and the ubiquitous presence of video technology now in virtually every citizen's pocket will transform our core market, and we have been determined to be the company that makes it happen.

So, it was enormously rewarding for all of us when the President of the United States made a call for body cameras. In fact, it reminded us of our roots - when President Lyndon Johnson called for the country to develop non-lethal alternatives to deadly force many decades ago. Once again, we find ourselves driving a technology revolution which hits at the core social issues facing our country, and the world, today.

The call did not go unheard. We believe our AXON business unit has broken through from the early adopter into main stream adoption in public safety. Our bookings of new business grew nearly 300% from $14 million in 2013 to $57 million in 2014. And we won every major city account which made a new system selection for wearable video in 2014.

We have said that 2015 is our Superbowl; we are out to win the largest accounts in the United States in on-officer video and EVIDENCE.com to enable our platform to become the first technology platform that is ubiquitous across the public safety community. Growth is exciting but in truth, our zeal for technology is based on our passion for what our customers do every single day: protecting life and protecting truth.

A lot of focus of our shareowners in the past year has been on our competition and how does the AXON brand compare; who is winning; and who is going to continue to win. Our passion for our customers and enabling their daily success, transforming standard practices in law enforcement to have the beautiful and seamless experience that we all enjoy in our consumer-lives will tell the tale of who will win the market. A customer-centric methodology is a defining element of TASER's culture and will continue to be so as we innovate to use technology to make the world a safer place; something that we have been doing since our inception in 1993.

In 2015, we are investing in programs that are motivated by our focus on our customers rather than by reaction to competition. We are focused on using technology to solve big problems. Problems that matter, and where innovation can create valuable, sustainable, and defensible businesses.

We are a trusted partner in law enforcement and continuing to drive improvements in the “TASER Experience” only serves to improve that relationship. Our intention to heavily invest in 2015 has been met with some questions from shareowners concerned about profitability in the near-term. One of the great challenges where we focus a significant amount of our attention as a management team is balancing the financial rigor of running a profitable enterprise with ensuring that we are making sufficient investments in the long-term business. The significant success we are having today in our AXON business is a direct result of the investments we began making back in 2008. In hindsight, many people say it was the obvious thing to do. However, many of you will recall that it was certainly not “obvious” to everyone at the time we made the investments.

As we look forward, we see the opportunity to establish the dominant mobile, wearables, and cloud enabled technology ecosystem in public safety. When we succeed in doing so, we will have a massively valuable enterprise on our hands. If we fail to achieve a dominant position because we failed to invest the resources required today, it would be a tremendous loss of potential shareholder value.

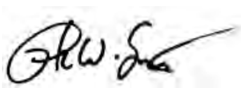
2014 was a very successful year with triumphs in all areas of our business. In the domestic weapons business, we continued to see growth as customers migrate to the new Smart Weapon platform. We held the legacy X26 CEW's retirement party this fall as we approached the end of production at the year end. We have redoubled our strategy to have a TASER on every officer and for our weapon to be standard issue equipment to all officers. Together with our strategic customers at the Los Angeles Police Department, we developed the Officer Safety Plan (OSP), which includes TASER devices, AXON Cameras, and EVIDENCE.com in one simple program. The officer safety plan simplifies our customer's purchase process, ensuring their officers have the latest versions of our core technologies through regular upgrades included in one budget line item. And, it adds predictability to our business as well. The OSP is a great example of the innovation that can happen when we listen closely to our customers, and launching it with the order from LAPD was a significant milestone for us.

Internationally, the business continues to show progress, growing 25% from the prior year. We had several new markets open up for weapons sales including Poland and Italy during 2014. Further, Canada approved the new Smart Weapon platform and in the fourth quarter, the Ontario Provincial Police had their first deployment. The Company also opened up its international headquarters in Amsterdam, Netherlands and is continuing to build the team there. We are making additional significant investments putting sales resources in key markets around the world. Once again, these investments require a longer term view. They are unlikely to drive immediate revenue results in 2015... but we are confident that 2016 and beyond will significantly benefit from these investments.

In the AXON business, clearly we are seeing exponential growth and continue to see massive potential. Specific successes in 2014 included getting 15 major cities on EVIDENCE.com with another 28 in some form of trial program. And we continued our strategy of building capabilities that make our ecosystem more valuable with each component an agency deploys, introducing AXON Signal, which enables Bluetooth activation of cameras upon the power-on of a TASER Weapon or police car light-bar. Our products and services, working cohesively, create value no other single product competitor could offer. Bookings nearly doubled our internal plan, we are seeing an 80% attachment rate with the majority of contracts being signed for 5 year terms, and our annual revenue per seat continues to increase with the introduction of new service tiers at the top end of the spectrum.

TASER has always had a long-term approach in our DNA but as the Company has grown we've made a concerted effort to formalize that as a philosophy and ensure we communicate it to all of our stakeholders; investors, customers and new employees. We believe that using a longer time horizon to make business decisions will directly result in increasing shareholder value and the total market value of the company. We believe that by investing to obtain, extend and solidify a market leadership position we will create a public safety platform that we can leverage to create a powerful and highly defensible economic model. Our emphasis on the long-term directly influences decisions that we make and is guided by principles that we feel are best suited for us to create the preeminent technology company in the world-wide public safety market.

Our commitment to our investors is no less than our commitment to our customers and our dedicated employees who make this all possible. We believe our dedication to excellence, and relentless pursuit of customer-driven solutions will drive sustained revenue growth across our businesses. On behalf of everyone here at TASER, I thank you for your continued support as we strive to protect life and protect truth through innovative technologies that make our world a safer place.



Rick Smith
Founder and Chief Executive Officer
TASER International, Inc.

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TASER INTERNATIONAL, INC.
17800 North 85th Street
Scottsdale, Arizona 85255

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
May 18, 2015

To Our Stockholders:

The 2015 Annual Meeting of Stockholders (the “Annual Meeting”) of TASER International, Inc. (the “Company”) will be held at 9:00 a.m. (local time) on Monday, May 18, 2015, at the SpringHill Suites Seattle Downtown at 1800 Yale Avenue, Seattle, WA 98101 for the following purposes:

1. Electing the two Class C directors of the Company named in this proxy statement for a term of three years, and until their successors are elected and qualified;
2. Advisory approval of the Company’s executive compensation;
3. Ratifying the appointment of Grant Thornton LLP as the Company’s independent registered public accounting firm for fiscal year 2015; and
4. Transacting such other business as may properly come before the Annual Meeting or any continuation, postponement or adjournment thereof.

Only holders of the Company’s common stock at the close of business on March 17, 2015 are entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. Stockholders may vote in person or by proxy. A list of stockholders entitled to vote at the Annual Meeting will be available for examination by stockholders at the time and place of the Annual Meeting and during ordinary business hours, for a period of ten days prior to the Annual Meeting, at the principal executive offices of the Company at the address listed above.

By Order of the Board of Directors,

/s/ DOUGLAS E. KLINT

Douglas E. Klint
Corporate Secretary

Scottsdale, Arizona
April 2, 2015

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

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TASER INTERNATIONAL, INC.
17800 North 85th Street
Scottsdale, Arizona 85255

PROXY STATEMENT FOR 2015 ANNUAL MEETING OF STOCKHOLDERS

GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Why am I receiving these proxy materials?

Our Board of Directors (the "Board") has made these materials available to you on the Internet or has delivered printed versions of these materials to you by mail in connection with the Board of Directors' solicitation of proxies for use at our Annual Meeting of Stockholders, which will take place at 9:00 a.m. local time on Monday, May 18, 2015 at the SpringHill Suites Seattle Downtown at 1800 Yale Avenue, Seattle, WA 98101. This Proxy Statement describes matters on which you, as a stockholder, are entitled to vote. It also gives you information on these matters so that you can make an informed decision. This proxy statement is first being made available or sent to stockholders on or about April 2, 2015.

What is included in these materials?

These materials include:

- This Proxy Statement for the Annual Meeting; and
- The Company's Annual Report on Form 10-K for the year ended December 31, 2014 (the "Annual Report").

If you received printed versions of these materials by mail, these materials also include the proxy card or vote instruction form for the Annual Meeting.

Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials this year instead of printed proxy materials?

In accordance with the rules of the Securities and Exchange Commission ("SEC"), instead of mailing a printed copy of our proxy materials to all of our stockholders, we have elected to furnish such materials to stockholders by providing access to these documents over the Internet. Accordingly, on April 2, 2015 we sent a Notice of Internet Availability of Proxy Materials (the "Notice") to stockholders of record and beneficial owners. Stockholders have the ability to access the proxy materials on a website referred to in the Notice or request to receive a printed set of the proxy materials by calling the toll-free number found in the Notice. The Company encourages you to take advantage of the availability of the proxy materials on the Internet in order to help reduce the cost and environmental impact of the Annual Meeting.

How can I get electronic access to the proxy materials?

The Notice provides you with instructions regarding how to: (1) view our proxy materials for the Annual Meeting on the Internet; (2) vote your shares after you have viewed our proxy materials; (3) request a printed copy of the proxy materials; and (4) instruct us to send our future proxy materials to you electronically by email. Copies of the proxy materials are also available for viewing at the investor relations page of the Company's website at http://investor.taser.com.

What proposals will be voted on at the Annual Meeting and how does the Board of Directors recommend I vote?

Stockholders will vote on the following items at the Annual Meeting:

Proposal No.	Description	Board Recommendation
ONE	The election to the Board of the two Class C director nominees named in this Proxy Statement	FOR (all nominees)
TWO	Advisory approval of the Company's executive compensation ("Say on Pay")	FOR
THREE	The ratification of the appointment of Grant Thornton LLP as our independent registered public accountants for fiscal year 2015.	FOR

Stockholders will also vote on the transaction of any other business as may properly come before the Annual Meeting or any continuation, postponement or adjournment thereof. To the maximum extent allowed by the SEC's proxy rules, the proxy holders will vote your shares in such other matters as they determine in their discretion.

Where are the Company's principal executive offices located and what is the Company's main telephone number?

The Company's principal executive offices are located at 17800 North 85th Street, Scottsdale, Arizona 85255. The Company's main telephone number is (800) 978-2737.

Who may vote at the Annual Meeting?

As of March 17, 2015 (the "Record Date"), there were 53,351,511 shares of the Company's common stock outstanding and entitled to one vote each at the Annual Meeting. The presence in person or by proxy of persons holding a majority of these shares, or 26,675,756 shares, will constitute a quorum for the transaction of business. Each share of common stock entitles the holder to one vote on each matter that may properly come before the Annual Meeting. Stockholders are not entitled to cumulative voting in the election of directors. Only stockholders of record as of the close of business on the Record Date are entitled to receive notice of, to attend, and to vote at the Annual Meeting.

What is the difference between a stockholder of record and a beneficial owner of shares held in street name?

Stockholder of Record

If your shares are registered directly in your name with the Company's transfer agent, Computershare, you are considered the stockholder of record with respect to those shares, and the Notice or printed materials were sent directly to you by the Company. If you request printed copies of the proxy materials by mail, you will also receive a printed proxy card.

Beneficial Owner of Shares Held in Street Name

If your shares are held in an account at a brokerage firm, bank, broker-dealer, or other similar organization, then you are the beneficial owner of shares held in "street name," and the Notice or the printed proxy materials were forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct that organization how to vote the shares held in your account. If you request printed copies of the proxy materials by mail, you will also receive a printed vote instruction form.

If I am a stockholder of record of the Company's shares, how do I vote?

There are four ways to vote:

In person. If you are a stockholder of record, you may vote in person at the Annual Meeting. Bring your printed proxy card if you received one by mail. Otherwise, the Company will provide stockholders of record a ballot at the Annual Meeting.

Via the Internet. If you received a Notice, you may vote via the Internet by visiting http.//www.proxyvote.com and entering the control number found in the Notice.

By telephone. If you received or requested printed copies of the proxy materials by mail, you may vote by calling the toll free number found on the proxy card.

By mail. If you received or requested printed copies of the proxy materials by mail, you may vote by filling out the proxy card and returning it in the envelope provided.

If I am a beneficial owner of shares held in street name, how do I vote?

Your bank or broker will send you instructions on how to vote. There are four ways to vote:

In person. If you are a beneficial owner of shares held in street name and you wish to vote in person at the Annual Meeting, you must obtain a legal proxy from the organization that holds your shares.

Via the Internet. If you received a Notice, you may vote via the Internet by visiting http.//www.proxyvote.com and entering the control number found in the Notice.

By telephone. If you received or requested printed copies of the proxy materials by mail, you may vote by calling the toll free number found on the vote instruction form.

By mail. If you received or requested printed copies of the proxy materials by mail, you may vote by filling out the vote instruction form and returning it in the envelope provided.

What constitutes a quorum in order to hold and transact business at the Annual Meeting?

Under Delaware law and the Company's bylaws, the presence in person or by proxy of the holders of record of a majority of the votes entitled to be cast at a meeting constitutes a quorum. Abstentions and broker non-votes will all be counted as present to determine whether a quorum has been established. Once a share of the Company's common stock is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and any adjournments or postponements. If a quorum is not present, the Annual Meeting may be adjourned until a quorum is obtained.

How are proxies voted?

All valid proxies received prior to the Annual Meeting will be voted. All shares represented by a proxy will be voted and, where a stockholder specifies by means of the proxy a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the stockholder's instructions.

What happens if I do not give specific voting instructions?

Stockholders of Record If you are a stockholder of record and you indicate when voting on the Internet or by telephone that you wish to vote as recommended by the Board, or sign and return a proxy card without giving specific voting instructions, then the proxy holders will vote your shares in the manner recommended by the Board on all matters presented in this proxy statement and as the proxy holders may determine in their discretion with respect to any other matters properly presented for a vote at the Annual Meeting.

Beneficial Owners of Shares Held in Street Name If you are a beneficial owner of shares held in street name and do not provide the organization that holds your shares with specific voting instructions, the organization that holds your shares may vote on routine matters but cannot vote on non-routine matters. If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, the organization that holds your shares will inform the inspector of election that it does not have the authority to vote on such matters with respect to your shares. This is generally referred to as a "broker non-vote."

Which ballot measures are considered "routine" or "non-routine"?

Proposal No. 3 (ratification of the appointment of the independent registered public accountants) is considered "routine." A broker or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected in connection with this proposal.

Proposals No. 1 and No. 2 (election of directors and advisory approval of the Company's executive compensation) are considered "non-routine." A broker or other nominee cannot vote without specific instructions from the beneficial owner on non-routine matters, and therefore we anticipate there will be broker non-votes in connection with Proposals No. 1 and No. 2.

Can I change my vote after I have voted?

You may revoke your proxy and change your vote at any time before the final vote at the Annual Meeting by voting again via the Internet or by telephone (only your latest Internet or telephone proxy submitted prior to the Annual Meeting will be counted), by signing and returning a new proxy card or vote instruction form with a later date, or by attending the Annual Meeting and voting in person. However, your attendance at the Annual Meeting will not automatically revoke your proxy unless you vote again at the Annual Meeting or specifically request that your prior proxy be revoked by delivering to the Company's Corporate Secretary at 17800 North 85th Street, Scottsdale, Arizona 85255, a written notice of revocation prior to the Annual Meeting.

Is my vote confidential?

Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within the Company or to third parties, except as necessary to meet applicable legal requirements; to allow for the tabulation and certification of votes; and to facilitate a successful proxy solicitation.

What is the voting requirement to approve each of the proposals?

Election of Directors

For Proposal No. 1, under our bylaws, assuming the existence of a quorum at the Annual Meeting, the two nominees for director who receive the affirmative vote of a plurality of all of the votes cast will be elected to the Board of Directors. This means that the two director nominees with the most votes will be elected. Shares that are marked "withhold authority" will be counted toward a quorum, but will not affect the outcome of the vote on the election of such director. Broker non-votes will have no effect on the outcome of this proposal if a quorum is present.

Advisory approval of the Company's executive compensation ("Say on Pay")

For Proposal No. 2, assuming the existence of a quorum at the Annual Meeting, under our bylaws, the compensation of our executive officers will be approved if a majority of common stock present in person or by proxy at the Annual Meeting vote in favor of approval. Broker non-votes will have no effect on the outcome of this proposal if a quorum is present. Abstentions will have the same effect as a vote against the proposal.

Ratification of Independent Registered Public Accountants

For Proposal No. 3, assuming the existence of a quorum at the Annual Meeting, ratification of the appointment of the independent registered public accountants will be approved if a majority of common stock present in person or by proxy at the Annual Meeting vote in favor of ratification. Broker non-votes will have no impact on this proposal if a quorum is present. Abstentions will have the same effect as a vote against the proposal.

Who will serve as the inspector of election?

A member of the Company's internal legal department will serve as the inspector of election.

Where can I find the voting results of the Annual Meeting?

The final voting results will be tallied by the inspector of election and, within four business days after the Annual Meeting, the Company expects to report the final results on Form 8-K with the SEC.

Who is paying for the cost of this proxy solicitation?

The Company will bear all expenses incurred in connection with the solicitation of proxies. The Company will, upon request, reimburse brokerage firms and other nominee holders for their reasonable expenses incurred in forwarding the proxy solicitation materials to the beneficial owners of our shares. The Company's officers and directors and employees may solicit proxies by mail, personal contact, letter, telephone, telegram, facsimile or other electronic means. They will not receive any additional compensation for those activities, but they may be reimbursed for their out-of-pocket expenses. The Company does not expect to engage a proxy advisor for the 2015 Annual Meeting.

PROPOSAL ONE: ELECTION OF DIRECTORS

The Board is elected by and accountable to the stockholders to oversee their interest in the long-term health and the overall success of the Company's business and its financial strength. The Board serves as the ultimate decision-making body of the Company except for those matters reserved to, or shared with, the stockholders. The Board selects and oversees the members of senior management, who are charged by the Board with conducting the business of the Company.

Election Process

The Board is comprised of eight directors. The directors are divided into three classes comprised as follows: three directors each in Class A and Class B, and two directors in Class C. One class is elected each year for a three-year term and until their successors are elected and qualified.

The two director nominees in Class C are up for nomination at the 2015 annual shareholder meeting. These directors would serve regular three-year terms until the annual meeting of stockholders in 2018, or until their respective successors are elected and qualified. These directors are: Vice Admiral (Retired) Richard H. Carmona and Bret Taylor.

The Board has no reason to believe that either of the nominees will be unwilling or unable to serve if elected a director. If either nominee is unable or unwilling to serve as a director at the date of the Annual Meeting or any postponement or adjournment thereof, the proxies may be voted for a substitute nominee, designated by the Board to fill such vacancy.

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

The Board of Directors recommends a vote <u>FOR</u> the election of Richard Carmona and Bret Taylor.

THE BOARD OF DIRECTORS

Director Nominations

The Nominating and Corporate Governance Committee is responsible for identifying and evaluating nominees for Director and for recommending to the Board a slate of nominees for election at each Annual Meeting of Stockholders. Nominees may be suggested by directors, members of management, stockholders, or, in some cases, by a third-party firm.

Stockholders who wish the Nominating and Corporate Governance Committee (the "NCG Committee") to consider their recommendations for nominees for the position of director should submit their recommendations in writing by mail to the Nominating and Corporate Governance Committee, c/o TASER International, Inc., 17800 North 85th Street, Scottsdale, AZ 85255. Recommendations by stockholders that are made in accordance with these procedures will receive the same consideration by the NCG Committee as other suggested nominees.

Qualifications for All Directors

In its assessment of each potential candidate, including those recommended by stockholders, the NCG Committee considers the potential nominee's demonstrated character, judgment, relevant business, functional and industry experience, and whether they possess a high degree of business, technological, medical or law enforcement acumen, independence, and other such factors the NCG Committee determines are pertinent in light of the current needs of the Board. The NCG Committee also takes into account the ability of a potential nominee to devote the time and effort necessary to fulfill his or her responsibilities to the Company. While the NCG Committee does not have a formal diversity policy, it strives to achieve a well-rounded balance of varying skill sets and backgrounds in the composition of the Board.

The NCG Committee's process for identifying and evaluating nominees typically involves a series of internal discussions, review of information concerning candidates and interviews with selected candidates. There are no differences in the manner in which the nominees for director are evaluated based on whether the nominee is recommended by a stockholder. The Company has not historically paid third parties to identify or assist in identifying or evaluating potential nominees but reserves the right to do so in the future.

Specific Qualifications, Education, Skills and Experience to be Represented on the Board

The Board has identified particular qualifications, skills and experience that are important to be represented on the Board as a whole in order to advise and contribute to the execution of the Company's strategic objectives. Each Board member was selected in accordance with the process for the selection and nomination of directors described above. Accordingly, the Board believes that each of the Company's Board members brings a myriad of attributes that combined benefit the Company and its stockholders. The following table summarizes certain key characteristics of the Company's business and the associated attributes that have been identified as important to be represented on the Board.

Business Characteristics	**Qualifications, Attributes, Skills & Experience**
The Company's business is multifaceted and involves complex financial transactions.	• High level of financial literacy • Relevant CEO, CFO, treasury experience • Certified Public Accountant, • Certified Financial Analyst
The Company's business requires compliance with a variety of regulatory requirements across a number of countries and relationships with various entities and non-governmental organizations.	• Governmental, legal or political experience
The Company's TASER Weapons product lines utilize Neuro-Muscular Incapacitation from electrical currents as the method to disable a resisting suspect, which inherently involves medical and scientific testing.	• Medical and/or scientific experience
The Company's primary markets are law enforcement, military and corrections agencies.	• Law enforcement experience • Military experience
The Company's business is expanding into the innovative field of cloud computing and wearable technology which involves different point of views and perspectives from its traditional weapons background.	• Emerging technologies experience
The Board's responsibilities include understanding and overseeing the various risks facing the Company and ensuring that appropriate policies and procedures are in place to effectively manage risk.	• Risk oversight • Management expertise

Director Nominees and Incumbent Directors in 2015

Vice Admiral (Retired) Richard H. Carmona M.D., M.P.H., F.A.C.S. (Nominated)

Director since 2007
Class C
Age: 65
Board Committees: Audit Committee, Nominating and Corporate Governance Committee (Chair), Litigation Committee
Other Public Company Boards: The Clorox Company, The Herbalife Company

Dr. Carmona was sworn in as the 17th Surgeon General of the United States on August 5, 2002 and served the statutory four year term. Prior to being named United States Surgeon General, Dr. Carmona was the chairman of the State of Arizona Southern Regional Emergency Medical System, a professor of surgery, public health and family and community medicine at the University of Arizona, and the Pima County Sheriff's Department surgeon and deputy sheriff. He is currently employed as Vice Chairman and Chief Executive Officer of Canyon Ranch Health in Tucson, Arizona and has held that position since October 1, 2006. Dr. Carmona attended Bronx Community College of the City University of New York where he earned his associate of arts degree. Dr. Carmona holds a B.S. degree and medical degree from the University of California, San Francisco. He has also earned a Master's Degree in Public Health from the University of Arizona.

Specific Qualifications, Attributes, Skills and Experience:

High Level of Financial Literacy	As Vice Chairman of Canyon Ranch, CEO of Canyon Ranch Health, and as a member of other public company boards, Dr. Carmona is able to contribute to the oversight of the Company's financial matters.
Risk Oversight & Management	Service on the Clorox Company and the Herbalife Company boards of directors provides valuable insight into public company corporate governance matters.
Relevant Political Background	Service as the former Surgeon General of the U.S. provides a unique insight into political matters.
Medical Expertise	As the Surgeon General of the U.S. as well as his extensive career in emergency medical services, provides him a deep understanding of health, safety and medicine.
Law Enforcement/Military Experience	He is a combat decorated and disabled U.S. Army Special Forces Veteran and a highly decorated police officer, giving him unusual insight into our diverse customer base.

Bret Taylor (Nominated - non-management director)

Director since 2014
Class C
Age: 35
Board Committees: None.
Other Public Company Boards: None.

Bret Taylor served as Group Product Manager at Google Inc. until June 2007, where he co-created Google Maps and the Google Maps API. He then joined venture capital firm Benchmark Capital as an entrepreneur-in-residence where he founded the social network Friendfeed, Inc. with former Google employee, Jim Norris. Taylor was the CEO of FriendFeed until August 2009, when Facebook acquired the company, and named Taylor Chief Technology Officer of Facebook. Taylor was the Chief Technology Officer of Facebook until the summer of 2012, and supervised some of Facebook's newest and most important products, including the creation of the Open Graph, the App Center, and its integration with the Apple App Store. He is now CEO and co-founder of Quip. Mr. Taylor attended Stanford University, where he earned his bachelor's degree and a master's degree in computer science.

Specific Qualifications, Attributes, Skills and Experience:

Technology Expertise	Executive experience in established technology organizations such as Google and Facebook, as well as experiences founding new technology companies, through Friendfeed and Quip, provides Mr. Taylor insight into software and internet-related business development initiatives.
Risk Oversight & Management	Experience as CEO of Quip provides Mr. Taylor experience in the unique challenges facing growing technology companies.

Patrick W. Smith, Chief Executive Officer

Director since 1993
Class B
Age: 44
Other Public Company Boards: None

Mr. Smith has served as CEO and as a director of the Company since 1993. He is also co-founder of the Company. After graduating from Harvard, *cum laude*, in just three years (class of 1991), Mr. Smith entered directly into the Master of Business Administration program at the University of Chicago. In two years, he completed both a master's degree in international finance from the University of Leuven in Leuven, Belgium and an M.B.A. degree with honors at the University of Chicago, graduating in the top 5% of his class. After completing graduate school in the summer of 1993, he co-founded TASER International, Inc., in September 1993 with his brother, Thomas P. Smith.

Mark Kroll

Director since 2003
Class B
Age: 62
Board Committees: Litigation Committee
Other Public Company Boards: Haemonetics Corporation

Dr. Kroll retired in July 2005 from St. Jude Medical, Inc., where he held various executive level positions since 1995, most recently as Senior Vice President and Chief Technology Officer, Cardiac Rhythm Management Division. Dr. Kroll holds a B.S. degree in Mathematics and a M.S. degree and a Ph.D. degree from the Electrical Engineering department of the University of Minnesota and an M.B.A. degree from the University of St. Thomas. Dr. Kroll is also the named inventor of over 350 issued U.S. patents and is a Fellow of the: American College of Cardiology, Heart Rhythm Society, Institute of Electronics and Electrical Engineering, and the American Institute for Medicine and Biology in Engineering.

Specific Qualifications, Attributes, Skills and Experience:

Technology Expertise	Advanced mathematical and scientific education and technology and scientific accomplishments as recognized by "Fellow" designations from IEEE and AIMBE provide a strong scientific background that is beneficial to the Company.
Bio-Medical and Scientific Expertise	Scientific accomplishments as recognized by "Fellow" designations from the American College of Cardiology and the Heart Rhythm Society provide invaluable skills and experience to the TASER Weapons business.
Risk Oversight & Management	Service on Haemonetic's board of directors as well as leadership positions at St. Jude's Medical, Inc. provides beneficial experience in management and oversight.

Judy Martz

Director since 2005
Class B
Age: 71
Board Committees: Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee, Litigation Committee (Chair)
Other Public Company Boards: None

From January 2001 through January 2004, Ms. Martz was Governor of the State of Montana and was Lieutenant Governor of the State of Montana from January 1996 through January 2000. From 1989 through 1995, Ms. Martz served as state representative for U.S. Senator Conrad Burns. As Governor of the State of Montana, Ms. Martz managed a more than $6.0 billion budget for the state.

Specific Qualifications, Attributes, Skills and Experience:

Relevant Political Background	As former Governor of the State of Montana, Ms. Martz brings a wealth of political insight and leadership to the Board, particularly with respect to matters relating to federal and government contracting.
Risk Oversight & Management	As former Governor, Ms. Martz is equipped with knowledge and experience in oversight and leadership issues.

Lt. General (USA, Retired) John S. Caldwell

Director since 2006
Class A
Age: 70
Board Committees: Audit Committee, Compensation Committee
Other Public Company Boards: Puradyn Filter Technologies

General Caldwell is currently employed as a consultant affiliated with The Spectrum Group and Wesley K. Clark Associates. General Caldwell was Senior Vice President, Defense Information Technology Solutions of QSS Group, Inc. from July 2004 through February 2008 at which time QSS Group Inc. was merged into Perot Systems Government Services. From February 2008 to June 2008 he was Executive Vice President, Defense Solutions, Perot Government Services. From November 2001 through January 2004, General Caldwell was a Lieutenant General in the United States Army and Military Deputy to the Assistant Secretary of the Army for Acquisition, Logistics and Technology. General Caldwell holds a B.S. degree from the U.S. Military Academy at West Point, New York and a M.S. degree in mechanical engineering from the Georgia Institute of Technology.

Specific Qualifications, Attributes, Skills and Experience:

Risk Oversight & Management	Executive positions at several defense contract and government service companies provide invaluable management and leadership experience.
Law Enforcement/Military Exp erience	Experience as a Lieutenant General in the U.S. Army and Military Deputy to the Assistant Secretary of the Army for Acquisition, Logistics and Technology, brings extensive knowledge in federal and military related matters.

Michael Garnreiter, Chairman

Director since 2006
Class A
Age: 63
Board Committees: Audit Committee (Chair), Compensation Committee, Nominating and Corporate Governance Committee, Litigation Committee
Other Public Company Boards: Banner Health, GlobalTranz, Pacific Alternative Asset Management Company, Knight Transportation, Amtech Systems

Mr. Garnreiter is currently Vice President of Finance and Treasurer of Shamrock Foods, a privately-held manufacturer and distributor of foods and food-related products. From January 2010 until August 2012, Mr. Garnreiter was a managing director of Fenix Financial Forensics, a Phoenix-based litigation and financial consulting firm. From April 2002 through June 2006, Mr. Garnreiter was Executive Vice President, Treasurer, and Chief Financial Officer of the Main Street Restaurant Group. Mr. Garnreiter previously served with the international accounting firm, Arthur Andersen, from 1974 through March 2002 with increasing levels of responsibility, culminating as a partner. Mr. Garnreiter holds a B.S. degree in accounting from California State University at Long Beach and is a Certified Public Accountant.

Specific Qualifications, Attributes, Skills and Experience:

High Level of Financial Literacy	Certified Public Accountant and former partner at Arthur Andersen. Served on the audit committee for each board he has served in the past.
Risk Oversight & Management	Board Experience for Knight Transportation, Amtech Systems, IA Global Inc., and Fenix Financial Forensics gives ample experience relating to public company corporate governance matters.

Hadi Partovi

Director since 2010
Class A
Age: 42
Board Committees: Compensation Committee
Other Public Company Boards: None

Mr. Partovi is the President and co-founder of the non-profit education organization Code.org. Mr. Partovi is a past or present strategic advisor or early investor at numerous technology companies, including Facebook, Dropbox, OPOWER, airbnb, Zappos, and Bluekai. From 2009 through 2010, Mr. Partovi was Senior Vice President of Technology for MySpace (via acquisition) and from 2006 through 2009 he was President and Co-Founder of ILIKE, Inc. which was acquired by MySpace in 2009. From 2002 through 2005, Mr. Partovi was General Manager, Microsoft MSN Entertainment and MSN.com and from 1999 through 2001, he was Co-Founder and VP of Product and Professional Services for TELLME Networks, Inc. From 1994 through 1999, he was Program Manager for Microsoft Internet Explorer. Mr. Partovi holds B.A. and M.S. degrees in Computer Science, *summa cum laude*, from Harvard University.

Specific Qualifications, Attributes, Skills and Experience:

Technology Expertise	Experience as an investor in technology companies provides Mr. Partovi with invaluable insight into software and internet-related business development initiatives.
Risk Oversight & Management	Experience as an advisor to multiple start-up companies provides Mr. Partovi experience in the unique challenges facing new technology companies.

DIRECTOR COMPENSATION

Members of the Board who are employees of the Company are not separately compensated for serving on the Board. Board compensation is reviewed periodically, and during the third quarter of 2014, the Board of Directors approved, in conjunction with management, a change to compensation structure for the remainder of 2014 and going forward. Previously, non-employee directors of the Company were paid $7,500 per quarter and were eligible to receive grants of restricted stock units (“RSUs”) of the Company’s stock equal to $50,000 vesting over three years. The Chair of the Board and the Chair of the Audit Committee received an additional $2,500 per quarter, and the Chair of each of the Compensation, Nominating and Governance and Litigation Committees received an additional $1,250 per quarter.

Beginning in the third quarter of 2014, non-employee directors of the Company are paid $8,750 per quarter and are eligible to receive grants of restricted stock units (“RSUs”) of the Company’s stock with a grant date fair value equal to $80,000 vesting in equal annual installments over three years. New Board members are eligible to receive an initial grant of the Company's stock with a grant date fair value equal to $100,000 in their first year of service vesting in equal annual installments over three years. The Chair of the Board receives an additional $3,750 per quarter. Board members that provide any special Board advisory consultations in their official capacity as a Board member (other than Board and committee meetings) are paid compensation at the rate of $2,500 per day or $1,250 per half day, with no pay for travel days. All directors are reimbursed for reasonable expense incurred in connection with their attendance at meetings. In addition, board members serving on committees in either the chair or member capacity earn extra fees as summarized in the following table:

Committee	Quarterly Chair Fee	Quarterly Member Fee
Audit	$ 3,750	$ 1,875
Compensation	2,500	1,250
Nominating and Governance	1,500	750
Litigation	1,500	750

The annual RSU awards typically are granted on the date of the Company’s annual stockholder’s meeting. Directors have the option of deferring all or a portion of their cash compensation into a non-qualified deferred compensation plan.

The following table summarizes the compensation paid to non-employee directors for the fiscal year ended December 31, 2014.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1)	All Other Compensation ($) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (3)	Total ($)
Michael Garnreiter	$ 63,000	$ 79,997	$ —	$ —	$ 142,997
John S. Caldwell	38,750	79,997	—	—	118,747
Hadi Partovi	35,000	79,997	—	—	114,997
Mark W. Kroll	34,000	79,997	150,884	—	264,881
Judy Martz	45,750	79,997	—	—	125,747
Richard H. Carmona	43,250	79,997	—	—	123,247
Bret Taylor (4)	17,500	100,000	—	—	117,500
Matthew McBrady (5)	17,500	79,997	—	—	97,497

(1) Amounts in this column represent the aggregate grant date fair value of RSUs, computed in accordance with stock-based compensation accounting rules (ASC Topic 718). The fair value of each RSU is the closing price of our common stock on the date of grant. Each non-employee director received an award of 6,130 RSUs on May 15, 2014 with the exception of Mr. Taylor. The awards vest in three equal installments on May 31, 2015, 2016 and 2017. Mr. Taylor's stock award represents his initial restricted stock award upon joining the Board of 7,391 RSUs vesting annually over four years on June 9, 2015, 2016, 2017 and 2018. Pursuant to SEC regulations, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions.

The following table shows equity-based awards granted in 2014, as well as the aggregate number of outstanding RSU and options outstanding. Prior to 2012, when the Company transitioned to the use of restricted stock units, non-employee directors received grants of options to acquire common stock under certain of the Company's stock compensation plans.

	2014 Stock-based Awards			As of December 31, 2014	
Name	Restricted Stock Units Granted	Grant Date	Grant Date Fair Value ($)	Aggregate Restricted Stock Units Outstanding	Aggregate Options Outstanding
Michael Garnreiter	6,130	5/15/2014	$ 79,997	13,138	67,214
John S. Caldwell	6,130	5/15/2014	79,997	13,138	68,877
Hadi Partovi	6,130	5/15/2014	79,997	13,138	58,171
Mark W. Kroll	6,130	5/15/2014	79,997	13,138	45,067
Judy Martz	6,130	5/15/2014	79,997	13,138	40,894
Richard H. Carmona	6,130	5/15/2014	79,997	13,138	106,124
Bret Taylor (4)	7,391	6/9/2014	100,000	7,391	—
Matthew McBrady (5)	6,130	5/15/2014	79,997	—	—

(2) Other compensation for Dr. Kroll represents fees for consulting services provided. See "Certain Relationships and Related Transactions – Consulting Services" below.

(3) Non-employee directors have the option of participating in the non-qualified deferred compensation plan. During the third quarter of 2013, the Company implemented a non-qualified deferred compensation plan for certain executives, key employees and non-employee directors through which participants may elect to postpone the receipt and taxation of a portion of their compensation. All gains or losses are allocated fully to plan participants and the Company does not guarantee a rate of return on deferred balances. The Company does not make discretionary payments to the plan. There were no above-market returns for participants in the plan. Dr. Kroll participates in the Company's deferred compensation plan, and elected to defer $34,000 of earned compensation into the plan during the year ended December 31, 2014.

(4) Mr. Taylor was appointed to the Board of Directors effective June 9, 2014. All compensation was earned in 2014 after his appointment date, including an initial stock grant of $100,000 vesting in equal annual installments over four years.

(5) Mr. McBrady resigned from the Board of Directors effective June 9, 2014. All fees earned in cash were for services rendered prior to his resignation, and all unvested RSUs were canceled as of the effective the date of his resignation.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company does not maintain a written related party transaction policy. It is the Company's policy, however, that all related party transactions will be reviewed by its Board and the Audit Committee. The Company's policies are evidenced by the respective meetings' minutes that document such reviews. Further, it is the policy of the Board that all proposed transactions by the Company with its directors, officers, five-percent stockholders and their affiliates be entered into or approved only if such transactions are on terms no less favorable to the Company than it could obtain from unaffiliated parties, are reasonably expected to benefit the Company and are approved by the Audit Committee. The Audit Committee is authorized to consult with independent legal counsel at the Company's expense in determining whether to approve any such transaction.

Consulting Services

The Company engages Dr. Mark Kroll, a member of the Board, to provide consulting services. The expenses related to these services were $0.2 million for each of the years ended December 31, 2014, 2013 and 2012. At December 31, 2014 and 2013, the Company had accrued consulting fees payable to Dr. Kroll of approximately $8,000 and $12,000, respectively.

BOARD STRUCTURE AND CORPORATE GOVERNANCE

Board Leadership Structure

The Company's governance documents provide the Board with flexibility to select the appropriate leadership structure for the Company. In making leadership structure determinations, the Board considers many factors, including the specific needs of the business and what is in the best interests of the Company's stockholders. The current leadership structure is anchored by a non-management director as Chair of the Board. The Board believes this structure provides a very well-functioning and effective balance between strong Company leadership and appropriate safeguards and oversight by independent directors.

- Chairman of the Board: Michael Garnreiter
- Chief Executive Officer: Patrick W. Smith
- Lead Independent Director: Judy Martz

The principal role of the Chairman of the Board is to manage and to provide leadership to the Board of Directors of the Company. The Chairman is accountable to the Board and acts as a direct liaison between the Board and the management of the Company, through the CEO. The Chairman acts as the communicator for Board decisions where appropriate. The separation of the role of the Chairman from that of the CEO is based on the Board's view that the Chairman should be free from any interest and any business or other relationship that could interfere with the Chairman's judgment, other than interests resulting from Company shareholdings and remuneration.

In addition, the Company considers it to be useful and appropriate to designate a non-management independent director to serve in a lead capacity to coordinate the activities of the other non-management directors. Among other things, the Lead Independent Director is responsible, along with the Chairman, for setting the agenda for Board meetings with Board and management input, facilitating communication among Directors and between the Board and the CEO, and working with the CEO to provide an appropriate information flow to the Board. The Lead Independent Director is responsible for calling and chairing executive sessions of the independent Directors. The Lead Independent Director and the Chairman are expected to foster a cohesive Board that cooperates with the CEO towards the ultimate goal of creating shareholder value.

Meetings of the Board of Directors

During the year ended December 31, 2014, the Board held four meetings. During 2014, each director attended at least 75% of all Board and applicable committee meetings.

Committees of the Board of Directors

The Board of Directors maintains a standing Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Litigation Committee.

The following table summarizes the current membership of our standing non-management Board committees, and identifies the chair of each committee and the number of committee meetings held in fiscal 2014:

	Audit Committee	**Compensation Committee**	**Nominating and Corporate Governance Committee**	**Litigation Committee**
Number of Meetings	10	4	1	—
Director				
John S. Caldwell	X	X		
Michael Garnreiter	*	X	X	X
Hadi Partovi		X		
Mark Kroll				X
Judy Martz	X	X	X	*
Richard Carmona	X		*	X
Bret Taylor				

X = Member
* = Chair

The Audit Committee, established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 exercises sole authority with respect to the selection of the Company's independent registered public accounting firm and the terms of their engagement; reviews the policies and procedures of the Company and management with respect to maintaining the Company's books and records; reviews with the independent registered public accounting firm, upon the completion of their audit, the results of the auditing engagement and any other recommendations the independent registered public accounting firm may have with respect to the Company's financial, accounting or auditing systems; and reviews with the independent registered public accounting firm, upon the completion of their quarterly review of the Company's financial statements, the results of the quarterly review and any other recommendations the independent registered public accounting firm may have in connection with such quarterly reviews. The Report of the Audit Committee for the year ended December 31, 2014 is included in this Proxy Statement.

The Compensation Committee determines salaries, stock and bonus awards and considers employment agreements for appointed officers of the Company, and prepares reports on these matters; considers and reviews grants of options and restricted stock units under the Company's compensations plans and administers such plans; and considers matters of director compensation, benefits and other forms of remuneration. The Compensation Committee Report for the year ended December 31, 2014 is included in this Proxy Statement. See "Compensation Discussion and Analysis" for more information regarding the Compensation Committee.

The Nominating and Corporate Governance Committee is charged with identifying qualified candidates for nomination for election to the Board and nominating such candidates for election; and reviewing and making recommendation to the Board concerning the composition and size of the Board and its committees. The Committee also monitors the process to assess the Board's effectiveness and is primarily responsible for oversight of corporate governance, and to develop and update our corporate governance principles.

The Litigation Committee is responsible for reviewing and approving the settlement of certain litigation matters against the Company or its offers and directors to ensure the settlement is fair, reasonable and in the best interests of the Company's stockholders. No member of the Litigation Committee was a named party in any pending litigation involving the Company.

The Audit Committee, Compensation Committee and the Nominating and Corporate Governance Committee have each adopted charters that govern their respective authority, responsibilities and operation. The charters of these committees are available on our website at http://investor.taser.com.

Audit Committee Financial Experts

The Board of Directors has determined that Mr. Garnreiter, an independent director of the Company, is an audit committee financial expert within the meaning of that term under applicable rules promulgated by the Securities and Exchange Commission. Information about the past business and educational experience of Mr. Garnreiter is included in this Proxy Statement under the heading "Proposal One: Election of Directors." The Board has also determined that each current member of the Audit Committee is financially literate under the current listing standards of NASDAQ.

Director Independence

As of the date of this Proxy Statement, based upon the information submitted by each of its directors, the Board has made a determination that a majority of our current Board is independent as that term is defined by NASDAQ listing standards and that all of the members of our Board committees also meet any additional specific independence standards applicable to any committee on which such director serves, including the more stringent audit committee and compensation committee independence committee criteria. The following directors are currently deemed independent by the Board: John S. Caldwell, Michael Garnreiter, Judy Martz, Bret Taylor, Richard Carmona and Hadi Partovi. Each of these directors is also a "non-employee director" (within the meaning of Rule 16b-3 under the Exchange Act) and all are "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code and related Treasury Regulations.

Patrick W. Smith is not independent because he is an executive officer of the Company, and Mark Kroll is not independent because he provides consulting services to the Company (see "Certain Relationships and Related Transactions – Consulting Services").

Board of Directors' Role in Risk Oversight

The Company's risk management process is intended to ensure that risks are taken knowingly and purposefully. As such, the Company's executive management keeps the Board apprised by presenting results of the process to identify, assess, prioritize and address strategic, financial, operating, business, compliance, litigation, regulatory, safety, reputational and other risks to the Company. Executive management meets with the Board on a quarterly basis to address high priority risks and on an as-needed basis to evaluate and monitor emerging risks.

Code of Ethics

The Company has adopted a Code of Ethics which is applicable to all employees, directors and consultants of the Company. A copy of the Company's Code of Ethics is published and available on the Company's website http://investor.taser.com. The Company intends to disclose any future amendments or waivers to the Code of Ethics on the Company's website within four business days following the date of such amendment or waiver, unless required by NASDAQ rules to disclose such event on Form 8-K.

Director Attendance at Annual Meetings of Stockholders

Directors are encouraged by the Company to attend each annual meeting of stockholders if their schedules permit. Seven of our directors attended the 2014 Annual Meeting of Stockholders and a majority of the directors are expected to be in attendance at the 2015 Annual Meeting of Stockholders.

Stockholder Communications with Directors

Stockholders may communicate with members of the Board by mail addressed to the Chair, or any other individual member of the Board, to the full Board, or to a particular committee of the Board. In each case, such correspondence should be sent to the Company's headquarters at 17800 North 85th Street, Scottsdale, AZ 85255. All stockholder communication will be forwarded to each individual member of the Board.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors reviews the Company's financial reporting process on behalf of the Board. The Audit Committee has sole authority to retain, set compensation and retention terms for, terminate, oversee and evaluate the work of the Company's independent auditor. The independent auditor reports directly to the Audit Committee.

The Company's management is responsible for the Company's financial reporting process including its system of internal controls, and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States. Grant Thornton LLP, the Company's independent registered public accounting firm, is responsible for expressing an opinion based on their audits of the consolidated financial statements. In accordance with its written charter, the Audit Committee assists the Board of Directors in its oversight of (i) the integrity of the Company's financial statements and the Company's financial reporting processes and systems of internal control, (ii) the qualifications, independence and performance of the Company's independent public accounting firm and the performance of the Company's internal audit function, (iii) the Company's compliance with legal and regulatory requirements involving financial, accounting and internal control matters, (iv) investigations into complaints concerning financial matters and (v) risks that may have a significant impact on the Company's financial statements.

Further, the Audit Committee reviews reports prepared by management on various matters including critical accounting policies and issues, material written communications between the independent auditor and management, significant changes in the Company's selection or application of accounting principles and significant changes to internal control procedures. It is not the duty or responsibility of the Audit Committee to conduct auditing and accounting reviews or procedures.

In discharging its oversight responsibilities with respect to the audit process, the Audit Committee (i) obtained from the independent public accounting firm a formal written statement describing all relationships between the independent public accounting firm and the Company that might bear on the independent public accounting firm's independence consistent with the applicable requirements of the Public Company Accounting Oversight Board, (ii) discussed with the independent auditing firm any relationships that may impact its objectivity and independence, and (iii) considered whether the non-audit services provided to the Company by Grant Thornton LLP are compatible with maintaining their independence. The Audit Committee also discussed with the independent auditing firm their identification of audit risk, audit plans and audit scope, as well as all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 114, as amended, "The Auditor's Communication with Those Charged with Governance" and Rule 2-07 of Regulation S-X "Communications with Audit Committees."

The Audit Committee reviewed and discussed with management and its independent public auditors our annual audited financial statements and quarterly financial statements, including a review of the "Managements' Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Form 10-K and 10-Q filings, as well as the Company's earnings press releases and information related thereto.

During fiscal year 2014, the Audit Committee met with representatives of the independent public accounting firm, both with management present and in private sessions without management present, to discuss the results of the financial statement audit and quarterly reviews and to solicit their evaluation of the Company's accounting principles, practices and judgments applied by management and the quality and adequacy of the Company's internal controls.

In performing the above described functions, the Audit Committee acts only in an oversight capacity and necessarily relies on the work and assurances of the Company's management and independent public accounting firm, which, in the independent public accounting firm's report, expresses an opinion on the conformity of the Company's annual financial statements to accounting principles generally accepted in the United States.

Based upon the Audit Committee's discussion with the Company's management and Grant Thornton LLP, and the Audit Committee's review of the representations of the Company's management and the report of the independent public accountants to the Audit Committee, the Audit Committee recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. The Audit Committee also approved the selection of Grant Thornton LLP as the Company's independent auditor for the fiscal year 2015.

March 11, 2015

The Audit Committee:

Michael Garnreiter, Chair
John S. Caldwell
Judy Martz
Richard Carmona

The foregoing Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by express reference therein.

EXECUTIVE COMPENSATION

Overview and Summary; Consideration of Prior Year Say on Pay Vote

TASER International, Inc. believes in competitive compensation aligned with the values, objectives and financial performance of the Company. In 2014, 2013 and 2012, a significant amount of our executives' potential total compensation was tied to performance. The Compensation Committee considers the performance criteria for the Company's performance-based compensation challenging, but achievable. For the years 2014, 2013, and 2012 performance-based targets were achieved.

At the 2014 Annual Meeting of Stockholders ("2014" Annual Meeting"), we presented to stockholders, for advisory approval, the Company's executive compensation ("Say on Pay"). Of the 33.5 million votes cast on the Say on Pay vote (including abstentions), 96% were favorable for our Say on Pay resolution. The Compensation Committee considered this a favorable outcome and believed it conveyed our shareholders' support of the Compensation Committee's decisions and existing executive compensation programs. Consistent with this support, the Compensation Committee decided to retain the core design of our executive compensation programs for the remainder of 2014. Going into the 2015 compensation year, the Committee considered the approval and retained the core design and continued to award the long-term incentives to further align with shareholder interests as well as to continue to attract, retain and appropriately incent senior management. At the 2015 Annual Meeting of Stockholders, the Company will again hold the annual advisory vote to approve executive compensation. The Compensation Committee will continue to consider the results from this year's and future advisory votes on executive compensation.

Named Executive Officers in 2015

See "Proposal One: Election of Directors" for biographical information for Patrick W. Smith, who is also a named executive officer of the Company.

Daniel M. Behrendt

Title: Chief Financial Officer
Joined TASER in 2004
Age: 50

Mr. Behrendt joined the Company in May 2004 from Imperial Home Décor, after serving in a number of financial management positions for the Imperial Home Décor Group, a Blackstone Group Portfolio Company, from 1998—2004, including Director of Financial Planning and Analysis, Vice President and Corporate Controller and finally, Senior Vice President and Chief Financial Officer. From 1995 to 1998, he served as the Manager of Business Planning and Analysis for Teledyne Fluid Systems, a division of Allegheny Teledyne. From 1991 to 1995, he served as Manager, Business Planning and Analysis for PCC Airfoils, Inc. From 1988 to 1991, Mr. Behrendt was a Financial Analyst for the Power Generation Group of Babcock and Wilcox, and from 1986 to 1988, he worked as an auditor for Arthur Andersen in their Cleveland, Ohio office. Mr. Behrendt holds a B.S. degree in Accounting, cum laude, from Mount Union College, a Masters of Business Administration degree from The Weatherhead School of Management at Case Western Reserve University and is a Certified Public Accountant.

Douglas E. Klint

Title: General Counsel (President until April 6, 2015)
Joined TASER in 2002
Age: 63

Mr. Klint joined the Company in December 2002 as Vice President, General Counsel and held that position through February 2010 at which time he was promoted to President and General Counsel. Mr. Klint previously served as Vice President and General Counsel of Zycad Corporation, a publicly traded high technology company located in St. Paul, MN and Menlo Park, CA from 1984 to 1998, and Vice President and General Counsel of Aspec Technology, a publicly traded semi-conductor IP company located in Sunnyvale, CA, from 1998 to 1999 at which time he was promoted to President and CEO and continued in that role through 2001. Mr. Klint has a Bachelor of Arts Degree in Economics and Business Administration from Gustavus Adolphus College, and a Juris Doctor Degree from William Mitchell College of Law, cum laude. He is admitted to the Minnesota State Bar and the Arizona State Bar. On December 4, 2014, Mr. Klint resigned as President of TASER effective April 6, 2015, and will remain with the Company and retain the title of General Counsel.

Marcus W. L. Womack

Title: General Manager of AXON Business Segment
Joined TASER in 2013
Age: 38

Mr. Womack previously served as Co-Founder and Chief Executive Officer of Familiar, Inc. from 2011 through its purchase by TASER in October 2013. Prior to that, Mr. Womack was VP and General Manager at iLike Events & Ticketing from 2009 to 2011. From 2007 to 2009 Mr. Womack was Director of Product Management at iLike and from 2005 to 2007, Mr. Womack was the Lead Program Manager for Microsoft Xbox Live. Mr. Womack holds a B.A. degree from Pacific Lutheran University.

Luke S. Larson

Title: Chief Marketing Officer (President, effective April 6, 2015)
Joined TASER in 2008
Age: 34

Prior to joining TASER, Luke served as a Marine Corps infantry officer and saw action in two tours to Ar Ramadi, Iraq. He was awarded the Bronze Star with V for valor on his first tour. Luke graduated from the University of Arizona with honors where he was an NROTC Scholarship recipient. He also received an MBA in International Business from Thunderbird School of Global Management. On September 30, 2014, the Company named Mr. Larson a Section 16 officer. On December 4, 2014, the Company announced Mr. Larson's appointment to President of TASER effective April 6, 2015.

Each executive officer serves at the discretion of our Board of Directors and no officer is subject to an agreement that requires the officer to serve the Company for a specified number of years. We have entered into employment-related agreements with each of the executive officers listed above. These agreements require notice of termination by the Company in certain situations that are described in further detail in this proxy statement under the heading "Compensation Discussion and Analysis – Employment Agreements and Other Arrangements."

COMPENSATION DISCUSSION AND ANALYSIS

The purpose of this Compensation Discussion and Analysis is to provide material information about our compensation objectives and policies and to explain and provide context for the material elements of the disclosure which follows in this proxy statement with respect to the compensation of our named executive officers ("NEOs").

Introduction and Objectives

Processes and Procedures for Considering and Determining Executive Compensation

The Compensation Committee (in this section, the "Committee") assists the Board of Directors ("Board") in addressing matters relating to the fair and competitive compensation of our NEOs and non-employee directors, together with matters relating to our other benefit plans. The Committee is currently composed of four independent directors: Judy Martz, John S. Caldwell, Hadi Partovi and Michael Garnreiter. Matthew R. McBrady was the chair of the Compensation Committee in 2014 until his resignation from the Board effective June 9, 2014. The Committee makes the sole decision regarding compensation for the Chief Executive Officer and each NEO.

The Committee met four times in 2014. All Committee members were present for this meeting. To finalize the 2015 compensation structure, the Committee held two additional meetings in the first quarter of 2015.

Two members of management, Patrick W. Smith, Chief Executive Officer ("CEO") and Daniel M. Behrendt, Chief Financial Officer ("CFO"), attended portions of the meetings. The agendas for these meetings were determined by the Committee members prior to the meetings. The Committee generally receives and reviews materials in advance of each meeting. Depending on the agenda for the particular meeting, materials may include:

- Financial reports;
- Reports on levels of achievement of corporate performance objectives;
- Schedules setting forth the total compensation of the NEOs, including base salary, cash incentives, equity awards, perquisites and other compensation and any potential amounts payable to the NEOs pursuant to employment, severance and change of control agreements;
- Summaries which show the NEOs' total accumulated stock awards and stock option holdings;
- Information regarding compensation paid by comparable companies identified in executive compensation surveys; and,
- Reports from Compensation Committee consultants.

The Committee's primarily responsibilities are to:

- Review and approve corporate goals and objectives relevant to the compensation of NEOs, evaluate the performance of the NEOs in light of these goals and objectives and determine and approve the compensation level of NEOs based on that evaluation;
- Evaluate and establish the incentive components of the CEO's compensation and related bonus awards, taking into account the Company's performance and relative stockholder return, the value of similar incentive awards to CEOs at comparable companies, the services rendered by the CEO and the awards given to the CEO in past years;
- Review and approve the design of the compensation and benefit plans that pertain to the CEO and other NEOs who report directly to the CEO;
- Administer equity-based plans, including stock incentive plans;
- Approve the material terms of all employment, severance and change of control agreements for NEOs;
- Retain compensation consultants and firms as necessary, or appropriate, on an advisory basis to establish comparator groups, benchmarking and targets for compensation related matters;
- Recommend to the Board the compensation for Board members, such as retainers, committee fees, chair fees, stock awards and other similar items;
- Provide oversight regarding the Company's benefit and other welfare plans, policies and arrangements;

- Prepare the Compensation Committee report to be included in the Company's annual proxy statement and Annual Report on Form 10-K filed with the SEC; and
- Review and discuss with management the Compensation Discussion and Analysis and based on such review and discussion, recommend to the Board approval to include the Compensation Discussion and Analysis in the Annual Report on Form 10-K or in the proxy statement.

The Committee's charter reflects these responsibilities, and the Committee and the Board periodically review and revise the charter. The full text of the Compensation Committee charter is available on our website at http://investor.taser.com.

Role of Management and Consultants in Determining Executive Compensation

Our executive management supports the Committee in carrying out its responsibilities by preliminarily outlining compensation levels for NEOs, administering our benefit and other welfare plans and providing data to the Committee for analysis. Annually, compensation is initially proposed by the CEO for each executive (excluding the CEO), consisting of base salary, annual and long-term performance-based compensation and long-term equity compensation, which is then provided to the Committee for review and approval.

Our Committee has sole authority to engage the services of outside consultants and advisors, as it deems necessary or appropriate in the discharge of its duties and responsibilities. The Committee has budgetary authority to authorize and pay for the services of outside consultants, and the consultants report directly to the Committee. In December 2013, and through the first quarter of 2014, the Committee engaged Aon Hewitt as a compensation consultant. The Committee did not engage any other advisor in 2013, 2014 or 2015. For use in the design of the 2014 compensation structure, Aon Hewitt provided research, data analyses, benchmarking and design expertise in developing and structuring compensation programs for executives. Prior to the retention of Aon Hewitt, the Committee assessed Aon Hewitt's independence, taking into consideration all relevant factors, including the factors specified by NASDAQ. The Committee believes that Aon Hewitt has been independent throughout its service and there is no conflict of interest between Aon Hewitt and the Committee. The Company utilized the information provided in 2014 in its design of the 2015 compensation structure, which does not differ significantly to that of the 2014 structure.

The Committee retained Aon Hewitt to perform a review of the compensation for our executive positions, including: base salaries, total cash compensation (salary plus bonuses), total direct compensation (total cash plus long-term incentives plus other annual compensation), as well as the composition of total direct compensation for 2014. Aon Hewitt worked with the Committee to develop the new long-term incentive methodologies implemented in 2014. The Committee also evaluated compensation data and plan design information from national surveys and other public companies. Executive compensation was not changed materially in 2015.

Peer Comparator Group

The scope of Aon Hewitt's 2014 review included determining an appropriate comparator group to compare the Company's executive compensation to, based primarily on the following criteria: Industry and Global Industry Classification ("GICS") code, revenue, EBITDA, market capitalization, and number of employees. Aon Hewitt selected companies in both manufacturing and technology to match the evolving nature of TASER's business. Companies selected typically had annual sales between $60 million and $230 million, with market capitalization of $450 million to $2.5 billion. Total employees of the comparator companies were targeted at between 300 and 700. In addition to the comparator group, Aon Hewitt gathered benchmark data for the Committee's review from the manufacturing and technology industries with similar revenue.

The comparator group recommended by Aon Hewitt and subsequently considered by the Committee when reviewing executive compensation is as follows:

AeroVironment, Inc.	IntraLinks Holdings, Inc.	SIFCO Industries Inc.
Astronics Corp.	Limelight Networks, Inc.	Smith Micro Software Inc.
CalAmp Corp.	LogMein, Inc.	Sparton Corp.
Carbonite, Inc.	Numerex Corp.	The KEYW Holding Corp.
CPI Aerostructures Inc.	Proofpoint, Inc.	VASCO Data Security International, Inc.
Guidance Software, Inc.	Qumu Corp.	

Our Compensation Philosophy

The Committee is in place to address matters relating to the fair and competitive compensation of our NEOs and non-employee directors, together with matters relating to our other benefit plans. The Committee believes that executive compensation should be aligned with the values, objectives and financial performance of the Company.

Objectives of NEO compensation include:

- Attract and retain highly qualified individuals who are capable of making significant contributions critical to our long-term success;
- Promote a performance-oriented environment that encourages Company and individual achievement;
- Reward NEOs for long-term strategic management and the enhancement of stockholder value;
- Strengthen the relationship between pay and performance by emphasizing variable, at-risk compensation that is dependent upon the achievement of specified corporate and personal performance goals; and
- Align long-term management interests with those of stockholders, including long-term at-risk pay.

Our Compensation Programs

We utilize various non-cash compensation programs, in addition to traditional cash-based compensation methods. Specifically, we have utilized stock-based awards.

The principal components of compensation in 2014 and 2015 for our NEOs consist of the following:

- Annual salary;
- Annual performance-based incentive plans, comprised of:
  - Commissions on sales growth and bookings; and
  - Cash bonuses based on target levels of AXON bookings, total revenue, international revenue, TASER Weapon segment profit, active users of the Company's EVIDENCE.com service and consumer sales;
- Long-term performance incentive equity compensation in the form of restricted stock units ("PSUs"); and
- Long-term service-based equity compensation in the form of restricted stock units (“RSUs”).

Any decision to materially increase compensation is based upon the objectives listed above, taking into account all forms of compensation, as well as based upon individual achievement of performance goals. These goals include revenue and pretax earnings targets as well as specific management tasks. Decisions regarding the CEO’s compensation are made by the Committee and reflect the same considerations used for the other NEOs. The Committee has not adopted any claw-back policies, nor does it have any executive stock ownership requirements.

Benchmarking

It is the Committee's intent that the total compensation for our NEOs be targeted between the 50th and the 75th percentile in relation to our established comparator group and the Committee intends that over time our compensation becomes more consistent with this goal. The Committee believes that targeting this range will reflect competitive market pay practices and our current compensation philosophy, which balances our "pay for performance" strategy with our desire to offer competitive compensation with respect to our comparator group, thus allowing us to attract and retain management talent.

Based upon the analysis of the pay practices of our comparator group provided by Aon Hewitt in early 2014, total target direct compensation for 2013 for our CEO fell 36% below the median of our established comparator group, and 42% below the 75th percentile for the group, with other executive positions below the comparator group 75th percentile as well. Because it is the Committee's intent that total compensation for our NEOs be targeted between the 50th and 75th percentile in relation to our established comparator group, the compensation packages for our NEOs were revised for 2014. In 2015, executive salaries stayed the same with the exception of Mr. Larson who is taking on incremental responsibilities through his promotion to President of the Company effective in April 2015. Each category of compensation was reviewed by the Committee with the goal that NEO compensation components meet the objectives outlined above. The table below compares the Company's NEOs' target total direct compensation to our comparator group:

Named Executive	2014 Total Target Direct Compensation	Comparator Group 50th Percentile (1) (2)	Comparator Group 75th Percentile (1) (2)	2015 Total Target Direct Compensation	
Patrick W. Smith	$ 1,350,000	$ 1,532,000	$ 1,699,000	$ 1,350,000	
Daniel M. Behrendt	875,000	776,000	911,000	1,050,000	(3)
Douglas E. Klint	900,000	749,000	898,000	820,000	
Marcus W. L. Womack	560,000	900,000	1,189,000	760,000	(3)
Luke S. Larson	230,000	749,000	898,000	1,000,000	(3)
Jeffrey M. Kukowski	700,000	901,000	901,000	n/a	(4)

(1) Aon Hewitt's analysis was primarily based on 2012 amounts, as reported by comparator group companies.

(2) Positions and responsibilities reported for NEOs of comparator group companies varied, with not all companies reporting data for positions similar in nature and scope to those of TASER NEOs (other than CEO and CFO). Aon Hewitt used its professional judgment in calculating comparator group information by role, using blends of reported positions and excluding certain comparator group companies from comparisons when appropriate.

(3) 2015 total target direct compensation includes RSU grants with grant date fair values of $300,000, $250,000 and $500,000 for Messrs. Behrendt, Womack and Larson, respectively, that will vest in increments of 5%, 5%, 10%, 30% and 50% in February of 2016, 2017, 2018, 2019 and 2020, respectively. Mr. Behrendt also received an RSU grant with a grant date fair value of $150,000 that vests ratably over a period of three years from the grant date.

(4) Mr. Kukowski's position was eliminated in December 2014, and his employment with the Company terminated effective January 5, 2015.

The following tables show the composition of each NEO's total target direct compensation for 2014 and 2015:

2014	Annual Salary		Annual Target Incentive Compensation (1)		Long-term Target Incentive Compensation (2)		Long-term Equity Compensation (2)		Target Total Direct Compensation
Name	**$**	**% of Total**	**$**	**% of Total**	**$**	**% of Total**	**$**	**% of Total**	**$**
Patrick W. Smith	$ 350,000	25.9%	$ 250,000	18.5%	$ 450,000	33.3%	$ 300,000	22.2%	$ 1,350,000
Daniel M. Behrendt	300,000	34.3%	150,000	17.1%	255,000	29.1%	170,000	19.4%	875,000
Douglas E. Klint	300,000	33.3%	175,000	19.4%	255,000	28.3%	170,000	18.9%	900,000
Marcus W. L. Womack	235,000	42.0%	75,000	13.4%	250,000	44.6%	—	—%	560,000
Luke S. Larson (3)	180,000	78.3%	50,000	21.7%	—	—%	—	—%	230,000
Jeffrey M. Kukowski (4)	235,000	33.6%	205,000	29.3%	160,000	22.9%	100,000	14.3%	700,000

(1) Presented at target levels. Actual results for 2014 exceeded targets, resulting in cash bonuses for Messrs. Smith, Behrendt, Klint and Larson in the amounts of $335,338, $201,203, $67,068 and $47,484, respectively. These bonuses

were paid in March 2015. See further discussion following under "Performance-based Incentive Plans." Mr. Klint's total annual target incentive compensation included $125,000 of commissions, none of which was earned during fiscal 2014. Mr. Kukowski's annual target incentive compensation consisted entirely of commissions.

(2) The value of the PSUs and RSUs is based on the grant-date fair value.

(3) Mr. Larson was named a Section 16 officer on September 30, 2014. This table represents his full year 2014 direct compensation.

(4) Mr. Kukowski's position was eliminated in December 2014, and his employment with the Company terminated effective January 5, 2015.

2015	Annual Salary		Annual Target Incentive Compensation (1)		Long-term Target Incentive Compensation (2)		Long-term Equity Compensation (2)		Target Total Direct Compensation
Name	$	% of Total	$	% of Total	$	% of Total	$	% of Total	$
Patrick W. Smith	$ 350,000	25.9%	$ 250,000	18.5%	$ 450,000	33.3%	$ 300,000	22.2%	$ 1,350,000
Daniel M. Behrendt	300,000	28.6%	150,000	14.3%	150,000	14.3%	450,000	42.9%	1,050,000
Douglas E. Klint	300,000	36.6%	350,000	42.7%	—	—%	170,000	20.7%	820,000
Marcus W. L. Womack	235,000	30.9%	100,000	13.2%	175,000	23.0%	250,000	32.9%	760,000
Luke S. Larson	250,000	25.0%	100,000	10.0%	150,000	15.0%	500,000	50.0%	1,000,000

(1) Annual salary effective February 1, 2015.

(2) The value of the PSUs and RSUs is based on the grant-date fair value.

Annual Salary

Salaries for NEOs are reviewed annually, as well as at the time of a promotion or other changes in responsibilities. Consistent with our goal for overall compensation, annual salary is targeted in the 50th to 75th percentile of compensation paid to executives with similar levels of responsibility within our comparator group. Individual executives may be paid higher or lower than this target pay at the discretion of the Committee depending on facts; such as, tenure with the Company, results of personal, department and corporate performance, complexity of the business unit managed, and the perceived detrimental effects to the Company that may result from such executive's departure. The base salaries of our NEOs, other than the CEO, were proposed by the CEO, established by the Committee and approved by the independent directors after considering compensation salary trends, overall level of responsibilities, total performance and compensation levels for comparable positions in the market for executive talent based on salary surveys and compensation data from comparator group companies.

After considering the above, effective February 1, 2015, the Committee increased the base salaries of our NEOs as follows:

Named Executive	2014 Salary ($)	2015 Salary ($)
Patrick W. Smith	$ 350,000	$ 350,000
Daniel M. Behrendt	300,000	300,000
Douglas E. Klint	300,000	300,000
Marcus W. L. Womack	235,000	235,000
Luke S. Larson	180,000	250,000
Jeffrey M. Kukowski (1)	235,000	n/a

(1) Mr. Kukowski's position was eliminated in December 2014, and his employment with the Company terminated effective January 5, 2015.

Performance-based Incentive Plans

The objective of the annual incentive cash bonus plan and the use of equity-based awards in the form of PSUs have been to provide executives with a competitive total compensation opportunity, as well as to align executive rewards with results.

2014 Structure

In 2014, after consideration of comparator group practices and recommendations from Aon Hewitt on long-term incentive compensation design, the Committee revised the structure and composition of the NEOs performance-based incentive plans. The 2014 structure included: an annual cash bonus component; PSUs that cliff vest based on three-year revenue goals; and, for Mr. Klint, Mr. Womack and Mr. Kukowski, sales-based commissions, paid quarterly. Each component was designed to incentivize specific Company goals.

Attainment of the 2014 annual cash bonus was based on the achievement of annual financial goals, including goals related to: consolidated revenue, modified net income, AXON and EVIDENCE.com bookings (as defined in SEC filings), modified operating income for the TASER Weapons segment and international revenue. The Committee believed the criteria for the annual cash bonus were challenging, but achievable. Sales commissions were earned based upon specific sales targets for each eligible NEO. Because the sales commissions are tied to metrics such as sales growth and other operating results, the Committee did not set a maximum amount that could be paid under the plans for the NEOs.

The amount of PSUs that will ultimately vest, if any, is based upon the compounded annual revenue growth rates for the total Company and the AXON segment (excluding TASER Cam) compared to target for the three-year period ending December 31, 2016. Earned PSUs cliff vest at the end of that period. Should actual performance metrics exceed targeted metrics, executives will receive additional PSUs, for a total of up to 200% of target. The Committee decided to introduce sales targets related to three-year growth rates to promote and reward the achievement of long term objectives and long-term strategic planning by our NEOs.

2014 Performance-Based Incentive Plans Metrics

Metric	Target	Actual	Weight	Weighted Payout
Revenue (millions)	$ 155.0	$ 164.5	27%	35%
Modified Net Income (millions) [1]	17.7	21.7	27	34
International Sales (millions)	30.0	32.3	10	11
AXON & EVIDENCE.com Bookings	30.0	57.3	26	39
TASER Weapons Modified Operating Income [1]	31.9%	36.4%	10	15
Actual Attainment/Plan Payout			100%	134%

(1) Modified as determined by the Compensation Committee

The 2014 performance-based incentive plan metrics are measured and paid quarterly after the Company releases its quarterly earnings. The first three fiscal quarters are weighted at 15% of the annual total with the fourth quarter equaling the remaining 55%. Each metric has a threshold, target and maximum goal with corresponding base payouts of 50%, 100% and 150% of target, respectively. The Company exceeded the highest target for the AXON & EVIDENCE.com Bookings and TASER Weapons Modified Operating Income metrics, which resulted in the maximum payout of 150% of target with a corresponding weighted payout of 39% and 15%, respectively. The total Revenue, Modified Net Income and International Sales metrics each met their target levels for fiscal 2014, which resulted in a base payout of 100% of target plus the calculated incremental amount that the actual results exceeded their specified target levels, and this resulted in a weighted payout of 35%, 34% and 11%, respectively.

2015 Structure

In 2015, each component of incentive compensation continues to be designed to incentivize specific Company goals.

Attainment of the 2015 annual cash bonus is based on the achievement of annual financial goals, including goals related to: consolidated revenue, AXON and EVIDENCE.com bookings (as defined in SEC filings), operating income for the TASER Weapons segment, consumer sales, active users on EVIDENCE.com and international revenue. The Committee believes the criteria for the annual cash bonus are challenging, but achievable. Sales commissions are earned based upon specific sales targets for each eligible NEO. Because sales commissions are tied to metrics such as sales growth, the Committee has not set a maximum amount that can be paid under the plans for the NEOs. In 2015, the metrics tied to the cash bonus are typically capped at a 150% payout. However, consumer sales and active users are calculated on a linear payout and therefore have no maximum payout.

Terms and conditions of the Performance-based Incentive Plans for NEOs are established by the Committee early in the fiscal year. The following table sets forth the target Performance-based incentive compensation for the years ended December 31, 2014 and 2015.

	Performance-based Incentive Plans - 2014 Target				
Named Executive	**Annual Cash Incentive**	**Sales Commissions**	**PSUs (#) (1)**	**Grant Date Fair Value**	**Total 2014**
Patrick W. Smith	$ 250,000	$ —	24,899	$ 450,000	$ 700,000
Daniel M. Behrendt	150,000	—	14,104	255,000	405,000
Douglas E. Klint	50,000	125,000	14,104	255,000	430,000
Marcus W. L. Womack	—	75,000	12,723	250,000	325,000
Luke S. Larson	50,000	—	—	—	50,000
Jeffrey M. Kukowski (2)	—	205,000	8,850	160,000	365,000

	Performance-based Incentive Plans - 2015 Target				
Named Executive	**Annual Cash Incentive**	**Sales Commissions**	**PSUs (#) (1)**	**Grant Date Fair Value**	**Total 2014**
Patrick W. Smith	$ 250,000	$ —	16,667	$ 450,000	$ 700,000
Daniel M. Behrendt	150,000	—	5,556	150,000	300,000
Douglas E. Klint	50,000	300,000	—	—	350,000
Marcus W. L. Womack	52,000	48,000	6,481	175,000	275,000
Luke S. Larson	100,000	—	5,556	150,000	250,000

(1) Achievement based on three-year, long-term target metrics

(2) Mr. Kukowski's position was eliminated in December 2014, and his employment with the Company terminated effective January 5, 2015.

Long-Term Service-Based Equity Compensation

The Committee believes that service-based equity compensation with multi-year vesting periods ensures that our NEOs will have a continuing stake in our long-term success. As such, the Committee implemented, with Board and stockholder approval, the 2013 Stock Incentive Plan (the "2013 Plan") that allows the Committee to grant stock-based awards to officers, and other key employees. The Committee believes the granting of such awards, which generally vest over a three-year service period, aligns those individuals' interests with those of stockholders, motivates executives to make strategic long-term decisions, and better enables the Company to attract and retain capable directors, executives and key employees.

In determining the total number of units to award to each NEO, the Compensation Committee considers, among other things, the strategic objectives of the Company over the next three years, and the practice of comparator group companies. The following table sets forth the service-based RSU awards made to our NEOs in February 2014 and February 2015:

	2014 Awards		2015 Awards	
Named Executive	Number of Service-based RSUs Awarded	Grant Date Fair Value	Number of Service-based RSUs Awarded	Grant Date Fair Value
Patrick W. Smith	16,593	$ 300,000	11,046	$ 300,000
Daniel M. Behrendt	9,403	170,000	16,569	450,000
Douglas E. Klint	9,403	170,000	6,259	170,000
Marcus L. Womack	n/a	n/a	9,205	250,000
Luke S. Larson	n/a	n/a	18,409	500,000
Jeffrey M. Kukowski	5,531	100,000	n/a	n/a

Other Long-term Performance-based Equity Compensation

In addition to the PSUs granted in conjunction with the performance-based incentive plans described above, the Committee has, from time-to-time, approved performance-based equity awards to certain of our NEOs in keeping with the Committee's goals to align the long-term interests of management with the Company's stockholders. Generally, these awards vest upon the achievement of performance milestones in the NEOs area of the business. The Committee's intention in awarding these grants has been to incentivize and reward the achievement of significant long-term strategic goals.

The following table sets forth information concerning other long-term performance-based equity compensation awards which were either vested during 2014 or still have potential to vest. In determining the performance criteria for each NEO's performance-based stock option award, the Committee considered, among other things, the strategic objectives of the Company and the executive's ability to influence the performance criteria. The Committee believes that the performance targets described below are challenging, but achievable.

Name	Grant Date	Options/PSUs	Performance Criteria	Vesting Provisions	Vesting Status
Patrick W. Smith	12/22/2008	100,000	Specified annual sales level of new products introduced after 9/30/08, subject to further contribution margin criteria.	Fully vested in January following the fiscal year in which criteria is achieved.	Criteria met in December 2013. Options vested January 2014.
Patrick W. Smith	12/22/2008	100,000	Targeted annual operating income as a percentage of sales.	Fully vested in January following the fiscal year in which criteria is achieved.	Criteria met in December 2013. Options vested January 2014.
Douglas E. Klint	12/22/2008	25,000	Complete risk management meetings with 25 top U.S. law enforcement agencies.	Fully vested in January following the fiscal year in which criteria is achieved.	Options did not vest in 2014. Management expects the performance criteria to be met by March 31, 2016.
Luke S. Larson (1)	7/1/2013	10,000	25,000 cameras upload at least one video into Evidence.com in one month.	Fully vested 30 days after the month in which criteria is achieved.	Criteria is expected to be met by June 30, 2015.

(1) This performance-based grant for Mr. Larson was granted prior to his becoming an NEO.

Employment Agreements and Other Arrangements

In 1998, the Company entered into an employment agreement with Patrick W. Smith pursuant to which he agreed to serve as its Chief Executive Officer.

In December 2002, the Company entered into an employment agreement with Douglas E. Klint pursuant to which he agreed to serve as its General Counsel. In February 2010, Mr. Klint assumed the role of President and General Counsel. Effective April 6, 2015, Mr. Klint will renounce his role as President but will continue to serve as General Counsel of the Company.

In May 2004, the Company entered into an employment agreement with Daniel M. Behrendt pursuant to which he agreed to serve as its Chief Financial Officer.

In November 2011, the Company entered into an employment agreement with Jeffrey M. Kukowski pursuant to which he agreed to serve as its Chief Marketing Officer. In June 2013, Mr. Kukowski was promoted to Chief Operating Officer. Mr. Kukowski's position was eliminated in December 2014, and his employment with the Company terminated effective January 5, 2015.

The Company may terminate each of these officers with or without cause. The conditions or events triggering the payment of severance benefits include the executive's death, disability, termination without cause, or a change in control of the Company (i.e., double trigger). Conditions to the payment of severance benefits include covenants relating to assignment of inventions, nondisclosure of Company confidential information, and non-competition with the Company for a period of 18 months after termination of employment without cause or change in control of the Company. The table below depicts the severance payable to each NEO under the conditions indicated:

Name	**Termination with Cause**	**Termination without Cause**	**Termination due to Change in Control**	**Death or Disability**
Patrick W. Smith	2 months salary	12 months salary	24 months salary	18 months salary
Daniel M. Behrendt	2 months salary	12 months salary	24 months salary	18 months salary
Douglas E. Klint	2 months salary	12 months salary	24 months salary	18 months salary

Depending upon the triggering event for termination of employment, non-vested stock options previously granted may be subject to accelerated vesting. In addition, all non-vested RSUs and PSUs may immediately vest at target levels and restrictions would lapse. Accelerated vesting conditions are as follows:

- *Termination with cause:* no accelerated vesting
- *Termination without cause and Termination due to Death or Disability:* acceleration of all awards that vest based on service requirements only.
- *Change in Control:* acceleration of all awards

The severance benefit amounts with respect to the above triggering events were determined based on competitive practices. The Company agreed to pay these variable amounts of compensation as severance benefits or change of control benefits in order to attract and retain NEOs.

The table below reflects the severance compensation that would be provided to each of the NEOs of the Company assuming the termination of such executive's employment occurred on December 31, 2014.

Named Executive Officer	**Voluntary Termination By Executive**	**Termination with Cause**	**Termination without Cause (1)**	**Change of Control (1)**	**Death or Disability (1)**
Patrick W. Smith	$ —	$ 58,333	$ 1,456,017	$ 3,131,526	$ 1,631,017
Daniel M. Behrendt	—	50,000	1,116,776	2,197,538	1,266,776
Douglas E. Klint	—	50,000	1,116,776	2,740,788	1,266,776
Jeffrey M. Kukowski [(2)]	—	—	551,370	—	—

(1) Includes the intrinsic value of non-vested stock options which would immediately vest and become exercisable as well as the value of non-vested PSUs and RSUs which would immediately vest and restrictions would lapse.

The value of option acceleration is equal to the difference between the $26.48 closing market price of shares of the Company's common stock on December 31, 2014 (the last trading day in fiscal 2014), and the weighted average exercise price of awards with an exercise price less than the market price times the number of share subject to such options that would accelerate.

The value of restricted stock unit acceleration is equal to the $26.48 closing market price of shares of the Company's common stock on December 31, 2014, multiplied by the number of units that would accelerate.

The following table shows the value of the accelerated vesting as described above.

Name	Total Service-based Award Acceleration	Total Performance-based Award Acceleration	Total Acceleration
Patrick W. Smith	$ 1,106,017	$ 1,325,510	$ 2,431,527
Daniel M. Behrendt	816,775	780,763	1,597,538
Douglas E. Klint	816,775	780,763	1,597,538
Jeffrey M. Kukowski	258,736	—	258,736

(2) Mr. Kukowski's position was eliminated in December 2014, and his employment with the Company terminated effective January 5, 2015. Accordingly, the amount presented in the table above represents that triggering event. The amounts presented for Mr. Kukowski under termination without cause include six months of annual base salary and commissions totaling $117,500 and $175,134, respectively, and the accelerated vesting of 9,771 service-based restricted stock units valued at the close market price of shares of the Company's common stock on December 31, 2014 of $26.48.

Perquisites and Other Personal Benefits

We do not provide our NEOs with significant perquisites or other benefits, except for Company matching contributions to our defined contribution benefit plans and health care benefits that are widely available to employees. The Committee periodically reviews the levels of perquisites and other benefits that could be provided to the NEOs.

Compensation Deductibility

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code") imposes a limit on tax deductions for annual compensation in excess of $1.0 million paid to the NEOs. This provision excludes certain forms of "performance-based compensation," including stock-based awards, from the compensation taken into account for purposes of that limit. The Committee believes that the performance-based incentive plans are "performance-based" within the meaning of Section 162(m). The Committee believes that it is desirable for executive compensation to be fully tax deductible. However, whenever the Committee's judgment would be consistent with the objectives for which compensation is paid, we will compensate our NEOs fairly in accordance with our compensation philosophy, regardless of the anticipated tax treatment. The Committee will from time-to-time continue to assess the impact of Section 162(m) of the Code on its compensation practices and will determine what further action, if any, may be appropriate in the future.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis included in this proxy statement. Based on these reviews and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the this Proxy Statement.

The Compensation Committee:

Judy Martz

John S. Caldwell

Michael Garnreiter

Hadi Partovi

The foregoing Compensation Committee Report will not be deemed to be incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act or under the Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and will not otherwise be deemed filed under such Acts.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the Compensation Committee is, or was during or prior to fiscal 2014, an officer or employee of the Company or any of its subsidiaries. None of the Company's executive officers serves as a director or member of the compensation committee of another entity in a case where an executive officer of such other entity serves as a director or member of the Compensation Committee.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($) (6)	Bonus ($)	Stock Awards ($) (1)	Non-Equity Incentive Plan Compensation ($) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (3)	All Other Compensation ($) (4)	Total ($)
Patrick W. Smith	2014	$ 344,167	$ —	$ 749,994	$ 335,338	$ —	$ 15,682	$ 1,445,181
Chief Executive Officer	2013	312,488	—	700,324	51,970	—	12,138	1,076,920
	2012	280,000	—	543,451	63,750	—	11,600	898,801
Daniel M. Behrendt	2014	298,333	—	425,006	201,203	—	21,634	946,176
Chief Financial Officer	2013	311,985	—	475,259	31,759	—	14,789	833,792
	2012	280,000	—	336,418	33,750	—	11,600	661,768
Douglas E. Klint	2014	298,333	—	425,006	67,068	—	11,487	801,894
President, General Counsel	2013	298,393	—	475,259	31,759	—	—	805,411
	2012	280,000	—	336,418	6,750	—	—	623,168
Marcus W. L. Womack	2014	228,729	—	250,007	212,973	—	12,607	704,316
General Manager of EVIDENCE.COM	2013	46,923	—	1,078,606 [7]	—	—	*	1,125,529
Luke S. Larson (6)	2014	158,308	—	—	47,484	—	18,548 [8]	224,340
Chief Marketing Officer								
Jeffrey M. Kukowski (5)	2014	233,750	—	260,008	350,267	—	308,541 [5]	1,152,566
Chief Operating Officer	2013	242,423	—	175,126	132,457	—	11,926	561,932
	2012	220,000	—	103,509	156,105	—	11,858	491,472

Less than $10,000 is denoted by *

(1) The amounts in these columns reflect the aggregate grant date fair value for RSUs and stock options computed in accordance with stock-based accounting rules (ASC Topic 718). Pursuant to SEC regulations, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Assumptions included in the calculation of this amount for the fiscal year ended December 31, 2014 is included in footnote 1q to our financial statements for the fiscal year ended December 31, 2014, included in our Annual Report on Form 10-K filed with the SEC. For performance share unit awards, the value included in this column represents the grant-date fair value assuming the performance measures are achieved at target level. The grant-date fair value of the performance share awards assuming achievement of the maximum performance levels for the 2014 awards is $899,986, $510,000, $510,000, $500,014, and $320,000 for Messrs. Smith, Behrendt, Klint, Womack and Kukowski, respectively.

(2) In 2014, all the Company's NEOs received non-equity incentive compensation as a result of exceeding target metrics around sales and other operating measures. Their 2014 incentive compensation was provided in the form of cash bonuses, of which 15% of targeted amounts were paid in May, August and November with the remaining 55% with adjustments made for actual results, paid by March 15, 2015. In addition, Mr. Womack and Mr. Kukowski earned sales-related commissions of $126,038 and $350,267, respectively. In 2013, all the Company's NEOs received non-equity

incentive compensation as a result of exceeding target metrics around sales and other operating measures. Their 2013 incentive compensation was provided in PSUs up to 100% of target, with any additional amounts due in cash. In addition, Mr. Kukowski earned sales-related commissions of $123,795. In 2012, Messrs. Smith, Behrendt and Klint received non-equity incentive compensation as a result of exceeding target metrics around sales and other operating measures. Their 2012 incentive compensation was provided in PSUs up to 100% of target, with any additional amounts due in cash. The amounts reported for Mr. Kukowski represent sales-related commissions.

(3) During the third quarter of 2013, the Company implemented a non-qualified deferred compensation plan for certain executives, key employees and non-employee directors through which participants may elect to postpone the receipt and taxation of a portion of their compensation. All gains or losses are allocated fully to plan participants and the Company does not guarantee a rate of return on deferred balances. The Company does not make discretionary payments to the plan. There were no above-market returns for participants in the plan, as such, no amounts are reported here.

(4) Other compensation consists of 401(k) and Health Savings Account matching and a Company paid executive retreat.

(5) Mr. Kukowski's position was eliminated in December 2014, and his employment with the Company terminated effective January 5, 2015. In March 2015, the Company finalized its severance agreement with Mr. Kukowski wherein the Company agreed to pay his regular base salary from December 5, 2014 through May 5, 2015 totaling $117,500 and estimated 2015 commissions during this same six month period totaling $175,134. All payments due were made in 2015. Additionally, the Company agreed to accelerate the vesting of 9,771 restricted stock units that were scheduled to vest in February 2015. In connection with the negotiated severance payments, Mr. Kukowski signed a non-compete agreement for a two year period that covers substantially all of the Company's products. The severance amounts are recorded under "All Other Compensation column" in the table above, which consists of $15,907 of compensation as discussed in note 4, six months of salary totaling $117,500, and $175,134 of estimated commissions for the first six months of fiscal 2015.

(6) In 2013, the Company discontinued its personal time off ("PTO") program for non-exempt employees, moving to an honor program and subsequently paid each employee his PTO balance in cash. This figure for each NEO is included in the Salary column.

(7) In 2013, the Company granted long-term non-incentive equity awards to Mr. Womack in connection with the Company's acquisition of Familiar, Inc.

(8) Other compensation for Mr. Larson includes $6,000 of education reimbursements.

2014 GRANTS OF PLAN-BASED AWARDS

The following table shows information about awards made under various compensation plans during 2014:

		Estimated future payouts under non-equity incentive plan awards			Estimated future payouts under equity incentive awards				
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**All other stock awards: Number of shares of stock or units (#) (1)**	**Grant date fair value of stock and option awards ($) (2)**
Patrick W. Smith	2/18/2014	—	—	—	—	—	—	16,593	300,001
	2/18/2014 (3)	—	—	—	12,450	24,899	49,798	—	449,993
		125,000	250,000	375,000 (5)	—	—	—	—	—
Daniel M. Behrendt	2/18/2014	—	—	—	—	—	—	9,403	170,006
	2/18/2014 (3)	—	—	—	7,052	14,104	28,208	—	255,000
		75,000	150,000	225,000 (5)	—	—	—	—	—
Douglas E. Klint	2/18/2014	—	—	—	—	—	—	9,403	170,006
	2/18/2014 (3)	—	—	—	7,052	14,104	28,208	—	255,000
		87,500	175,000	262,500 (5)	—	—	—	—	—
Marcus W.L. Womack	3/6/2014 (3)	—	—	—	6,362	12,723	25,446	—	250,007
		—	75,000	75,000 (6)	—	—	—	—	—
Luke S. Larson		25,000	50,000	75,000 (5)	—	—	—	—	—
Jeffrey M. Kukowski	2/18/2014 (4)	—	—	—	—	—	—	5,531	100,000
	2/18/2014 (4)	—	—	—	4,425	8,850	17,700	—	160,008
		—	205,000	205,000 (6)	—	—	—	—	—

(1) RSUs granted vest ratably over a period of three years from the grant date

(2) Grant date fair value of RSUs, computed in accordance with stock-based compensation accounting rules (ASC 718). The fair value of each RSU is the closing price of our common stock on the date of grant.

(3) The amount of PSUs that will ultimately vest, if any, is based upon the compounded annual revenue growth rates for the total Company and the AXON segment (excluding TASER Cam) compared to target for the three-year period ending December 31, 2016. Earned PSUs cliff vest at the end of that period. Should actual performance metrics exceed targeted metrics, executives will receive additional PSUs, up to a maximum of 200% of target. The Committee decided to introduce sales targets related to three-year growth rates to promote and reward the achievement of long term objectives and long-term strategic planning by our NEOs.

(4) Mr. Kukowski's position was eliminated in December 2014, and his employment with the Company terminated effective January 5, 2015, and all grants made on 2/18/2014 were canceled in full.

(5) Attainment of the 2014 annual cash bonus is based on the achievement of annual financial goals, including goals related to: consolidated revenue, modified net income, AXON and EVIDENCE.com bookings (as defined in SEC filings), modified operating income for the TASER Weapons segment and international revenue. The non-equity incentive plan award for Mr. Klint included targeted sales commissions of $125,000. Actual awards earned in 2014 are included in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table.

(6) Messrs. Womack and Kukowski were eligible for commissions based on sales growth for the Company. There was no maximum amount related to these commissions, therefore the maximum is reported as the same amount as the target.

OUTSTANDING EQUITY AWARDS AT FISCAL 2014 YEAR-END

The following table includes certain information with respect to outstanding options previously awarded to the NEOs as of December 31, 2014.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have
Patrick W. Smith	58,962	—	—	10.29	5/25/2017				
	68,828	—	—	7.13	5/28/2018				
	88,104	—	—	5.57	8/11/2018				
	500,000	—	—	4.75	12/22/2018				
						6,510 [3]	172,385	25,168 [4]	666,449
						18,665 [5]	494,249	24,889 [6]	659,061
						16,593 [7]	439,383	—	—
Daniel M. Behrendt	9,700	—	—	5.64	1/29/2020				
	60,000	—	—	4.70	1/3/2021				
						6,510 [3]	172,385	15,381 [4]	407,289
						14,932 [5]	395,399	14,104 [6]	373,474
						9,403 [7]	248,991	—	—
Douglas E. Klint	—	—	25,000 [1]	4.75	12/22/2018				
						6,510 [3]	172,385	15,381 [4]	407,289
						14,932 [5]	395,399	14,104 [6]	373,474
						9,403 [7]	248,991	—	—
Marcus W.L. Womack	—	—	—	—	—				
						73,625 [8]	1,949,590	12,723 [6]	336,905
Luke S. Larson	—	—	—	—	—				
						3,333 [5]	88,258	10,000 [9]	264,800
						32,000 [10]	847,360	—	—
Jeffrey M. Kukowski [2]	—	—	—	—	—				
						6,510 [3]	172,385	—	—
						9,771 [11]	258,736	—	—

(1) The options vest upon successful completion of certain performance based measures. Reference is made to the "Compensation Discussion and Analysis – Other Long-Term Performance-based Equity Compensation" section above for further information about these options.

(2) Mr. Kukowski's position was eliminated in December 2014, and his employment with the Company terminated effective January 5, 2015.

(3) These stock became fully vested in February 2015.

(4) These stock awards are performance-based. One half of the award vested in February 2014 and one half will vest in February 2015. Reference is made to the "Executive Compensation – Performance-based Compensation Plans" section above for further information about these awards.

(5) These stock awards vest at annual intervals over a three year period and become fully vested in February 2016.

(6) These stock awards are performance based. The number of shares that ultimately vest is based upon the compounded annual revenue growth rates for the total Company and the AXON segment compared to target for the three-year period

ending December 31, 2016. The number of unvested shares presented equals the target shares. Reference is made to the "Executive Compensation – Performance-based Compensation Plans" section above for further information about these awards.

(7) These stock awards vest at annual intervals over a three year period and become fully vested in February 2017.

(8) These stock awards vest at annual intervals over a four year period and become fully vested in October 2017.

(9) These stock awards are performance-based, and vest in full when a specified threshold is met related to camera video uploads into EVIDENCE.com.

(10) These stock awards vest at annual intervals over a three year period and become fully vested in July 2018.

(11) These stock awards vested in February 2015 in accordance with an executed severance agreement in connection with termination of employment.

2014 OPTION EXERCISES AND STOCK VESTED

The following table provides information related to option exercises and vested stock awards for each NEO during the year ended December 31, 2014:

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**	**Number of Shares Acquired upon Vesting (#)**	**Value Realized on Vesting ($)**
Patrick W. Smith	174,100	$ 2,140,301	82,517	$ 1,558,231
Daniel M. Behrendt	232,480	2,144,996	51,331	961,063
Douglas E. Klint	469,134	6,145,830	51,331	961,063
Marcus W.L. Womack	—	—	28,132	406,226
Luke S. Larson	2,983	42,653	13,000	203,596
Jeffrey M. Kukowski [1]	75,000	1,253,072	14,438	254,467

(1) Mr. Kukowski's position was eliminated in December 2014, and his employment with the Company terminated effective January 5, 2015.

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Jeffrey M. Kukowski [1]	75,000	1,253,072	14,438	254,467

(2) Mr. Kukowski's position was eliminated in December 2014, and his employment with the Company terminated effective January 5, 2015.

2014 NON-QUALIFIED DEFERRED COMPENSATION

The Company has a non-qualified deferred compensation plan for certain executives, key employees and non-employee directors through which participants may elect to postpone the receipt and taxation of a portion of their compensation. All gains or losses are allocated fully to plan participants, and the Company does not guarantee a rate of return on deferred balances. There were no above-market returns for participants in the plan.

The following table provides information on NEO and Director participation in the plan:

Name	Executive/Director Contributions in Last FY ($)	Registrant Contributions in Last FY ($) (1)	Aggregate Earnings in Last FY ($) (2)	Aggregate Withdrawals/ Distributions ($)	Balance at December 31, 2014 ($)
Patrick W. Smith [3]	483,981	—	182,468	—	666,449
Daniel M. Behrendt [4]	642,566	13,872	137,654	—	915,599
Mark W. Kroll [5]	34,000	—	2,326	—	52,075

(1) The Company does not make discretionary payments to the plan, but does make a restorative 401(k) match contribution to participants as their eligible wages for 401(k) purposes is net of contributions made to the deferred compensation plan.

(2) Aggregate earnings reflected represent deemed investment earnings from voluntary deferrals and Company contributions, as applicable. No amounts included in aggregate earnings are reported in the 2014 Summary Compensation Table because the plan does not provide for above-market or preferential earnings.

(3) Mr. Smith's contribution in 2014 relates to a PSU award that vested in 2014 and was deferred into the plan.

(4) Mr. Behrendt's contributions in 2014 relate to a PSU award that vested in 2014 and was deferred into the plan in the amount of $295,757, and salary deferrals of $346,809.

(5) Dr. Kroll's contributions represent fees earned in 2014 for serving on the Company's board of directors and litigation committee.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information, as of March 17, 2015, with respect to beneficial ownership of the Company's common stock by each current director or nominee for director, by each NEO currently employed by the Company, by all directors and NEOs as a group, and by each person who is known to the Company to be the beneficial owner of more than five percent of the Company's outstanding common stock. The Company believes that, except as otherwise described below, each named beneficial owner has sole voting and investment power with respect to the shares listed.

Name and Address Of Beneficial Owner (1)	Shares Owned	Shares Acquirable Within 60 Days (2)	Total Beneficial Ownership	Percent of Class (3)
Wells Fargo & Company [4]	5,517,498	n/a	5,517,498	10.3%
BlackRock, Inc. [5]	5,152,254	n/a	5,152,254	9.7
Artisan Partners Holdings LP [6]	2,980,769	n/a	2,980,769	5.6
Patrick W. Smith	757,048	715,894	1,472,942	2.8
Mark W. Kroll	34,130	50,210	84,340	*
Judy Martz	13,297	46,037	59,334	*
John S. Caldwell	17,297	74,020	91,317	*
Richard H. Carmona	13,297	111,267	124,564	*
Michael Garnreiter	13,297	52,357	65,654	*
Hadi Partovi	136,944	63,314	200,258	*
Bret Talylor	—	—	—	—
Daniel M. Behrendt	75,992	69,700	145,692	*
Douglas E. Klint	77,538	—	77,538	*
Luke S. Larson	54,094	—	54,094	*
Marcus W.L. Womack	81,512	—	81,512	*
All directors and named executive officers as a group (12 persons)	1,274,446	1,182,799	2,457,245	4.6%

* Less than 1%

(1) Except as noted in Notes 4, 5, 6 below, the address of each of the persons listed is c/o TASER International, Inc., 17800 North 85th Street, Scottsdale, AZ 85255.

(2) Reflects the number of shares that could be purchased by exercise of options exercisable at March 17, 2015, or restricted stock units acquirable within 60 days thereafter under the Company's stock option plans. As of March 17, 2015 there were no shares currently pledged by any NEO or director.

(3) For purposes of computing the percentage of outstanding shares held by each person or group of persons named above, any security which such person or group has the right to acquire within 60 days of March 17, 2015, is deemed to be outstanding for the purpose of computing the percentage ownership of such person or group, but is not deemed to be outstanding for the purpose of computing the percentage ownership of any other person or group.

(4) The address for Wells Fargo & Company is 420 Montgomery Street, San Francisco, California 94104.

(5) The address of BlackRock, Inc. is 55 East 52nd Street, New York, New York 10022.

(6) The address of Artisan Partners Holdings LP is 875 East Wisconsin Avenue, Suite 800, Milwaukee, Wisconsin 53202.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's NEOs and directors, and persons who own more than 10 percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. NEOs, directors and greater than 10 percent beneficial owners are required by SEC regulations to furnish the Company with copies of all forms they file pursuant to Section 16(a). Based solely on a review of the copies of such reports furnished to the Company and written representations from reporting persons that no other reports were required, to the Company's knowledge, such persons complied with all of the Section 16(a) filing requirements applicable to them in 2014.

PROPOSAL TWO: ADVISORY APPROVAL OF THE COMPANY'S EXECUTIVE COMPENSATION

Stockholders will be given the opportunity to vote on the following advisory resolution (commonly referred to as "Say on Pay"):

RESOLVED, that the stockholders of TASER International, Inc. hereby approve the compensation paid to the Company's NEOs, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion set forth in this proxy statement.

Background on Proposal

In accordance with the Dodd-Frank Act and related SEC rules, stockholders are being given the opportunity to vote at the annual meeting on this advisory resolution regarding the compensation of our NEOs.

As described in the Compensation Discussion and Analysis, our executive compensation program is designed to allow us to: attract and retain talent, link annual incentive compensation to our financial results produced during year, and link long term compensation in the form of stock awards to Company performance and enhancement of stockholder value. For a comprehensive description of our executive compensation program, philosophy and objectives, including the specific elements of executive compensation that comprised the program in 2014, please refer to the Compensation Discussion and Analysis. The Summary Compensation Table and other executive compensation tables (and accompanying narrative disclosures), provide additional information about the compensation that we paid to our NEOs in 2014.

Effects of Advisory Vote

Because the vote on this proposal is advisory in nature, it will not affect any compensation already paid or awarded to our NEOs and will not be binding on the Board or the Compensation Committee. However, the Compensation Committee will consider the outcome of the vote when making future executive compensation decisions.

Unless marked to the contrary, proxies received will be voted FOR approval of the advisory vote on executive compensation

The Board of Directors unanimously recommends a vote FOR approval of the resolution set forth above regarding the compensation of our named executive officers.

PROPOSAL THREE: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed Grant Thornton LLP, independent registered public accounting firm, to audit the consolidated financial statements of the Company for the year ending December 31, 2015. Grant Thornton LLP has acted as the independent registered public accounting firm for the Company since 2005. A representative of Grant Thornton LLP is expected to be present at the Annual Meeting, will have the opportunity to make a statement and is expected to be available to respond to appropriate questions.

Stockholder ratification of the selection of Grant Thornton LLP as our independent registered public accounting firm is not required by our bylaws or otherwise. Nonetheless, the Audit Committee is submitting the selection of Grant Thornton LLP to the stockholders for ratification as a matter of good corporate practice and because the Audit Committee values the views of our stockholders on our independent auditors.

If the stockholders fail to ratify the election, the Audit Committee will reconsider the appointment of Grant Thornton LLP. Even if the selection is ratified, the Audit Committee, in its discretion, may appoint a different independent registered public accounting firm at any time during the year if it determines that such an appointment would be in the Company's best interest.

If the appointment is not approved by the stockholders, the adverse vote will be considered a direction to the Audit Committee to consider other auditors for next year. However, because of the difficulty in making any substitution of auditors so long after the beginning of the current year, the appointment in 2015 will stand, unless the Audit Committee finds other good reason for making a change.

Unless marked to the contrary, proxies received will be voted FOR ratification of the appointment of Grant Thornton LLP as the Company's independent registered public accounting firm for the year ending December 31, 2015.

The Board of Directors unanimously recommends a vote FOR ratification of the appointment of Grant Thornton LLP as the Company's independent registered public accounting firm for fiscal 2015.

Audit and Non-Audit Fees

The following table presents fees for audit, tax and other professional services rendered by Grant Thornton LLP for the years ended December 31, 2014 and 2013.

	2014	2013
Audit fees	$ 747,896	$ 686,958
Audit-Related Fees	—	50,982
Tax Fees	146,927	133,808
All Other Fees	256,815	159,511
	$ 1,151,638	$ 1,031,259

Audit Fees: Consists of fees billed for professional services rendered for the audit of TASER International Inc.'s financial statements, fees billed related to Sarbanes-Oxley 404 review and services that are normally provided by Grant Thornton LLP in connection with statutory and regulatory filings or engagements and fees.

Audit-Related Fees: Consisted of technical accounting consultations and due diligence related to the acquisition of Familiar, Inc. in October 2013.

Tax Fees: Consists of fees billed principally for services provided in connection with worldwide tax planning and compliance services, research and development tax credit studies, expatriate tax services, and assistance with tax audits and appeals.

All Other Fees: Consists almost entirely of consulting fees paid in connection with the establishment of our international headquarters in Amsterdam, The Netherlands.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor

Consistent with SEC policies regarding auditor independence, the Audit Committee must pre-approve all audit and permissible non-audit services provided by our independent auditors. Our Non-Audit Services Pre-Approval Policy covers all services to be performed by our independent auditors. The policy contemplates a general pre-approval for all audit, audit-related, tax and all other services that are permissible, with a general pre-approval period of twelve months from the date of each pre-approval. Any other proposed services that are to be performed by our independent auditors, not covered by or exceeding the pre-approved levels or amounts, must be specifically approved in advance.

Prior to engagement, the Audit Committee pre-approves the following categories of services. These fees are budgeted, and the Audit Committee requires the independent auditors and management to report actual fees versus the budget periodically throughout the year, by category of service.

- **Audit** services include the annual financial statement audit (including required quarterly reviews) and other work required to be performed by the independent auditors to be able to form an opinion on our consolidated financial statements. Such work includes, but is not limited to, comfort letters, and services associated with SEC registration statements, periodic reports, SEC reviews and other documents filed with the SEC or other documents issued in connection with securities offerings.
- **Audit-related** services are for services that are reasonably related to the performance of the audit or review of our financial statements or that are traditionally performed by the independent auditor. Such services typically include but are not limited to, due diligence services pertaining to potential business acquisitions or dispositions, accounting consultations related to accounting, financial reporting or disclosure matters not classified as “audit services,” statutory audits or financial audits for subsidiaries or affiliates, and assistance with understanding and implementing new accounting and financial reporting guidance.
- **Tax** services include all services performed by the independent auditors’ tax personnel, except those services specifically related to the financial statements, and includes fees in the area of tax compliance, tax planning and tax advice.

The Audit Committee has considered and concluded that the provision by Grant Thornton LLP of non-audit services is compatible with Grant Thornton maintaining its independence.

Audit Committee Pre-Approval Procedures for Independent Auditor-Provided Services

Except for the limited circumstances set forth below, the Audit Committee has the sole authority to engage the Company’s outside auditing and tax preparation firms and must pre-approve all tax consulting and auditing arrangements and all non-audit services prior to the performance of any such service. In addition, any proposed engagement of the independent registered public accounting firm for services that are not pre-approved audit-related and tax consulting services as described above must also be pre-approved on a case-by-case basis by the Audit Committee or the Chair of the Audit Committee, or, if the Chair is unavailable, another member of the Audit Committee. The Company’s CFO has the authority to engage the Company’s outside auditing and tax preparation firms for amounts less than $5,000. All of the audit–related fees, tax fees and all other fees in 2014 were approved by the Audit Committee.

FORWARD-LOOKING STATEMENTS

This proxy statement contains "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and involve substantial risks and uncertainties, which may cause results to differ materially from those set forth in the statements. The forward-looking statements may include, but are not limited to, statements made in the Compensation Discussion and Analysis section of this Proxy Statement about our compensation structure and programs and our intentions with respect thereto. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise. Forward-looking statements should be evaluated together with the many uncertainties that affect TASER's business, particularly those mentioned under the heading "Risk Factors" in TASER's Annual Report on Form 10-K that accompanies this proxy statement, and in the periodic reports that TASER files with the SEC on Form 10-Q and Form 8-K.

STOCKHOLDER PROPOSALS

To be eligible for inclusion in the Company's proxy materials for the 2016 Annual Meeting of Stockholders, a proposal intended to be presented by a stockholder for action at that meeting must, in addition to complying with the stockholder eligibility and other requirements of the SEC's rules governing such proposals, be received not later than November 29, 2015 by the Corporate Secretary of the Company at the Company's principal executive offices, 17800 North 85th Street, Scottsdale, Arizona 85255.

Stockholders may bring business before an Annual Meeting (including the nomination of any person to be elected as a director) only if the stockholder proceeds in compliance with the Company's bylaws. For business to be properly brought before the 2015 Annual Meeting of Stockholders by a stockholder (including the nomination of any person to be elected as a director), notice of the proposed business must be given to the Corporate Secretary of the Company in writing no later than 60 days before the Annual Meeting of Stockholders or (if later) ten days after the first public notice of the meeting is sent to stockholders.

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

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

HOUSEHOLDING OF ANNUAL MEETING MATERIALS

Some brokers and other nominee record holders may be participating in the practice of “householding” proxy statements and annual reports. This means that only one copy of the proxy statement and Annual Report may have been sent to multiple stockholders in a stockholder’s household. The Company will promptly deliver a separate copy of either document to any stockholder who contacts the Company’s investor relations department at 17800 North 85th Street, Scottsdale, Arizona 85255, phone number (480) 515-6330, requesting such copies. If a stockholder is receiving multiple copies of the proxy statement and Annual Report at the stockholder’s household and would like to receive a single copy of the proxy statement and annual report for a stockholder’s household in the future, stockholders should contact their broker, other nominee record holder, or the Company’s investor relations department to request mailing of a single copy of the proxy statement and annual report.

A copy of the Company’s 2014 Annual Report on Form 10-K for the fiscal year ended December 31, 2014, is available to stockholders without charge upon request to: Investor Relations, TASER International, Inc., 17800 North 85th Street, Scottsdale, Arizona 85255.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 18, 2015

The proxy materials for the Company’s Annual Meeting of Stockholders, including the 2014 Annual Report and this proxy statement, are available over the Internet by accessing the investor relations page of the Company’s website at http://investor.taser.com. Other information on the Company’s website does not constitute part of the Company’s proxy materials.

By Order of the Board of Directors,

/s/ DOUGLAS E. KLINT

Douglas E. Klint

Corporate Secretary

April 2, 2015

Annual Report 2014

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

Form 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014
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.

(Exact name of registrant as specified in its charter)

Delaware	**86-0741227**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
17800 North 85th Street **Scottsdale, Arizona**	**85255**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code:

(480) 991-0797

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

Title of each class	**Name of exchange on which registered**
Common Stock, $0.00001 par value per share	**The Nasdaq Global Select Market**

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

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not 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-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the registrant, based on the last sales price of the issuer's common stock on June 30, 2014, which was the last business day of the registrant's most recently completed second fiscal quarter, as reported by NASDAQ, was $681.7 million.

The number of shares of the registrant's common stock outstanding as of February 27, 2015 was 53,086,538

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the registrant's definitive proxy statement for its 2015 annual meeting of stockholders to be prepared and filed with the Securities and Exchange Commission not later than 120 days after December 31, 2014 are incorporated by reference into Part III of this Form 10-K.

TASER INTERNATIONAL, INC.
INDEX TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2014

PART I

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 regarding our expectations, beliefs, intentions and 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:

- our intentions about future development efforts and activities, including our intentions to invest in research and development as well as the development of new product and service lines and enhanced features for our existing product and service lines;
- our need and the willingness of customers to upgrade and replace existing conducted electrical weapons (“CEW”) units;
- that we may have more sales denominated in foreign currencies in 2015;
- our intention to increase our investment in the development of sales in the international, military and law enforcement market;
- our plans to expand our sales force;
- that cloud and mobile technologies are fundamentally changing the police environment;
- our plan to invest in web activities and law enforcement trade shows in 2015;
- our intention to not pay dividends;
- that increases in marketing and sales activities will lead to an increase in sales;
- our belief that the video evidence capture and management market will grow significantly in the near future and the reasons thereto;
- our intentions to continue to pursue the personal security market;
- our intention to grow direct sales;
- the sufficiency of our facilities and our strategy to expand manufacturing capacity if needed;
- that we may lease facilities from parties that specialize in handling and manufacturing of firearm materials;
- the benefits of our on-officer camera product compared to an in-car camera;
- that we expect to continue to depend on sales of our X2 and X26P CEW devices;
- our strategy and plans, and the expected benefits relating thereto, to expand our international sales;
- that we expect further increases in our trial AXON programs and that these programs will lead to additional sales;
- our intention to apply for and prosecute our patents;
- that fixed costs as a percentage of net sales in the AXON segment (formerly known as the "EVIDENCE.com & Video" segment) will decline;
- that gross margins in the AXON segment will be lower in the near-term;
- that selling, general and administrative expense will increase in 2015;
- that research and development expenses will increase in 2015;
- the timing of the resolution of uncertain tax positions;
- our intention to hold investments to maturity;
- the effect of interest rate changes on our annual interest income;
- that we may engage in currency hedging activities;
- our intentions concerning, and the effectiveness of, our ongoing marketing efforts through web activities, trial programs, tech summits and law enforcement trade shows;
- the benefits of our CEW products compared to other lethal and less-lethal alternatives;
- the benefits of our AXON products compared to our competitors'
- our belief that customers will honor multi-year contracts despite the existence of appropriations (or similar) clauses;
- our belief that customers will renew their EVIDENCE.com service subscriptions at the end of the contractual term;
- our insulation from competition and our competitive advantage in the weapons business;
- estimates regarding the size of our target markets and our competitive position in existing markets;
- the availability of alternative materials and components suppliers;
- the benefits of the continued automation of our production process;
- the sufficiency and availability of our liquid assets and capital resources;
- our financing and growth strategies, including: our decision not to pay dividends, potential joint ventures, mergers and acquisitions, stock repurchases and hedging activities;
- the safety of our products;
- our litigation strategy; including the outcome of legal proceedings in which we are currently involved;

- our ability to maintain secure and consistent customer data access and storage, including the use of third party data storage providers, and the impact of a loss of customer data, a breach of security or an extended outage;
- our ability to attract and retain the qualified professional services necessary to implement and maintain our business, both through employment and through other partnership arrangements;
- the effect of current and future tax strategies;
- the impact of recently adopted and future accounting standards; and
- the ultimate resolution of financial statement items requiring critical accounting estimates.

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, those factors detailed in ITEM 1A of this annual report entitled "Risk Factors." The risks included in the foregoing list are not exhaustive. Other sections of this report may include additional factors that could adversely affect our business and financial performance. New risk factors emerge from time to time, and it is not possible for management to predict all such factors, nor can it assess the impact of all such risk factors or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We undertake no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to expectations over time.

TASER International, Inc. owns the following trademarks: ADVANCED TASER, CHECKLOK, TASER, XREP, C2, X2, X3, the bolt on West Hemisphere logo, the bolt on ball logo, the bolt on circle logo, and the bolt within circle logo, all registered in the United States. All other trademarks and service marks including M18, M26, X26, X26C, X26P, AXON, AXON flex, AXON body, AXON Signal, Shockwave, TASER CAM and designs belong to TASER International, Inc., except as expressly indicated as belonging to another.

Item 1. *Business*

Overview

TASER International, Inc.'s (the "Company" or "TASER" or "we" or "our") core mission is to protect life and to protect truth through technologies that make communities safer. We are the market leader in the development, manufacture and sale of conducted electrical weapons ("CEWs") designed for use by law enforcement, military, corrections, and private security personnel and by private individuals for personal defense. Since our inception in 1993, we have remained committed to providing solutions to violent confrontation by developing devices with proprietary technology to incapacitate dangerous, combative, or high-risk subjects who pose a risk to law enforcement officers, innocent citizens, or themselves in a manner that is generally recognized as a safer alternative to other uses of force. In addition, the Company has developed full technology solutions for the capture, storage and management of video/audio evidence as well as other tactical capabilities for use in law enforcement.

TASER weapon solutions deliver significant benefits to our customers and to communities in which they are deployed. Numerous studies show a significant reduction in both officer and suspect injuries with TASER CEW usage. Further, most reporting agencies demonstrate overall decreases in use of force, and decreases in suspect and officer injuries resulting from conflict. Reducing uses of force and gaining compliance of the suspect by use of a TASER CEW has provided significant reductions in worker's compensation expenses and excessive use of force claims for law enforcement agencies, and ultimately taxpayers.

Our mission to protect life has also been extended to protect truth. Bringing a subject into custody is not the end of the challenge for law enforcement. A significant number of incidents that start as a physical conflict then transition into a legal conflict. Prosecuting and convicting the individual arrested, and responding to excessive use of force allegations, are examples of significant post-incident challenges law enforcement faces on a continual basis, often requiring years and millions of dollars of litigation expense to resolve in the courtroom. Instead, the optimum situation is to prevent the conflict from ever escalating. TASER CEWs and AXON on-officer video have a measured and positive effect on better suspect and officer behavior as well as achieving compliance without escalation of force.

Central to our strategy, we conduct research and develop advanced technologies for both the creation of new, and the enhancement of existing hardware and software products and services. We believe that delivering high-value solutions through our various product platforms is the key to delivering compelling value propositions to meet our customers' needs and to drive our future growth. We place the highest level of importance on the safety and appropriate use of our products and have established industry leading training services to provide our users a comprehensive overview of the legal, policy, medical and risk mitigation issues relating to our CEWs and the use of force.

Our products are sold directly to law enforcement agencies and through a network of distribution channels we developed for selling and marketing our products and services to law enforcement agencies, primarily in North America, with continuing focus and effort placed on expanding these programs in international, military and other markets. To facilitate sales and provide customer service to our European customers, we established TASER International Europe SE, a wholly owned subsidiary, in 2009. To further strengthen our international presence, during 2014, the Company established TASER International, B.V. located in Amsterdam, Netherlands, that will serve as a permanent international headquarters to facilitate transactions with existing customers as well as allow for continued expansion into other foreign markets.

Segments

The Company's operations are comprised of two reportable segments; the sale of CEWs, accessories and other products and services (the "TASER Weapons" segment); and the AXON business, focused on wearables, cloud and mobile products, including AXON video products, TASER Cam and EVIDENCE.com (the "AXON" segment formerly known as the "EVIDENCE.com & Video" segment). Within the AXON segment, the Company includes only revenues and costs directly attributable to that segment which include: costs of sales for both products and services, direct labor, selling expense for the segment sales team, segment product management expenses, segment trade shows and related expenses, segment finance and accounting expenses, and research and development for products included in the AXON segment. All other costs are included in the TASER Weapons segment. Further information about our reportable segments and sales by geographic region is included in Notes 1(p) and 15 of the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

CEW Products

We make CEWs that use our proprietary Neuro Muscular Incapacitation ("NMI") effects for two main types of market segments: (i) the law enforcement, military, corrections and professional security markets; and (ii) the consumer market. Our products use a replaceable cartridge containing compressed nitrogen to deploy and propel two small probes that are attached to the CEW by insulated conductive wires with lengths ranging from 15 to 35 feet. Our CEWs transmit electrical pulses along the wires and into the body affecting the sensory and motor functions of the peripheral nervous system. The electric current can penetrate up to two cumulative inches of clothing or approximately one inch per probe. The basic design is to provide incapacitating effects that last in cycles of five seconds for our law enforcement, military, corrections and private security products and up to thirty seconds for our consumer market models. This effect can be extended, if necessary, by the operator.

The benefits of using CEWs in the field have been undeniable and powerful. By some studies, TASER CEWs have prevented death or serious injury more than 135,000 times from the first deployment in 2000 to the end of 2014. In addition to protecting life, the use of these devices instead of other force options has significantly reduced injuries for suspects and officers with substantial liability and workers' compensation savings to government agencies around the world.

Law Enforcement, Military, Corrections and Professional Security Products

For the law enforcement, military, corrections and professional security markets, we primarily manufacture three hand-held CEW product lines and have also incorporated our technology into several other product line extensions. Certain of these products are also sold into the consumer market. Consumer sales are not included in the table below.

CEW Product	Year Introduced	Sales (in millions)			% of Net Sales		
		2014	2013	2012	2014	2013	2012
TASER X26P	2013	$ 43.5	$ 21.9	$ —	26.4%	15.9%	—%
TASER X2	2011	28.8	26.5	25.8	17.5	19.2	22.5
TASER X26	2003	18.7	30.3	35.2	11.4	22.4	31.3

- ***TASER X26P -*** Simple to use one-shot CEW, featuring enhanced data port logs; Integrates with EVIDENCE.com.
- ***TASER X2 -*** Simple to use CEW, featuring a second shot for instant miss recovery, dual lasers for high accuracy, a power magazine with more than 500 firings, enhanced data port logs and the ability to display a warning arc; Integrates with EVIDENCE.com.
- ***TASER X26 -*** Simple to use one-shot CEW (discontinued sales to North American law enforcement as of December 31, 2014).

Consumer Products

Our primary consumer product for the personal defense market is the TASER C2 CEW which provides the same proven NMI effectiveness as our market leading law enforcement CEWs but in a less intimidating, more compact form at a price point more attractive to private citizens. While the C2 CEW is our primary product for the consumer market, we have developed consumer versions of the X2, M26 and X26 CEWs. Our total consumer products accounted for $3.7 million, $4.0 million and $4.6 million in the years ended December 31, 2014, 2013, and 2012, respectively, which translates to 2.3%, 2.9%, and 4.0% of net sales, respectively.

Cartridges

We manufacture multiple cartridge types for varying ranges and purposes. Types of cartridges include, among others, standard cartridges, smart cartridges and training cartridges. Smart cartridges communicate with the fire control system within the TASER X2 and X3 indicating the type of cartridge loaded in each bay and its deployment status. Standard cartridges are designed for use within the M26, X26 and X26P CEW systems with unique variations for warm and cold climates, training scenarios, and tactical situations. Training cartridges contain non-conductive wiring, which allows law enforcement, military, and corrections trainers to use the cartridge during training role-playing scenarios. In addition, cartridges may have varying probe sizes, which affect the penetration of clothing.

All of our cartridges, with the exception of the training cartridge, contain numerous colored, confetti-like tags bearing the cartridge's serial number. These tags, referred to as Anti-Felon Identification tags ("AFIDs") are scattered when one of our cartridges is deployed. Sellers of our products 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 deployed. AFIDs provide an additional level of accountability when using TASER CEW devices.

Individual cartridge sales accounted for approximately $38.5 million, $35.7 million and $32.8 million, or approximately 23.4%, 25.9% and 28.6%, of our net sales for the years ended December 31, 2014, 2013 and 2012, respectively.

Other Accessories

Other accessories include, among other items:

- standard replacement batteries for the CEW devices;
- a modified battery that shuts down the high voltage output of the CEW after five seconds and contains a built-in speaker alerting the user to the impending shut down; and
- a modified battery source that features a disabling safety key and wrist strap lanyard designed to secure the device to the officer and is intended to disable the CEW should it be separated from the officer or other peacekeeper.

AXON Solutions

We believe that the video evidence capture and management market will continue to expand due to several factors including increasing recognition of the benefits of video evidence. The International Association of Chiefs of Police and other law enforcement organizations have endorsed the benefits of video evidence. In addition, a Rialto Police Department study through the University of Cambridge found implementation of TASER video products not only reduced citizen complaints against law enforcement but also significantly reduced the use of force by law enforcement. Additionally, video evidence in law enforcement has the potential to reduce the cost to United States taxpayers for payment of law enforcement litigation and claims, which is currently estimated at greater than $2.0 billion per year.

Given our existing long-term relationships with law enforcement agencies as well as our industry-leading video products, we believe we are well positioned to benefit from this growth. Our products can significantly reduce liability risk for individual police officers and for law enforcement agencies by capturing the ‘truth’ of what actually happened in an incident, saving law enforcement agencies significant resources. In addition, our video products work on a stand-alone basis, or seamlessly integrated together, to automate key workflows, including the ingestion of videos recorded into our system and integration with other systems, and thus improves officer efficiency by enabling a reduction in report documentation workload while increasing accuracy and accountability.

AXON Cameras

The AXON camera system was introduced in May 2012 and utilizes advanced audio-video record and capture devices worn by first responders to record video and audio of critical incidents from the visual perspective of the officer. AXON cameras provide the option for officers to use Android™ or iOS™ devices to review and tag video evidence, streamlining the evidence transfer process. AXON flex provides complete flexibility in how an officer chooses to wear the device, including an option to deploy as an attachment to Oakley Flak Jacket™ eyewear. Thousands of law enforcement officers assisted in the development of AXON flex, making it, we believe, the most customer-driven officer worn camera solution ever produced.

Responding to market feedback, we introduced the AXON body camera in 2013. AXON body is a simple, low-priced body worn camera for law enforcement, designed for customers seeking easy deployment at a lower price-point. The AXON body eliminates the need for the camera to be mounted above the shoulder of the individual and rather hooks into the shirt of the officer at mid-chest level. This camera also eliminates all wires from the wearer’s body.

Both cameras are designed to integrate seamlessly with the Company’s video evidence management system, EVIDENCE.com.

In 2014, the Company announced the AXON Signal camera technology. This technology will enable cameras to automatically start recording when an officer's light bar is turned on or when a TASER smart weapon is powered on. All enabled AXON Signal cameras within range will receive signals from the light bar or smart weapon and start recording. This feature will offer multiple angles to be captured from different perspectives if more than one AXON flex camera is on scene. AXON Signal technology became available during the first quarter of 2015.

EVIDENCE.com

EVIDENCE.com is a cloud-based digital evidence management system and warehouse, offering digital evidence management, sharing, analysis and storage in a highly secure, easily accessible environment. The service is designed to allow an agency to manage all of its digital evidence in one place, and accommodates digital evidence from many sources, including TASER products, digital pictures, fixed cameras, interview rooms, and more. EVIDENCE.com automates key workflows from evidence collection to review, eliminating expensive and manual steps in the production and movement of evidence among law enforcement and legal professionals. Evidence is generally transferred to EVIDENCE.com from AXON products using an E-Dock, also sold by TASER. Interviews and other digital evidence from the field can be quickly and securely uploaded using EVIDENCE Mobile, built for iOS and Android, which was introduced in 2013. Enabling digital evidence collection from EVIDENCE Mobile saves agencies time and money by streamlining the process to manage, ingest and physically process storage media. We believe that cloud and mobile technologies are fundamentally changing the way in which officers connect with each other, the agency and other partners in the law enforcement community. Technology is developing at such a quick rate that it is often not practical or efficient for agencies to keep pace. Utilizing our cloud-based solution allows agencies to rapidly adopt new technology without the cost and complexity of managing the hardware or software in-house, and without the risk of large investments in equipment that could be obsolete in a matter of months or years.

Together, our AXON camera systems and EVIDENCE.com, along with EVIDENCE Mobile, are an end-to-end video capture and digital evidence management solution. With the launch of the AXON flex camera system in 2012 and the AXON body camera in 2013, growth accelerated for AXON and EVIDENCE.com. Bookings by quarter for 2014, 2013, and 2012 were as follows (dollars in thousands):

	Year Ended December 31,		Dollar Change	Percent Change
	2014	2013		
Q1	$ 5,919	$ 1,387	$ 4,532	327%
Q2	11,346	2,046	9,300	455
Q3	15,267	5,847	9,420	161
Q4	24,554	5,206	19,348	372
Total	$ 57,086	$ 14,486	$ 42,600	294

	Year Ended December 31,		Dollar Change	Percent Change
	2013	2012		
Q1	$ 1,387	$ 352	$ 1,035	294%
Q2	2,046	451	1,595	354
Q3	5,847	1,318	4,529	344
Q4	5,206	1,671	3,535	212
Total	$ 14,486	$ 3,792	$ 10,694	282

AXON flex, AXON body and EVIDENCE.com bookings is a statistical measure defined as the sales price of orders placed in the relevant fiscal period, net of cancellations. Bookings are an indication of the activity the Company is seeing relative to AXON flex, AXON body and EVIDENCE.com.

The Company has deliverables to meet prior to recognizing revenue related to many of the orders. These statistics represent orders and not invoiced sales. Once invoiced, the revenue related to EVIDENCE.com is recognized over the requisite service period of one to five years. Due to municipal government funding rules, certain of the future year amounts included in bookings are subject to budget appropriation or other contract cancellation clauses. Although TASER has entered into contracts for the delivery of products and services in the future and anticipates the contracts will be completed, if agencies do not appropriate money in future year budgets, or enact a cancellation clause, revenue associated with these bookings will not ultimately be recognized, resulting in a future reduction to bookings.

TASER Cam HD

The TASER Cam HD is a video recording device that captures both video and audio of potential and actual TASER use incidents as an accessory to a TASER CEW. The device can capture video and audio before, during and after a TASER deployment, which provides law enforcement with a greater level of accountability to support their use of TASER devices against a resistant subject. The TASER Cam HD is capable of recording in low light conditions, has a wide field of view, high resolution and color video. A non-audio version of the device is also available for agencies operating in states where legislation prohibits the use of audio recordings. Revenue related to the TASER Cam HD was $4.7 million, $4.7 million and $3.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Product Warranties

We generally warranty CEWs, AXON cameras and E-Docks from manufacturing defects on a limited basis for a period of one year after purchase and thereafter, will replace any defective unit for a fee which covers the handling and repair costs and includes a profit. We believe this policy is attractive to customers.

The Company also offers customers the right to purchase extended warranties, which provide additional coverage beyond the limited warranty, ranging from one to five years, offered at specified fees. The sales of extended warranties give customers a level of cost certainty that they would not have without an extended warranty. At December 31, 2014 and 2013, the balance of deferred revenue was $22.0 million and $15.9 million under this program, respectively. The revenue associated with the extended warranties will be recognized ratably over the extended warranty period. Warranty revenue recorded by the Company for the years ended December 31, 2014, 2013 and 2012 were $6.1 million, $4.6 million and $3.6 million, respectively.

Markets

Law Enforcement and Corrections

Our primary target market for both our weapon and video products is federal, state and local law enforcement agencies in the U.S. and throughout the world. In the law enforcement market, more than 17,000 law enforcement agencies in nearly 150 countries have made initial purchases of our TASER brand devices for testing or deployment. Our belief is that in the U.S., approximately two-thirds of all law enforcement patrol officers carry a TASER CEW and internationally, approximately one out of every fifty eligible law enforcement officers carries a TASER CEW.

We continue to educate correctional facility personnel, as well as parole and probation field officers, regarding the benefits of using TASER brand products and we have developed training programs and command staff demonstrations specific to the corrections market. Our TASER devices are deployed in multiple county and state correctional facilities in the U.S.

Military Forces, U.S. and Foreign Allies

TASER CEW devices continue to be deployed in support of key strategic military operations in locations around the world. We continue our focus initiative on supporting our military customers. The former head of the U.S. Military Joint Non-Lethal Weapons Directorate is our Vice President of Government and Military Programs, and we meet periodically with our Senior Executive Advisory Board, comprised of a team of professionals with extensive military, homeland defense and law enforcement experience, with the purpose of advising on business models in support of federal law enforcement and military users.

Private Security

We continue to pursue opportunities for sales of TASER CEW devices in private security markets; however, we have made limited sales to date. Private security officers represent a broad range of individuals, including contract security patrol, healthcare, gaming, retail security employees and many others. Similar to our other emerging markets, we have developed training programs and demonstrations specific to the industry by meeting with several large corporate and private patrol security companies to discover their unique needs. We also attend several private security tradeshows, conferences and industry association meetings to generate a presence in this market space.

Private Citizen / Personal Protection

Our primary consumer product for personal defense is the TASER C2 personal protection device, a CEW specifically designed for the private citizen market. We have also developed consumer versions of the X2, M26, and X26 CEWs. We continue to explore alternatives to generate more consumer sales.

Sales and Marketing

Law enforcement and correction agencies, military forces, private security personnel and private citizens represent our target markets both domestically and internationally. In each of these markets, the decision to purchase TASER CEWs, AXON video products or EVIDENCE.com is normally made by a group of people, including the agency head, municipal information technology departments, the agency's training staff and agency weapons experts. Depending on the size and cost of the device deployment and local procurement rules and customs, the decision may involve political decision-makers such as city council members or the federal government. The decision-making process can take as little as a few weeks or as long as several years. Although we have focused on these markets, we have been able to expand our customer base to hundreds of thousands of end users within these markets. We currently have a presence in more than 17,000 law enforcement agencies domestically.

We have used multiple types of media to communicate the benefits of acquiring and deploying our products. Our marketing campaigns have included the development of on-line educational campaigns geared toward law enforcement leaders in the community, web and print advertisements in law enforcement publications, the use of training classes conducted around the world, and more recently, in the case of the TASER X2 and X26P, an integrated online media launch including trade-in programs on used TASER devices. Throughout 2014, we hosted technology summits at our Scottsdale headquarters and across the nation during which our employees, customers and potential customers conducted forums to discuss, educate and promote the benefits of cloud computing and wearable technology. Looking to 2015, we plan on expanding these programs to certain international markets. We also target key regional and national law enforcement trade shows where we can demonstrate our products to leading departments. In 2014, we attended and exhibited at many of the major regional, national and international law enforcement trade shows. We also held our annual TASER Conference as part of our certified master instructor school, the continued focus of which was to train the participants in the use of all of the latest CEWs and other new products.

TASER maintains a corporate website for TASER.com and a website for EVIDENCE.com designed to deliver benefit-driven messages and to drive follow-up by TASER or one of our distribution partners. We also maintain foreign-language sites for non-English speakers around the world, including French, Portuguese, German, Dutch and Spanish, with the same goals to provide information and education on our products and services in a local language. We plan to continue investment in web activities, tech summits and law enforcement trade shows and conferences in 2015, as it provides us the ability to market our products to our target audience. We believe these types of activities accelerate penetration of our TASER product lines in each market, which should lead to increased visibility in both the private security and private citizen markets and reinforce the value of these devices for self-defense.

U.S. Distribution

The Company sells directly to law enforcement agencies in the U.S. as well as through a distribution network. In addition, we have one U.S. military and federal government contracting distributor. Distributors are selected based upon their reputation within their respective industries, their contacts and their distribution network. Our regional sales managers work closely with the distributors in their territory to inform and educate the law enforcement communities. We continue to monitor our law enforcement distributors closely to help ensure that our service standards are achieved. Where appropriate, we intend to grow our direct sales over time. Distributors often allow us to penetrate regions at lower fixed costs; however, direct sales allow us greater control over the customer relationship.

Sales in the private citizen market are primarily made through our commercial distributors, dealers and our website. We have implemented a variety of marketing initiatives to support sales of our consumer products, with a focus on web, public relations and consumer trade shows. We have consulted with professional digital media and public relations professionals to assist us in media and press events, and editorial placements along with attending numerous tradeshows specifically to target the consumer market.

International Distribution

We currently market and distribute our CEW products to foreign markets primarily through a network of distributors. For geographical and cultural reasons, our distributors usually have a territory defined by their country's borders. These distributors market both our law enforcement, military, and corrections products, and our consumer products where allowed by law. Our distributors work with local law enforcement, military and corrections agencies in the same manner as our domestic market distributors. For example, they may perform demonstrations, attend industry tradeshows, maintain country specific websites, engage in print advertising and arrange training classes.

In order to more effectively engage customers internationally, we have also implemented sales teams strategically located throughout each major geographic region of the world. Having dedicated sales personnel stationed full time in these regions will allow us to better serve existing customers as well as execute our sales and marketing strategies more efficiently in order to continue to grow our customer base in new markets.

Training Programs

Most law enforcement, military, security and corrections agencies will not purchase new weapons until a training program is in place to instruct and certify personnel in their proper use. TASER maintains a robust training program and conducts a variety of classes valuable to the users of our products. Attendance at our courses generally requires a fee which varies depending upon course content. For the years ended December 31, 2014, 2013 and 2012, training revenue was $2.2 million, $1.9 million and $2.2 million, respectively.

To coordinate the growing demands of our training programs, we created a Training Advisory Board. This board annually reviews the qualifications of the master instructors, and provides retraining or certification as required. In addition, the Training Advisory Board oversees the trainers and curriculum to ensure that new information is properly communicated and implemented. We also created the designation of Senior Master Instructor whose primary duties are to perform quality control checks on Master Instructors during instructor courses and to help instruct at the Master Instructor School. As of December 31, 2014, 24 experienced individuals hold the designation of Senior Master Instructors based on their exemplary performance as Master Instructors.

CEW Courses Offered:

- *Instructor Training:* An approximately 20 hour class that certifies law enforcement, military, corrections and security agency trainers as Instructors in the use of TASER CEWs.
- *Master Instructor School:* Attendees that successfully complete this course become certified as Master Instructors. Master Instructors are independent professional trainers, serve as local area TASER experts, and assist in conducting TASER demonstrations at other police departments within their regions. As of December 31, 2014, 747 individuals hold current certifications as Master Instructors.
- *CEW User Training*: An on-line course is available to law enforcement, military and security personnel that satisfies the classroom and knowledge assessment portions of the user certification course. Agency instructors must still put students through a series of drills and hands-on exercises.
- *TASER Technical Solutions and Investigations Course:* The purpose of this course is to train agencies on the proper care and preventative maintenance of TASER devices and to train those who are responsible for investigating crime scenes and use of force events.
- *TASER Use of Force, Risk Management and Legal Strategies Seminar*: The purpose of this course is to educate law enforcement executives, risk managers, and legal and medical advisors on topics relevant to TASER CEWs.
- *Private Citizen Training:* This course focuses on non-law enforcement private self-defense training schools that have expressed a desire to include TASER consumer products in their courses.

Video Systems Courses Offered:

With the release of the AXON flex on-officer audio and video recording systems, we developed new courses and incorporated the AXON cameras as an integral part of all Instructor and Master Instructor courses.

- *AXON User and Instructor training*: This training is provided to agencies that purchase AXON units either for deployment or for a test and evaluation.
- *Digital Evidence Management Course*: Designed to educate information technology personnel and those who will be administrators of EVIDENCE.com accounts. This course covers cloud computing, data security, best practices in on-officer video, legal issues, and set-up and management of EVIDENCE.com.

Manufacturing

We perform light manufacturing, final assembly, and final test operations at our headquarters in Scottsdale, Arizona, and own substantially all of the equipment required to develop, prototype, manufacture and assemble our finished products. This includes critical injection molds, schematics, automation equipment, test equipment and prototypes utilized by our supply chain for the conversion of raw materials into sub-assemblies. We have implemented lean/six sigma methodologies to optimize most direct and indirect resources within the organization, which has helped boost capacity for existing products, as well as provide flexibility to accommodate production of new TASER product introductions. We are currently operating two production shifts; however, other capacity options, including the use of additional shifts, will be considered should we experience higher demand resulting from large orders of legacy or new product releases. We continue to maintain our ISO 9001 certification.

Our XREP product is considered a firearm due to the propellant used to launch the projectile from the device. We have a Class 7 Federal Firearms license to manufacture, store and sell XREP and related products. We have previously, and may again in the future, leased facilities from a local third party who specializes in defense products and provides facilities, ensuring compliance with required firearm and dangerous good standards.

We constantly seek opportunities to invest in automated equipment for the continuous improvement of product quality and reduction of manufacturing costs. As a result, we have implemented a number of equipment initiatives including the purchase and integration of robotic equipment, computerized laboratory and medical testing equipment, machining and tooling equipment, as well as sophisticated modeling equipment for our research and development. We have a highly automated cartridge assembly line which improves both our production capacity and yields while significantly improving efficiency over what was previously a very labor-intensive manufacturing process.

Supply chain management has been, and will continue to be, a focus of ours. We presently purchase completed printed circuit board assemblies and components primarily from suppliers located in the U.S., along with selective strategic relationships internationally. Although we currently obtain plastic components from an outside supplier base, we own all the designs and tooling. We believe there are readily available qualified alternative suppliers in most cases who can consistently meet our needs for these components. We continue to develop and implement policies to mitigate supply chain risk and ensure continuity of supply, while maintaining efficiencies at all levels within the organization.

Competition

Law Enforcement, Corrections and Private Security Markets

Law enforcement customers partner with TASER for the long-term. The primary competitive factors in the law enforcement and corrections market include a weapon's accuracy, effectiveness, safety, cost, ease of use and an exceptional customer experience. Stinger Systems introduced an electronic device in 2007 to compete with the TASER X26; however, they had limited success before going out of business in 2010. Stinger Systems subsequently sold its assets to Karbon Arms. We are not aware of any significant sales to date by Karbon Arms. We were granted summary judgment in a patent infringement claim against Stinger Systems and an injunction was issued against Stinger Systems in August 2010. In July of 2011, we filed a complaint against Karbon Arms, LLC for infringement of U.S. patent numbers 7,800,855 and 7,782,592 in U.S. District Court for the District of Delaware seeking damages, injunctive relief and an award of attorney's fees. Karbon Arms filed a counter suit on July 18, 2011, alleging invalidity and non-infringement of four of TASER's patents, tortuous interference with prospective contractual relations and for false advertising under the Lanham Act. In January 2014, TASER and Karbon Arms agreed to a permanent injunction against Karbon Arms after it was decreed that Karbon Arms infringed on the aforementioned patents. The permanent injunction restrains and enjoins Karbon Arms and its current and former officers, agents, directors, employees, and affiliates and those persons in participation with them who received actual notice of the injunction from making, using, offering to sell or selling the Karbon Arms MPID and MPID-C or supplying a substantial portion of the components that are used in the Karbon Arms devices. We believe that our strong relationship with our customers, our large installed base of products, the significant amount of medical and safety testing already performed on our products, our world-class customer service and other support we provide to customers provides us with a strong competitive advantage. In some international markets, our CEWs face local competition.

We also believe our CEWs compete indirectly with a variety of other less-lethal alternatives. These alternatives include, but are not limited to, pepper spray, batons and impact weapons sold by companies such as Defense Technology. We believe our TASER brand devices' advanced technology, versatility, portability, effectiveness, built-in accountability systems, and low injury rate enable us to compete effectively against these other less-lethal alternatives.

Military Market

In the military markets, both in the U.S. and abroad, a wide variety of weapon systems are utilized to accomplish the mission at hand. CEWs have gained increased acceptance as a result of the policing role of military personnel across many regions of the world. There has also been an increased awareness of the use of non-lethal weapons as a way to preserve human intelligence. TASER CEWs give armed forces a means to capture or immobilize targets without using lethal force. There is indirect competition from pepper spray, batons and impact weapons sold by companies such as Defense Technology.

Private Citizen Market

CEWs have gained limited acceptance in the private citizen market. These devices primarily compete with guns, but also with other less lethal weapons such as pepper spray. The primary competitive factors in the private citizen market include a weapon's cost, effectiveness, safety and ease of use.

Video Evidence Market

The video evidence capture and management market segment is a highly fragmented and competitive market. In the video evidence capture market segment, there are existing companies with an established presence. Continued evolution in the industry and technology shifts are creating opportunities for both established and new competitors. Key competitive factors include: product performance; product features; product quality and warranty; total cost of ownership; data security; data and information work flows; company reputation and financial strength; and relationship with customers. We believe our AXON products, which place the camera directly on-officer at a much lower total cost of ownership than a traditional in-car camera, overcome some of the inherent limitations of an in-car system. We believe that placing the camera on the officer has created a paradigm shift that will ultimately overtake the majority of the in-car camera market.

Our digital evidence management system, EVIDENCE.com, is a cloud-based platform. Cloud computing fundamentally changes the way local, state and federal government agencies will develop and deploy software applications. Applications used by these agencies have historically required the agency to deploy their own infrastructure of servers, storage, network devices and operating systems. With a cloud-based system, the entire infrastructure is managed by third parties who specialize in infrastructure management. Agencies use the internet to access the application. Our cloud-based EVIDENCE.com service enables agencies to store, manage and analyze video evidence. We believe our end-to-end solution of AXON and EVIDENCE.com is a compelling value proposition for law enforcement agencies to implement.

Regulation

U.S. Regulation

The majority of TASER weapons, as well as the cartridges used by these devices, are subject to regulations; however, most are not considered to be a "firearm" by the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives. The TASER XREP does use a propellant system which falls under the definition of a "firearm" and is, therefore, subject to federal firearms-related regulations. Many states have regulations restricting the sale and use of stun guns, hand-held shock devices and electronic weapons. We believe existing stun gun laws and regulations apply to our devices.

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

As of December 31, 2014, the possession of stun guns by the general public, including TASER CEWs, is prohibited in six states: District of Columbia, Hawaii, Massachusetts, New Jersey, New York, and Rhode Island. Some cities and municipalities also prohibit private citizen possession or use of our products.

We are also subject to environmental laws and regulations, including restrictions on the presence of certain substances in electronic products. Reference is made to Section 1A, Risk Factors under the heading "Environmental laws and regulations subject us to a number of risks and could result in significant liabilities and costs."

EVIDENCE.com is subject to government regulation of the Internet in many areas, including telecommunications, data protection, user privacy and online content.

U.S. Export Regulation

CEWs are considered a crime control product by the U.S. government. Accordingly, the export of our devices 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. 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 our products.

The Department of Commerce restricts the export of technology used in our CEWs. These regulations apply to both the technology incorporated in our CEW systems and to the processes used to produce them. The technology export regulations do not apply to production that takes place within the U.S. but is applicable to some sub-assemblies and controlled items manufactured outside the U.S.

Foreign Regulation

Foreign regulations, which may affect our devices, 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 vast majority of countries permit TASER devices to be sold and used by law enforcement. We rely on our distributors to inform us of those countries where the TASER device is prohibited or restricted.

Intellectual Property

We protect our intellectual property with U.S. and foreign patents and trademarks. Our patents and pending patent applications relate to technology used by us in connection with our products. We also rely on international treaties, organizations and foreign laws to protect our intellectual property. As of December 31, 2014, we hold 83 U.S. patents and 102 foreign patents and also have numerous patents and trademarks pending. We continuously assess whether and where to seek formal protection for particular innovations and technologies based on such factors as the commercial significance of our operations and our competitors' operations in particular countries and regions, our strategic technology or product directions in different countries and the degree to which intellectual property laws exist and are meaningfully enforced in different jurisdictions.

Confidentiality agreements are used with employees, consultants and key suppliers to help ensure the confidentiality of our trade secrets.

TASER has the exclusive rights to many Internet domain names primarily including 'TASER.com' and 'EVIDENCE.com.'

Research and Development

Our research and development initiatives focus on next generation technology. Internally funded research has been primarily focused on improvements to existing TASER products and digital evidence management systems, or the development of new applications for TASER technology that we believe generally will have broad market appeal. Our investment in internally funded research and development totaled $14.9 million, $9.9 million and $8.1 million in 2014, 2013, and 2012, respectively.

The Company's team of application developers conduct research and development initiatives for cloud applications and mobile technologies in law enforcement, focused specifically on new revenue opportunities that align with our AXON product solutions. The Company plans to continue to invest in additional research and development within the AXON segment with a focus on continuous improvement, additional functionality for existing products and next generation products and services.

Within the TASER Weapons segment, current research and development initiatives include bio-medical research and electrical, mechanical and software engineering. We expect that future CEW development projects will focus on extending the range, improving the functionality and developing new delivery options for our products.

Our return on investment is intended to be realized over the long term, although new systems and technologies often can have a more immediate impact on our business.

Employees

As of December 31, 2014, we had 426 full-time employees and 141 temporary employees. The breakdown of our full-time employees by department is as follows: 150 direct manufacturing employees and 276 administrative and manufacturing support employees. Of the 276 administrative and manufacturing support employees, 97 were involved in sales, marketing, communications and training. Of the 141 temporary employees, more than 92% worked in direct manufacturing roles. 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.

Available 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 January 2001, we reincorporated in Delaware as TASER International, Inc.

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on our website at *http://www.TASER.com* as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at *http://www.sec.gov*.

Item 1A. *Risk Factors*

Because of the following factors, as well as other variables affecting our operating results, our past financial performance may not be a reliable indicator of our future performance and historical trends should not be used to anticipate our results or trends in future periods.

We are materially dependent on acceptance of our products by law enforcement markets, both domestic and international. If law enforcement agencies do not continue to purchase our products, our revenues will be adversely affected.

A substantial number of law enforcement and corrections agencies may not continue to purchase our CEWs or video products. Law enforcement and corrections agencies may be influenced by claims or perceptions that CEWs, such as our products, are unsafe or may be used in an abusive manner. Sales of our products to these agencies may be delayed or limited by these claims or perceptions.

We substantially depend on sales of our TASER X26P and X2 CEWs, and if these products do not continue to be widely accepted, our growth prospects will be diminished.

In the years ended December 31, 2014, 2013 and 2012, we derived our revenues predominantly from sales of TASER CEW brand devices and related cartridges, and expect to depend on sales of these products for the foreseeable future. We are seeing a large number of customers upgrade their devices to the X2 or the new X26P device, which we introduced in 2011 and 2013, respectively. This is a trend we expect to continue. A decrease in the prices of, or demand for these products, or their failure to maintain broad market acceptance, would significantly harm our growth prospects, operating results and financial condition.

The success of our EVIDENCE.com Software-as-a-Service ("SaaS") delivery model is materially dependent on acceptance of this business model by our law enforcement customers. Delayed or lengthy time to adoption by law enforcement agencies will negatively impact our sales and profitability.

A substantial number of law enforcement agencies may be slow to adopt our EVIDENCE.com digital data evidence management and storage solution, requiring extended periods of trial and evaluation. The hosted service delivery business model is not presently widely adopted by our law enforcement customer base. As such, the sales cycle has additional complexity with the need to educate our customers and address issues regarding agency bandwidth requirements, data retention policies, data security and chain of evidence custody. Delays in successfully securing widespread adoption of EVIDENCE.com services could adversely affect our revenues, profitability and financial condition.

If we are unable to design, introduce and sell new products or new product features successfully, our business and financial results could be adversely affected.

Our future success will depend on our ability to develop new products or new product features that achieve market acceptance in a timely and cost-effective manner. The development of new products and new product features is complex, time consuming and expensive, and we may experience delays in completing the development and introduction of new products. We cannot provide any assurance that products that we may develop in the future will achieve market acceptance. If we fail to develop new products or new product features on a timely basis that achieve market acceptance, our business, financial results and competitive position could be adversely affected.

Delays in product development schedules may adversely affect our revenues and cash flows.

The development of CEWs, cameras and software products such as EVIDENCE.com is a complex and time-consuming process. New products and enhancements to existing products can require long development and testing periods. Our increasing focus on our SaaS platform also presents new and complex development issues. Significant delays in new product or service releases or significant problems in creating new products or services could adversely affect our revenue.

We face risks associated with rapid technological change and new competing products.

The technology associated with law enforcement devices is receiving significant attention and is rapidly evolving. While we have some patent protection in certain key areas of our CEW, AXON and SaaS technology, it is possible that new technology may result in competing products that operate outside our patents and could present significant competition for our products which could adversely affect our revenue.

Defects in our products could reduce demand for our products and result in a loss of sales, delay in market acceptance and damage 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. Defects in our products may result in a loss of sales, delay in market acceptance and damage to our reputation and increased warranty costs, which could have a material adverse effect on profitability and financial condition.

If our security measures are breached and unauthorized access is obtained to customers' data or our data, our network, data centers and service may be perceived as not being secure, customers may curtail or stop using our service and we may incur significant legal and financial exposure and liabilities.

Our service involves the storage and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. We devote significant resources to engineer secure products and ensure security vulnerabilities are mitigated. Despite these efforts, security measures may be breached as a result of third-party action, employee error, and malfeasance or otherwise. Breaches could occur during transfer of data to data centers or at any time, and result in unauthorized access to our data or our customers' data. Third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information in order to gain access to our data or our customers' data. Additionally, hackers may develop and deploy viruses, worms, and other malicious software programs that attack or gain access to our networks and data centers. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could result in a loss of confidence in the security of our service, damage our reputation, lead to legal liability and negatively impact our future sales.

Interruptions or delays in service from our third-party cloud storage providers for our EVIDENCE.com service, or the loss or corruption of digitally stored evidence, would impair the delivery of our service and harm our business.

We currently serve our EVIDENCE.com customers from third-party cloud storage providers based in the U.S. and other countries. Interruptions in our service, or loss or corruption of digital evidence, may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

Most of our end-user customers 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 limited 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, particularly in challenging economic environments. There can be no assurance that the economic and budgeting issues will not worsen and adversely impact sales of our products. Some government agency orders may also be canceled or substantially delayed due to budgetary, political or other scheduling delays which frequently occur in connection with the acquisition of products by such agencies and such cancellations may accelerate or be more severe than we have experienced historically.

Due to municipal government funding rules, certain of our contracts are subject to appropriation (or similar) cancellation clauses, which could allow our customers to cancel contracts in the future.

Although TASER has entered into contracts for the delivery of products and services in the future and anticipates the contracts will be completed, if agencies do not appropriate money in future year budgets, or if other cancellation clauses are invoked, revenue associated with these bookings will not ultimately be recognized, and result in a reduction to bookings.

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 products, budget constraints and product reliability, safety and efficacy. The length of our sales cycle may range from a few weeks to as long as several years. Adverse publicity surrounding our products or the safety of such products has in the past, and could in the future, lengthen our sales cycle with customers. In the past, we believe that the Company’s sales were adversely impacted by negative publicity surrounding our products or the use of our products. 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.

SaaS revenue for EVIDENCE.com is recognized over the terms of the contracts, which may be several years, and, as such, trends in new business are not be immediately reflected in our operating results.

Our SaaS product revenue is generally recognized ratably over the terms of the contracts, which generally range from one to five years. As a result, most of the SaaS revenue we report each quarter is the result of agreements entered into during previous quarters. Consequently, current positive or negative trends in this portion of our business are not fully reflected in our revenue results for several periods.

We may face personal injury, wrongful death and other liability claims that harm our reputation and adversely affect our sales and financial condition.

Our CEW products are often used in aggressive confrontations that may result in serious, permanent bodily injury or death to those involved. Our CEW products may be associated with these injuries. A person, or the family members of 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 wrongful death, personal injury, negligent design, defective product or inadequate warning. We are currently subject to a number of such lawsuits and we have recently been subject to significant adverse judgments and settlements. We may also be subject to lawsuits involving allegations of misuse of our products. If successful, wrongful death, personal injury, misuse and other claims could have a material adverse effect on our operating results and financial condition and could result in negative publicity about our products. Although we carry product liability insurance, we do incur significant legal expenses within our self-insured retention in defending these lawsuits and significant litigation could also result in a diversion of management’s attention and resources, negative publicity and a potential award of monetary damages in excess of our insurance coverage. The outcome of any litigation is inherently uncertain and there can be no assurance that our existing or any future litigation will not have a material adverse effect on our revenues, our financial condition or financial results.

Other litigation may subject us to significant litigation costs and judgments and divert management attention from our business.

We have been or could be in the future involved in numerous other litigation matters relating to our products, contracts and business relationships, including litigation against persons who we believe have infringed on our intellectual property, infringement litigation filed against the Company, litigation against a competitor and litigation filed by a former distributor against the Company. Such matters have resulted, and are expected to continue to result in, substantial costs to us, judgments, settlements and some diversion of our management’s attention, which could adversely affect our business, financial condition or operating results. There is also a risk of adverse judgments, as the outcome of litigation is inherently uncertain.

If we are unable to protect our intellectual property, we may lose our competitive advantage or incur substantial litigation costs to protect our rights. We may be subject to intellectual property infringement claims, which could cause us to incur litigation costs and divert management attention from our business.

Our future success depends upon our proprietary technology. Our protective measures, including patents, trademarks, copyrights, trade secret protection, and internet identity registrations, may prove inadequate to protect our proprietary rights and market advantage. The right to stop others from misusing our trademarks and service marks in commerce depends, to some extent, on our ability to show evidence of enforcement of our rights against such misuse in commerce. Our efforts to stop improper use, if insufficient, may lead to loss of trademark and service mark rights, brand loyalty and notoriety among our customers and prospective customers. The scope of any patent to which we have or may obtain rights to 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, or others may claim rights in or ownership of our patents. Moreover, we are subject to litigation with parties that claim, among other matters, that we infringed their patents or other intellectual property rights. The defense and prosecution of patent and other intellectual property claims are both costly and time consuming and could result in a material adverse effect on our business and financial position.

Also, 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 forced to enter into costly royalty or licensing agreements in order to be able to sell our products or discontinue use of the protected technology. Such royalty and licensing agreements may not be available on terms acceptable to us or at all. There is no guarantee that our use of conventional technology searching and brand clearance searching will identify all potential rights holders. Rights holders may demand payment for past infringements and/or force us to accept costly license terms or discontinue use of protected technology and/or works of authorship that may include, for example, photos, videos, and software. Our current research and development focus on developing software-based products increases this risk.

In foreign countries we can enforce patent rights only in the jurisdictions in which our patent applications have been granted.

Our U.S. patents protect us from imported infringing products coming into the U.S. from abroad. We have made applications for patents in a few foreign countries; however, these may be inadequate to protect markets for our products in other foreign countries. Each foreign patent is examined and granted according to the law of the country where it was filed independent of whether a U.S. patent on similar technology was granted. A patent in a foreign country may be subject to cancellation if the claimed invention has not been sold in that country. Meeting the requirements of working invention differs by country and ranges from sales in the country to manufacturing in the country. U.S. export law, or the laws of some foreign countries, may prohibit us from satisfying the requirements for working the invention, creating a risk that some of our foreign patents may become unenforceable.

Government regulations applied to our CEW products may affect our markets for and sales of these products.

We rely on the opinions of the Bureau of Alcohol, Tobacco and Firearms, including the determination that a device that has projectiles propelled by the release of compressed gas in place of the expanding gases from ignited gunpowder, are not classified as firearms. Changes in statutes, regulations, and interpretation outside of our control may result in our products being classified or reclassified as firearms. Our private citizen market could be substantially reduced if consumers are required to obtain a registration to own a firearm prior to purchasing our products.

Federal regulation of sales in the U.S.: With the exceptions of the TASER XREP, our CEWs are not firearms regulated by the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives, but our consumer products are regulated by the U.S. Consumer Product Safety Commission. Although there are currently no Federal laws restricting sales of our core CEW products in the U.S., future Federal regulation could adversely affect sales of our products.

Federal regulation of international sales: Our CEW devices are considered a "crime control" product by the U.S. Department of Commerce ("DOC") for export directly from the U.S. Consequently, we must obtain an export license from the DOC for the export of our CEW devices from the U.S. other than to Canada. In addition, certain of our camera and software products require classifications from the DOC before they may be shipped internationally. Our inability to obtain DOC export licenses or classifications on a timely basis for sales of our products to our international customers could significantly and adversely affect our international sales.

State and local regulation: Our devices are controlled, restricted or their use prohibited by a number of state and local governments. Our devices are banned from private citizen sale or use by statute in six states: District of Columbia, Hawaii, Massachusetts, New Jersey, New York, and Rhode Island. Some cities and municipalities also prohibit private citizen possession or 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 prohibit the importation, sale, possession or use of CEWs, including in some countries by law enforcement agencies, limiting our international sales opportunities.

We face unique regulatory and political challenges presented by international markets.

Our international business, including any expansion in new international markets, may be adversely affected by local laws and customs and U.S. laws applicable to foreign operations, including the Foreign Corrupt Practices Act.

Risks inherent in international operations also include, among others:

- Foreign countries could change laws and regulations, change tax structures, or impose currency restrictions and other restraints;
- Risks associated with the Foreign Corrupt Practices Act and local anti-bribery law compliance;
- Political changes and economic crises may lead to changes in the business environment in which we operate;
- Local distributors of our products may not comply with existing laws and regulations;
- Some countries impose burdensome tariffs and quotas; and
- Economic sanctions may be imposed by the U.S. on some countries, which could disrupt the markets for products we sell, even if we do not sell in the target country.

Environmental laws and regulations subject us to a number of risks and could result in significant liabilities and costs.

We are subject to various state, federal and international laws and regulations governing the environment, including restricting the presence of certain substances in our products and making producers for those products financially responsible for the collection, treatment, recycling and disposal. Environmental legislation within the European Union ("EU") may increase our cost of doing business internationally and impact our revenues from EU countries as we comply with and implement these requirements.

The EU has published Directives on the restriction of certain hazardous substances in electronic and electrical equipment (the "RoHS Directive") and on electronic and electrical waste management (the "WEEE Directive"). The RoHS Directive restricts the use of a number of substances, including lead. The WEEE Directive directs members of the EU to enact laws, regulations, and administrative provisions to ensure that producers of electric and electronic equipment are financially responsible for the collection, recycling, treatment and environmentally responsible disposal of certain products sold into the EU. In addition, similar environmental legislation has been or may be enacted in other jurisdictions, including the U.S. (under federal and state laws) and other countries, the cumulative impact of which could be significant.

We continue to monitor the impact of specific registration and compliance activities required by the RoHS and WEEE Directives. We endeavor to comply with applicable environmental laws, yet compliance with such laws could increase our operations and product costs, increase the complexities of product design, procurement, and manufacturing, limit our ability to manage excess and obsolete non-compliant inventory, limit our sales activities, and impact our future financial results. Any violation of these laws can subject us to significant liability, including fines, penalties, and prohibiting sales of our products into one or more states or countries, and result in a material adverse effect on our financial condition.

New regulations related to conflict minerals may force us to incur additional expenses, may make our supply chain more complex and may result in damage to our reputation with customers.

In August 2012, the SEC adopted new disclosure requirements for companies that use certain minerals and metals, known as "conflict minerals," in their products, whether or not these products are manufactured by third parties. These requirements require companies to perform due diligence, disclose and report whether or not such minerals originate from the Democratic Republic of Congo and adjoining countries. We have incurred and will likely continue to incur costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. In addition, these new requirements could adversely affect the sourcing, availability and pricing of minerals used in our products. Because our supply chain is complex, we may not be able to sufficiently verify the origins for these minerals and metals used in our products through the due diligence procedures that we implement, which may harm our reputation. In such an event, we may also face difficulties in satisfying customers who require that all of the components of our products are certified as conflict-free.

Our dependence on third-party suppliers for key components of our devices 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 sub-assemblies 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 for our products. We do not have long-term agreements with any of our suppliers and there is no guarantee that supply will not be interrupted. Due to changes imposed for imports of foreign products into the U.S., as well as potential port closures and delays created by terrorist attacks or threats, public health issues, national disasters or work stoppages, we are exposed to risk of delays caused by freight carriers or customs clearance issues for our imported parts. 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.

Component shortages could result in our inability to produce at a volume to adequately meet customer demand, which could result in a loss of sales, delay in deliveries and injury to our reputation.

Single or sole-source components used in the manufacture of our products may become unavailable or discontinued. Delays caused by industry allocations or obsolescence may take weeks or months to resolve. In some cases, parts obsolescence may require a product re-design to ensure quality replacement components. These delays could cause significant delays in manufacturing and loss of sales, leading to adverse effects significantly impacting our financial condition or results of operations and injure our reputation.

We may experience a decline in gross margins due to rising raw material and transportation costs associated with a future increase in petroleum prices.

A significant number of our raw materials are comprised of petroleum-based products, or incur some form of landed cost associated with transporting the raw materials or components to our facility. A significant rise in oil prices could adversely impact our ability to sustain current gross margins by increasing component pricing.

We may experience a decline in gross margins due to a shift in product sales from CEWs to AXON devices which may continue to carry a lower gross margin.

We continue to invest in the growth of the AXON segment, and this expected growth may result in a higher percentage of total revenues being comprised of AXON products and services. Gross margin as a percentage of net sales for the AXON segment is currently lower than that of the TASER Weapons segment, and may continue to be lower in the future.

To the extent demand for our products increases, our future success will be dependent upon our ability to manage our growth and to increase manufacturing production capacity, which may be accomplished by the implementation of customized manufacturing automation equipment.

To the extent demand for our products increases significantly in future periods, one of our key challenges will be to increase our production capacity to meet sales demand while maintaining product quality. Our primary strategies to accomplish this include introducing additional shifts, increasing the physical size of our assembly facilities, the hiring of additional production staff, and the implementation of additional customized automation equipment. The investments we make in this equipment may not yield the anticipated labor and material efficiencies. Our inability to meet any future increase in sales demand or effectively manage our expansion could have a material adverse effect on our revenues, financial results and financial condition.

Our future success is dependent on our ability to expand sales through distributors and direct sales and our inability to recruit new distributors or increase direct sales would negatively affect our sales.

Our distribution strategy is to pursue sales through multiple channels with an emphasis on independent distributors and direct sales. Our inability to establish relationships with and retain law enforcement equipment distributors, who we believe can successfully sell our products, would adversely affect our sales. In addition, our arrangements with our distributors are generally short-term. We are also focusing on direct sales to larger agencies through our regional sales managers and our inability to grow sales to these agencies in this manner could adversely affect our sales. 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.

The increased focus on direct sales compared to sales through distribution is dependent on our ability to sell into the states that have established distributor relationships.

In certain states we have decided to pursue sales directly with law enforcement customers, rather than working through established distribution channels. Our customers may have strong working relationships with distributors and we may face resistance to this change. If we do not overcome this resistance and effectively build a direct relationship with our customers, sales may be adversely affected.

Acquisitions and joint ventures may have an adverse effect on our business.

We may consider additional acquisitions or joint ventures as part of our long-term business strategy. These transactions involve significant challenges and risks including that the transaction does not advance our business strategy, that we don't realize a satisfactory return on our investment, or that we experience difficulty in the integration or coordination of new employees, business systems, and technology, or there is a diversion of management's attention from our other businesses. These events could harm our operating results or financial condition.

Catastrophic events may disrupt our business.

A disruption or failure of our systems or operations in the event of a major earthquake, weather event, fire, cyber-attack, terrorist attack, or other catastrophic event could cause delays in completing sales, providing services, or performing other mission-critical functions. A catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could harm our ability to conduct normal business operations and our operating results.

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:

- budgetary cycles of municipal, state and federal law enforcement and corrections agencies;
- market acceptance of our products and services;
- the timing of large domestic and international orders;
- the outcome of any existing or future litigation;
- adverse publicity surrounding our products, the safety of our products, or the use of our products;
- changes in our sales mix;
- new product introduction costs;
- increased raw material expenses;
- changes in our operating expenses; and
- regulatory changes that may affect the marketability of our products.

As a result of these and other factors, we believe that period-to-period comparisons of our operating results may not be meaningful in the short term, and our performance in a particular period may not be indicative of our performance in any future period.

The Company's financial performance is subject to risks associated with changes in the value of the U.S. dollar versus local currencies.

For current and potential foreign customers whose contracts are denominated in U.S. dollars, the relative change in currency values creates fluctuations in our product pricing. These changes in foreign end-user costs may result in lost orders and reduce the competitiveness of our products in certain foreign markets.

For non-U.S. dollar denominated sales, weakening of foreign currencies relative to the U.S. dollar generally leads us to raise international pricing, potentially reducing demand for our products. Should we decide not to raise local prices to fully offset the dollar's strengthening, or at all, the U.S. dollar value of our foreign currency denominated sales and earnings would be adversely affected. We do not currently engage in hedging activities. Fluctuations in foreign currency could result in a change in the U.S. dollar value of our foreign denominated assets and liabilities including accounts receivable. Therefore, the U.S. dollar equivalent collected on a given sale could be less than the amount invoiced causing the sale to be less profitable than contemplated.

We also import selected components which are used in the manufacturing of some of our products. Although our purchase orders are generally in U.S. dollars, weakness in the U.S. dollar could lead to price increases for the components.

We maintain most of our cash balances, some of which are not insured, at three depository institutions.

We maintain most of our cash accounts at three depository institutions. As of December 31, 2014, our aggregate balances in such accounts were $48.4 million. The Company's balances with these institutions regularly exceed Federal Deposit Insurance Corporation ("FDIC") insured limits.

We could suffer losses with respect to the uninsured balances if the depositary institutions failed and the institution's assets were insufficient to cover its deposits and/or the Federal government did not take actions to support deposits in excess of existing FDIC insurance limits. Any such losses could have a material adverse effect on our liquidity, financial condition and results of operations.

We have established our international headquarters in Amsterdam, the Netherlands, and as such will have significant Euro denominated expenses.

We will be establishing bank accounts in Amsterdam which will denominated in Euros

We depend on our ability to attract and retain our key management and technical personnel.

Our success depends upon the continued service of our key management personnel. Our success also depends on our ability to continue to attract, retain and motivate qualified technical personnel. Although we have employment agreements with certain of our officers, the employment of such persons is "at-will" and either we or the employee can terminate the employment relationship at any time, subject to the applicable terms of the employment agreements. The competition for our key employees is intense. The loss of the service of one or more of our key personnel could harm our business.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our corporate headquarters and manufacturing facilities are based in a 100,000 square foot facility in Scottsdale, Arizona, which we own. We also lease premises in Scottsdale, Arizona; Seattle, Washington; Topsfield, Massachusetts; Rio de Janeiro, Brazil; Sao Paulo, Brazil; Amsterdam, Netherlands; and Frankfurt, Germany. We believe our existing facilities are well maintained and in good operating condition. We also believe we have adequate manufacturing capacity for our existing product lines for the foreseeable future. To the extent that we introduce new products in the future, we will likely need to acquire additional facilities to locate the associated production lines. However, we believe we can acquire or lease such facilities on reasonable terms. The Company continues to make investments in capital equipment as needed to meet anticipated demand for its products.

Item 3. *Legal Proceedings*

See discussion of litigation in Note 9(c) to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, which discussion is incorporated by reference herein.

Item 4. *Mine Safety Disclosures*

None.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

Our common stock is quoted under the symbol "TASR" on The NASDAQ Global Select Market. The following table sets forth the high and low sales prices per share for our common stock as reported by NASDAQ for each quarter of the last two fiscal years.

	High	Low
Year Ended December 31, 2014:		
First quarter	$ 20.83	$ 14.89
Second quarter	19.17	12.55
Third quarter	18.76	10.46
Fourth quarter	27.65	13.40

	High	Low
Year Ended December 31, 2013:		
First quarter	$ 9.80	$ 6.70
Second quarter	9.79	7.24
Third quarter	15.30	8.43
Fourth quarter	18.52	13.45

Holders

As of December 31, 2014, there were 294 holders of record of our common stock.

Dividends

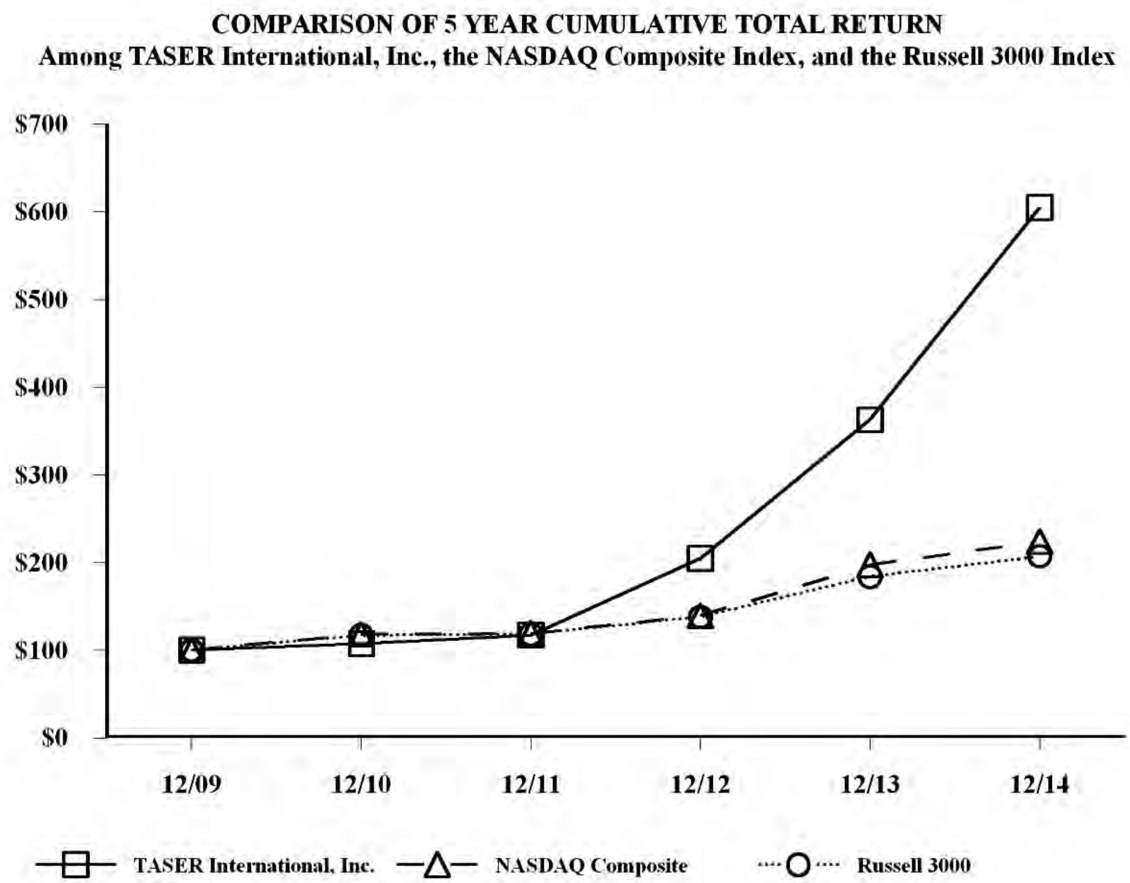
To date, we have not declared or paid cash dividends on our common stock. We do not intend to pay cash dividends in the foreseeable future and our revolving line of credit prohibits the payment of cash dividends.

Issuer Purchases of Equity Securities

In May 2014, the Company's Board of Directors authorized a stock repurchase program to acquire up to $30.0 million of the Company's outstanding common stock subject to stock market conditions and corporate considerations. During the year ended December 31, 2014, the Company repurchased approximately 1.7 million common shares under this program for a total cost of approximately $22.4 million, or a weighted average cost of $12.99 per share. The weighted average cost includes the average price paid per share of $12.96, plus any applicable administrative costs for the transaction. The Company has approximately $7.6 million remaining on the repurchase authorization as of December 31, 2014. Repurchases may be made from time to time on the open market. There were no repurchases of our common stock by the Company or on its behalf during the three months ended December 31, 2014.

Stock Performance Graph

The following stock performance graph compares the performance of our common stock to the NASDAQ Stock Market (U.S.) and the Russell 3000 Index. The graph covers the period from December 31, 2009 to December 31, 2014. The graph assumes that the value of the investment in our stock and in each index was $100 at December 31, 2009, and that all dividends were reinvested. We do not pay dividends on our common stock.



	2009	2010	2011	2012	2013	2014
TASER International, Inc.	$ 100.00	$ 107.31	$ 116.89	$ 204.11	$ 362.56	$ 604.57
NASDAQ Composite	100.00	117.61	118.70	139.00	196.83	223.74
Russell 3000	100.00	116.93	118.13	137.52	183.66	206.72

Item 6. *Selected Financial Data*

The following selected financial data should be read in conjunction with our consolidated financial statements and the notes thereto, and with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." The statement of operations data for the years ended December 31, 2014, 2013 and 2012, and the balance sheet data as of December 31, 2014 and 2013, have been derived from, and should be read in conjunction with, our audited consolidated financial statements and the notes thereto included herein. The statement of operations data for the years ended December 31, 2011 and 2010, and the balance sheet data as of December 31, 2012, 2011 and 2010, is derived from our audited consolidated financial statements and the notes thereto which are not included in this Annual Report on Form 10-K. Dollars are in thousands, except per share amounts.

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
Statement of Operations Data:					
Net sales	$ 164,525	$ 137,831	$ 114,753	$ 90,028	$ 86,930
Cost of products sold and services delivered	62,977	51,988	47,038	41,753	41,563
Excess inventory charges	—	—	—	3,746	—
Gross margin	101,548	85,843	67,715	44,529	45,367
Sales, general and administrative expenses	54,158	46,557	39,247	40,801	39,095
Research and development expenses	14,885	9,888	8,139	9,989	11,412
Litigation judgments (recoveries)	—	1,450	(2,200)	3,301	—
Loss on impairment	—	—	—	1,354	—
Income (loss) from operations	32,505	27,948	22,529	(10,916)	(5,140)
Interest and other (expense) income, net	(194)	86	83	1,287	26
Income (loss) before provision (benefit) for income taxes	32,311	28,034	22,612	(9,629)	(5,114)
Provision (benefit) for income taxes	12,393	9,790	7,874	(2,589)	(730)
Net income (loss)	$ 19,918	$ 18,244	$ 14,738	$ (7,040)	$ (4,384)
Net income (loss) per common and common equivalent shares:					
Basic	$ 0.38	$ 0.35	$ 0.27	$ (0.12)	$ (0.07)
Diluted	$ 0.37	$ 0.34	$ 0.27	$ (0.12)	$ (0.07)
Weighted average number of common and common equivalent shares outstanding:					
Basic	52,948	51,880	53,827	59,436	62,524
Diluted	54,500	54,152	54,723	59,436	62,524

	As of December 31,				
	2014	2013	2012	2011	2010
Balance Sheet Data:					
Working capital	$ 107,855	$ 74,338	$ 60,944	$ 45,845	$ 70,378
Total assets	185,368	148,382	116,236	104,963	136,187
Total current liabilities	31,973	23,129	18,109	15,888	11,948
Total long-term debt and capital leases, net of current portion	29	67	103	—	—
Total stockholders' equity	129,106	108,347	87,285	82,456	117,564

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of our consolidated financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A should be read in conjunction with the other sections of this annual report on Form 10-K, including Part I, Item 1A: "Risk Factors"; Part II, Item 6: "Selected Financial Data"; and Part II, Item 8: "Financial Statements and Supplementary Data." The various sections of this MD&A contain a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing. The tables in the MD&A sections below are derived from exact numbers and may have immaterial rounding differences.

Executive Overview and Key Strategic Initiatives

Our core mission is to protect life and to protect truth through technologies that make communities safer. We are a market leader in the development and manufacture of advanced conducted electrical weapons ("CEWs") designed for use by law enforcement, military, corrections, and private security personnel and by private individuals for personal defense. More recently, to address challenges faced by law enforcement officers post-incident, we have developed a fully integrated hardware and software solution to provide our law enforcement customers the capabilities to capture, store, manage, share and analyze video and other digital evidence.

Technological innovation is the foundation for our long-term growth and we intend to maintain our commitment to the research and development of our technology for both new and existing products that further our mission. At the same time we have established industry leading training services to provide our users a comprehensive overview of legal, policy, medical and risk mitigation issues relating to our products and the use of force. We have built a network of distribution channels for selling and marketing our products and services to law enforcement agencies, primarily in North America, with ongoing focus and effort placed on expanding these programs in international, military and other markets. Over 17,000 law enforcement agencies in nearly 150 countries have made initial purchases of our TASER brand devices for testing or deployment. To date, we do not know of any significant sales of any competing CEW products, but acknowledge the continued emergence of competition within the on-officer camera, digital evidence management and related technology market.

Our key strategic initiatives include:

- Continue investment in development of innovative new products, which both compliment and add to our existing platforms. Our research and development efforts in 2014 were primarily focused on refining our EVIDENCE.com services and exploring next generation hardware for our TASER Weapons and AXON segments.

  We believe that the video evidence capture and management market will continue to grow significantly due to several factors, including increasing recognition of the benefits and value of video evidence and other mobile technologies. In 2015, we expect to devote significant resources towards both the development of the next revenue generating product for our AXON segment, and additional functionality for our existing SaaS. We aim to work closely with our customers to develop new value added features to our existing platform that are necessary to optimize their workflows, as well as develop adjacent technologies in wearables, cloud, and mobile devices.

- Increase market penetration in both international and U.S. law enforcement markets:

  Internationally, there is a very significant portion of the market where officers do not carry CEWs or wear on-officer cameras. We believe there is substantial opportunity for more widespread adoption of CEWs and AXON products in foreign countries. In recent years, we have seen international markets become increasingly attractive and we seek to maintain that trend as we demonstrate the benefits of large-scale adoptions of our CEWs and AXON products, using countries such as the United Kingdom and Australia as benchmarks of successful programs. We have also decided to make focused investments in targeted countries such as France, Brazil, the United Kingdom, Canada and Australia as we see considerable opportunity for increased sales in those regions. Because the sales cycle to sell into a new international market can be as long or longer than 18 to 24 months, it is important that we continue to develop our pipeline in terms of both the number and size of opportunities.

  In the U.S., our focus is on driving deeper penetration into law enforcement agencies that do not have a CEW or on-officer camera on every officer. Our strategy is to create a dominant market position in domestic law enforcement and internationally over time.

- Focus on increasing bookings and brand awareness for EVIDENCE.com and AXON cameras. We have expanded our AXON sales team from 14 at the end of 2013 to 16 full-time salespeople at the end of 2014. We expect the additional salesforce to generate increased bookings in 2015. In addition, during 2015, we expect to continue our concerted efforts to promote the awareness of the benefits of digital evidence management in general, and EVIDENCE.com specifically, throughout the law enforcement community. We expect additional efforts will encompass tech summits, sponsorships, tradeshows, interaction with trade associations (such as the International Association of Chiefs of Police), and other promotional activities.

  Included in our strategy to demonstrate the benefits of EVIDENCE.com, we have optional test and evaluation periods of the product on-site with customers. We experienced increasing volumes of trial programs in 2014 and believe these trial programs are the best way for our customers to see the powerful capabilities, benefits and compelling value proposition of our technology. We anticipate further increases in these trial programs in 2015, ultimately leading to increased sales. As market acceptance grows, we anticipate fewer and/or shorter trial programs will be necessary to capture sales.

- Focus on maintaining incremental sales channels by continuing to develop purchasing programs that position the Company to own municipality budget lines and become the ongoing technology provider for our customers in order to drive sales growth.
- Focus on minimizing attrition rates by providing world class products and services that provide the value necessary to ensure customers continue to renew their contracts.
- Further develop our presence in federal government and military markets. We intend to continue to place emphasis on supporting our military customers through our team of professionals with extensive military, homeland defense and law enforcement experience. The primary focus of this team is to support military use for our existing hardware as well as increase technology development through contracted support.
- Continued application for patents and intellectual property rights, both in the U.S. and internationally, to protect key technology in our products and further attempt to protect and maintain our competitive position.
- Continued aggressive litigation defense to protect our brand equity. We maintain a team of world class medical experts and internal legal resources to provide an efficient means of defending the Company against product liability claims.

Results of Operations

The following table presents data from our statements of operations as well as the percentage relationship to total net sales of items included in our statements of operations (dollars in thousands):

	Year Ended December 31,					
	2014		2013		2012	
Net sales	$ 164,525	100.0%	$ 137,831	100.0%	$ 114,753	100.0%
Cost of products sold and services delivered	62,977	38.3	51,988	37.7	47,038	41.0
Gross margin	101,548	61.7	85,843	62.3	67,715	59.0
Operating expenses:						
Sales, general and administrative	54,158	32.9	46,557	33.8	39,247	34.2
Research and development	14,885	9.0	9,888	7.2	8,139	7.1
Litigation judgments (recoveries)	—	—	1,450	1.1	(2,200)	(1.9)
Total operating expenses	69,043	42.0	57,895	42.0	45,186	39.4
Income from operations	32,505	19.8	27,948	20.3	22,529	19.6
Interest and other (expense) income, net	(194)	(0.1)	86	0.1	83	0.1
Income before provision for income taxes	32,311	19.6	28,034	20.3	22,612	19.7
Provision for income taxes	12,393	7.5	9,790	7.1	7,874	6.9
Net income	$ 19,918	12.1%	$ 18,244	13.2%	$ 14,738	12.8%

Net sales to the U.S. and other countries are summarized as follows (dollars in thousands):

	Year Ended December 31,					
	2014		2013		2012	
United States	$ 132,205	80.4%	$ 115,674	83.9%	$ 93,427	81.4%
Other Countries	32,320	19.6	22,157	16.1	21,326	18.6
Total	$ 164,525	100.0%	$ 137,831	100.0%	$ 114,753	100.0%

The Company's operations are comprised of two reportable segments; the sale of CEWs, accessories and other products and services (the "TASER Weapons" segment) and the AXON video business, focused on wearables, cloud and mobile products, including AXON video products, TASER Cam and EVIDENCE.com (the "AXON" segment formerly known as the "EVIDENCE.com & Video" segment). The Company includes only revenues and costs directly attributable to the AXON segment in that segment. Included in AXON segment costs are: costs of sales for both products and services, selling expense for the video sales team, video product management expenses, video trade shows and related expenses, and research and development for products included in the AXON segment. All other costs are included in the TASER Weapons segment. The Company does not regularly review assets by segment; therefore we do not allocate assets by segment as part of our financial information presented.

Net Sales

Net sales by product line were as follows for the years ended December 31, 2014 and 2013 (dollars in thousands):

	Year Ended December 31,				Dollar Change	Percent Change
	2014		2013			
TASER Weapons segment:						
TASER X26P	$ 43,512	26.4%	$ 21,860	15.9%	$ 21,652	99.0%
TASER X2	28,774	17.5	26,471	19.2	2,303	8.7
TASER X26	18,712	11.4	30,883	22.4	(12,171)	(39.4)
TASER C2	2,084	1.3	2,468	1.8	(384)	(15.6)
TASER M26	693	0.4	681	0.5	12	1.8
TASER XREP	2,617	1.6	—	—	2,617	*
Single cartridges	38,539	23.4	35,660	25.9	2,879	8.1
Extended warranties including TAP	6,024	3.7	4,617	3.3	1,407	30.5
Other	4,658	2.8	4,834	3.5	(176)	(3.6)
TASER Weapons segment	145,613	88.5	127,474	92.5	18,139	14.2
AXON segment:						
AXON solutions	9,029	5.5	3,454	2.5	5,575	161.4
EVIDENCE.com	4,039	2.5	1,719	1.2	2,320	135.0
TASER Cam	4,674	2.8	4,688	3.4	(14)	(0.3)
Other	1,170	0.7	496	0.4	674	135.9
AXON segment	18,912	11.5	10,357	7.5	8,555	82.6
Total net sales	$ 164,525	100.0%	$ 137,831	100.0%	$ 26,694	19.4

* not meaningful

Net unit sales for the TASER Weapons handles and other products and AXON segment products are as follows:

	Year Ended December 31,			
	2014	2013	Unit Change	Percent Change
TASER X26P	51,283	28,107	23,176	82.5%
TASER X2	26,901	28,164	(1,263)	(4.5)
TASER X26	17,770	33,769	(15,999)	(47.4)
TASER M26	1,994	2,091	(97)	(4.6)
TASER C2	7,249	8,116	(867)	(10.7)
StrikeLight	2,767	3,141	(374)	(11.9)
Cartridges	1,618,117	1,552,028	66,089	4.3
AXON flex	10,034	4,903	5,131	104.7
AXON body	13,219	1,888	11,331	600.2
TASER Cam	9,303	10,686	(1,383)	(12.9)

Net sales were $164.5 million and $137.8 million for the years ended December 31, 2014 and 2013, respectively, an increase of $26.7 million or 19.4%. Net sales for the TASER Weapons segment were $145.6 million and $127.5 million for the years ended December 31, 2014 and 2013, respectively, an increase of $18.1 million or 14.2%. Net sales for the AXON segment were $18.9 million and $10.4 million for the years ended December 31, 2014 and 2013, respectively, an increase of $8.6 million or 82.6%.

The increase in net sales for 2014 compared to 2013 in the TASER Weapons segment was primarily driven by the introduction of the TASER X26P smart weapon. Growing demand is seen in the TASER Weapons segment as customers are upgrading their legacy CEWs to the new TASER X2 and X26P smart weapons. In the AXON segment, the increase in net sales was driven by the continued adoption of the AXON on-officer cameras and EVIDENCE.com application in the law enforcement markets. International customers continued to be a steady contributor to the results with $32.3 million in 2014 versus $22.2 million in 2013. To further strengthen our international presence, during 2014, the Company established TASER International, B.V. located in Amsterdam, Netherlands, that will serve as a permanent international headquarters to facilitate transactions with existing customers as well as allow for continued expansion into other foreign markets. This location will have full-time personnel functioning in sales and marketing, training, finance and other administrative roles.

To gain more immediate feedback regarding activity for AXON products and EVIDENCE.com services, we also review bookings for these products. We consider bookings to be a statistical measure defined as the sales price of orders (not invoiced sales), net of cancellations, placed in the relevant fiscal period, regardless of when the products or services ultimately will be provided. Some bookings will be invoiced in subsequent years. Due to municipal government funding rules, certain of the future year amounts included in bookings are subject to budget appropriation or other contract cancellation clauses. Although TASER has entered into contracts for the delivery of products and services in the future and anticipates the contracts will be completed, if agencies do not appropriate money in future year budgets or enact a cancellation clause, revenue associated with these bookings will not ultimately be recognized, resulting in a future reduction to bookings. Bookings related to EVIDENCE.com and the AXON product line increased to $57.1 million during 2014, compared to $14.5 million in 2013.

Net sales by product line were as follows for the years ended December 31, 2013 and 2012 (dollars in thousands):

	Year Ended December 31,				Dollar Change	Percent Change
	2013		2012			
TASER Weapons segment:						
TASER X26P	$ 21,860	15.9%	$ —	—%	$ 21,860	*
TASER X2	26,471	19.2	25,841	22.5	630	2.4%
TASER X26	30,883	22.4	35,950	31.3	(5,067)	(14.1)
TASER C2	2,468	1.8	3,095	2.7	(627)	(20.3)
TASER M26	681	0.5	1,233	1.1	(552)	(44.8)
Single cartridges	35,660	25.9	32,811	28.6	2,849	8.7
Extended warranties including TAP	4,617	3.3	3,589	3.1	1,028	28.6
Other	4,834	3.5	6,536	5.7	(1,702)	(26.0)
TASER Weapons segment	127,474	92.5	109,055	95.0	18,419	16.9
AXON segment:						
AXON solutions	3,454	2.5	2,055	1.8	1,399	68.1
EVIDENCE.com	1,719	1.2	398	0.3	1,321	331.9
TASER Cam	4,688	3.4	3,055	2.7	1,633	53.5
Other	496	0.4	190	0.2	306	161.1
AXON segment	10,357	7.5	5,698	5.0	4,659	81.8
Total net sales	$ 137,831	100.0%	$ 114,753	100.0%	$ 23,078	20.1

* not meaningful

Net unit sales for the TASER Weapons handles and other products and AXON segment products are as follows:

	Year Ended December 31,		Unit Change	Percent Change
	2013	2012		
TASER X26P	28,107	—	28,107	*
TASER X2	28,164	30,665	(2,501)	(8.2)%
TASER X26	33,769	42,340	(8,571)	(20.2)
TASER M26	2,091	3,771	(1,680)	(44.6)
TASER C2	8,116	11,803	(3,687)	(31.2)
StrikeLight	3,141	—	3,141	*
Cartridges	1,552,028	1,540,838	11,190	0.7
AXON flex	4,903	2,772	2,131	76.9
AXON body	1,888	—	1,888	*
TASER Cam	10,686	7,859	2,827	36.0

* not meaningful

Net sales were $137.8 million and $114.8 million for the years ended December 31, 2013 and 2012, respectively, an increase of $23.1 million or 20.1%. Net sales for the TASER Weapons segment were $127.5 million and $109.1 million for the years ended December 31, 2013 and 2012, respectively, an increase of $18.4 million or 16.9%. Net sales for the AXON segment were $10.4 million and $5.7 million for the years ended December 31, 2013 and 2012, respectively, an increase of $4.7 million or 81.8%.

The increase in net sales for 2013 compared to 2012 in the TASER Weapons segment was primarily driven by the introduction of the TASER X26P smart weapon. Growing demand was seen in the TASER Weapons segment as customers upgraded their legacy CEWs to the new TASER X2 and X26P smart weapons. In the AXON segment, the increase in net sales was driven by the continued adoption of the AXON on-officer cameras and EVIDENCE.com application in the law enforcement markets. International customers continued to be a steady contributor to the results with $22.2 million in 2013 versus $21.3 million in 2012. International sales grew slightly in 2013, although decreasing as a percentage of total revenue.

Cost of Products Sold and Services Delivered

(dollars in thousands)

	Year Ended December 31,				Year Ended December 31,			
	2014	2013	Dollar Change	Percent Change	2013	2012	Dollar Change	Percent Change
TASER Weapons segment:								
Cost of products sold…………	$47,680	$44,025	$ 3,655	8.3%	$44,025	$39,350	$ 4,675	11.9%
Cost as % of sales………	32.7%	34.5%			34.5%	36.1%		
AXON **segment:**								
Cost of products sold…………	13,233	6,074	7,159	117.9	6,074	3,773	2,301	61.0
Cost of services delivered…….	2,064	1,889	175	9.3	1,889	3,915	(2,026)	(51.7)
Total cost of products sold and services delivered…………….	15,297	7,963	7,334	92.1	7,963	7,688	275	3.6
Cost as % of sales………	80.9%	76.9%			76.9%	134.9%		
Total cost of products sold and services delivered…………………..	$62,977	$51,988	$ 10,989	21.1	$51,988	$47,038	$ 4,950	10.5
Cost as % of sales………	38.3%	37.7%			37.7%	41.0%		

Cost of products sold and services delivered was $63.0 million and $52.0 million for the years ended December 31, 2014 and 2013, respectively, an increase of $11.0 million or 21.1%. As a percentage of net sales, cost of products sold and services delivered remained relatively consistent at 38.3% in 2014 compared to 37.7% in 2013. Within the TASER Weapons segment, cost of products sold increased $3.7 million, or 8.3%, to $47.7 million in 2014, compared to $44.0 million in 2013, but decreased as a percent of sales to 32.7% from 34.5%. The net decrease in cost of products sold as a percent of sales primarily reflects increased leverage due to higher sales and a higher average selling prices.

Within the AXON segment, cost of products sold and services delivered were $15.3 million, an increase of $7.3 million, or 92.1% from 2013. The increase was driven by growing sales in this segment, increased data storage costs as more agencies utilize EVIDENCE.com, as well as the introduction of a professional services team. These increases were partially offset by the full depreciation of the capitalized EVIDENCE.com software development costs as of June 30, 2013. The slight decrease in overall cost of products sold and services delivered as a percentage of sales was driven by higher sales and by improvements to our EVIDENCE.com SaaS margins. There are a number of fixed costs for the AXON segment which, as we generate additional traction in the business, we expect to remain relatively stable and should allow for lower cost of services delivered as a percentage of service revenue. As a percentage of net sales, cost of products sold and services delivered increased slightly to 80.9% in 2014 from 76.9% in 2013.

Cost of products sold and services delivered, was $52.0 million and $47.0 million for the years ended December 31, 2013 and 2012, respectively, an increase of $5.0 million or 10.5%. As a percentage of net sales, cost of products sold and services delivered decreased to 37.7% in 2013 from 41.0% in 2012. Within the TASER Weapons segment, cost of products sold increased $4.7 million, or 11.9%, to $44.0 million in 2013, compared to $39.4 million in 2012, but decreased as a percent of sales to 34.5% from 36.1%. The net decrease in cost of products sold as a percent of sales primarily reflects increased leverage due to higher sales and a higher average selling prices.

Within the AXON segment, cost of products sold and services delivered were $8.0 million, an increase of $0.3 million, or 3.6% from 2012. Increased product costs related to the AXON segment due to growing sales in this segment were partially offset by decreased service costs, resulting in a slight overall increase for 2013 as compared to the prior year. The decrease in service costs is comprised of cost savings due to efficiencies gained by moving to a third party cloud storage from our data center, as well as the full depreciation of the capitalized EVIDENCE.com software development costs as of June 30, 2013. The decrease in overall cost of products sold and services delivered as a percentage of sales was driven by higher sales and by improvements to our EVIDENCE.com SaaS margins. There are a number of fixed costs for the AXON segment which, as we generate traction in the business, we expect to remain relatively stable and should allow for lower cost of services delivered as a percentage of service revenue. As a percentage of net sales, cost of products sold and services delivered decreased to 76.9% in 2013 from 134.9% in 2012.

Gross Margin
(dollars in thousands)

	Year Ended December 31,				Year Ended December 31,			
	2014	2013	Dollar Change	Percent Change	2013	2012	Dollar Change	Percent Change
TASER Weapons segment….	$ 97,933	$ 83,449	$ 14,484	17.4%	$ 83,449	$ 69,705	$ 13,744	19.7%
AXON segment…………….	3,615	2,394	1,221	51.0	2,394	(1,990)	4,384	*
Total gross margin…………	$101,548	$ 85,843	$ 15,705	18.3	$ 85,843	$ 67,715	$ 18,128	26.8
Gross margin as % of sales…………………....	61.7%	62.3%			62.3%	59.0%		

* not meaningful

Gross margin increased $15.7 million to $101.5 million for 2014 compared to $85.8 million for 2013. As a percentage of net sales, gross margin decreased slightly to 61.7% for 2014 compared to 62.3% for 2013. The decrease is primarily attributable to sales mix and continued growth in the AXON segment. As a percentage of net sales, gross margin for the TASER Weapons segment was 67.3% and 65.5% for 2014 and 2013, respectively, while the same measure for these years for the AXON segment were 19.1% and 23.1%, respectively. Although the Company experienced improvements in margins for the Weapons and AXON segments individually, due primarily to higher average selling prices, as the AXON segment continues to become a greater percentage of total sales, the Company expects to see a slight decrease in overall margins as a percentage of sales. The overall increase in margins was negatively impacted by higher inventory reserves taken towards the end of 2014 as compared to 2013 related primarily to the reserve for the X26 CEW that was discontinued as of December 31, 2014. The Company also accrued approximately $1.1 million of inventory losses related to products it may not be able to use in production of certain AXON camera products.

Gross margin increased $18.1 million to $85.8 million in 2013 compared to $67.7 million in 2012. As a percentage of net sales, gross margin increased to 62.3% for 2013 compared to 59.0% for 2012. The increase in gross margin as a percentage of net sales for 2014 was primarily attributable to the move of the EVIDENCE.com data center to a third party provider, the full depreciation of the capitalized EVIDENCE.com software development costs, increased sales of higher margin products and operational efficiencies.

Sales, General and Administrative Expenses

Sales, general and administrative ("SG&A") expenses were comprised as follows for 2014 and 2013 (dollars in thousands):

	Year Ended December 31,		Dollar Change	Percent Change
	2014	2013		
Salaries, benefits and bonus…………………………	$ 18,179	$ 14,723	$ 3,456	23.5%
Stock-based compensation………………………….	3,558	3,158	400	12.7
Legal, professional and accounting……………….…	4,711	7,323	(2,612)	(35.7)
Sales and marketing…………………………….……	8,124	6,025	2,099	34.8
Consulting and lobbying services……………………	3,417	2,097	1,320	62.9
Travel and meals…………………………………….	4,778	3,305	1,473	44.6
Building……………………………………………...	2,956	3,160	(204)	(6.5)
Supplies………………………………………………	1,898	1,462	436	29.8
Depreciation and amortization………………………	1,246	1,230	16	1.3
Liability insurance…………………………………...	1,303	2,012	(709)	(35.2)
Other…………………………………………………	3,988	2,062	1,926	93.4
Total sales, general and administrative expenses…….	$ 54,158	$ 46,557	$ 7,601	16.3
Sales, general, and administrative as a percentage of net sales	32.9%	33.8%		

Of the increase in SG&A above, there was increased expense associated with customer-facing positions, including: salaries, benefits, bonus and stock-based compensation, as well as sales commissions, which are included in the sales and marketing line item in the table above. Positions were added throughout the year, with the following customer-facing headcount as of the end of each year:

	As of December 31,		
	2014	2013	2012
TASER Weapons sales representatives…………………………………	12	8	8
AXON sales representatives……………….………………………	16	14	7
International sales representatives…………………………………….	5	5	3
Support sales staff………………………………….…………………….	8	8	5
Telesales………………………………………………………………….	17	11	8
Other customer-facing roles……………………………………………..	20	14	12
Total customer-facing roles……………………………………………..	78	60	43

Sales, general and administrative expenses were $54.2 million and $46.6 million for the years ended December 31, 2014 and 2013, respectively, an increase of $7.6 million or 16.3%. As a percentage of total net sales, SG&A expenses decreased to 32.9% for 2014 compared to 33.8% for 2013.

Within the TASER Weapons segment, SG&A increased $2.8 million, or 7.0%, to $43.0 million from $40.2 million in 2013. Salaries, benefits, bonus and stock-based compensation in the TASER Weapons increased approximately $2.0 million in 2014 compared to 2013 partially due to increased international, telesales, and support sales staff. Incremental administrative functions were also added in 2014 in order to support the growing business. Travel expenses also increased approximately $0.5 million compared to the prior year as increased international travel occurred to set up the new international offices in Amsterdam. Offsetting these increases, efficiencies were realized in liability insurance costs and sales and marketing expenses.

Within the AXON segment, SG&A increased $4.8 million, or 75.0%, to $11.2 million in 2014 in comparison to the prior year. Salaries, benefits, bonus and stock-based compensation in the AXON segment increased $1.9 million. Sales and marketing expenses in the AXON segment also increased approximately $1.4 million in comparison to 2013 as a result of a large presence and a hosted booth at the International Association of Chiefs of Police. We believe these increases in marketing activities will increase customer awareness of the benefits of EVIDENCE.com and ultimately lead to sales growth in future periods. Sales and marketing expenses also include increases of approximately $0.9 million in commissions. Increases were also seen in lobbying and consulting fees of approximately $0.8 million and travel expenses of approximately $0.8 million.

The Company expects to see increases in SG&A in 2015 compared to 2014 as it plans to make additional investments in customer-facing positions both domestically and internationally along with increased investments in sales and marketing.

Sales, general and administrative expenses were comprised as follows for 2013 and 2012 (dollars in thousands):

	Year Ended December 31, 2013	Year Ended December 31, 2012	Dollar Change	Percent Change
Salaries, benefits and bonus	$ 14,723	$ 11,385	$ 3,338	29.3%
Stock-based compensation	3,158	2,629	529	20.1
Legal, professional and accounting	7,323	6,427	896	13.9
Sales and marketing	6,025	4,284	1,741	40.6
Consulting and lobbying services	2,097	2,542	(445)	(17.5)
Travel and meals	3,305	3,020	285	9.4
Building	3,160	2,979	181	6.1
Supplies	1,462	1,340	122	9.1
Depreciation and amortization	1,230	1,492	(262)	(17.6)
Liability insurance	2,012	1,821	191	10.5
Other	2,062	1,328	734	55.3
Total sales, general and administrative expenses	$ 46,557	$ 39,247	$ 7,310	18.6
Sales, general, and administrative as a percentage of net sales	33.8%	34.2%		

Sales, general and administrative expenses were $46.6 million and $39.2 million for the years ended December 31, 2013 and 2012, respectively, an increase of $7.3 million or 18.6%. As a percentage of total net sales, SG&A expenses decreased to 33.8% for 2013 compared to 34.2% for 2012.

Within the TASER Weapons segment, SG&A increased $4.4 million, or 12.4%, to $40.2 million from $35.7 million in 2012. Salaries, benefits, bonus and stock-based compensation in the TASER Weapons increased approximately $2.6 million in 2013 compared to 2012 partially due to increased international, telesales, and support sales staff. Incremental administrative functions were also added in 2013 in order to support the growing business. Sales and marketing expenses, many of which are variable, also increased approximately $0.9 million within the TASER Weapons segment compared to the prior year, due to higher commissions of $0.8 million on higher overall sales. Legal fees increased within the TASER Weapons segment compared to 2012 by approximately $0.3 million as the Company worked through its pre-2009 litigation. This was partially offset by a benefit of $0.5 million from the reimbursement of legal expenses due to insurance coverage after the Turner reversal. Financial advisory fees within the TASER Weapons segment are also up year over year by approximately $0.4 million. Included in "Other" are higher expenses related to litigation activities and credit card processing fees. Reductions were seen in depreciation expense and consulting costs.

Within the AXON segment, SG&A increased $2.9 million, or 81.9%, to $6.4 million in 2013 in comparison to the prior year. Salaries, benefits, bonus and stock-based compensation in the AXON segment increased $1.2 million primarily as a result of the Company doubling its video salesforce and hiring incremental functions such as customer service and account management and other customer-facing roles. Sales and marketing expenses in the AXON segment also increased approximately $0.8 million in comparison to 2012 as a result of EVIDENCE.com promotions and advertising efforts during the year, including a large presence and a hosted booth at the International Association of Chiefs of Police annual conference. Sales and marketing expenses also include increases of approximately $0.3 million in commissions.

Research and Development Expenses

Research and development ("R&D") expenses were $14.9 million and $9.9 million for the years ended December 31, 2014 and 2013, respectively, an increase of $5.0 million, or 50.5%. As a percentage of net sales, R&D increased to 9.0% in 2014 in comparison to 7.2% in 2013.

Within the TASER Weapons segment, R&D expenses decreased $0.4 million, or 10.2%, to $3.9 million in 2014, which was primarily driven by a shift in personnel resources to the AXON segment and reduced testing materials expense. Reductions were partially offset by increases in professional and consulting fees.

Within the AXON segment, R&D expenses increased $5.4 million, or 97.5%, to $11.0 million in 2014 from the prior year. The increase for 2014 compared to 2013 is primarily driven by additional headcount and higher consulting fees.

Research and development expenses were $9.9 million and $8.1 million for the years ended December 31, 2013 and 2012, respectively, an increase of $1.7 million, or 21.5%. As a percentage of net sales, R&D increased to 7.2% from 2013 in comparison to 7.1% in 2012.

Within the TASER Weapons segment, R&D expenses increased $0.4 million, or 9.5%, to $4.3 million in 2013, which is primarily driven by increased headcount, professional fees and indirect materials. These increases were partially offset by lower depreciation expense.

Within the AXON segment, R&D expenses increased $1.4 million, or 32.8%, to $5.6 million in 2013 from 2012. The increase for 2013 compared to 2012 was driven by additional headcount, partially related to the Familiar acquisition that occurred in the fourth quarter of 2013. These individuals joined the Company to research and develop the next products for TASER in the AXON segment. Offsetting these increases was a one-time benefit in 2013 for an Arizona sales and use tax refund of approximately $0.3 million.

Litigation Judgments and Recoveries

In February 2012, the Company was served with a complaint in the matter of AA & Saba Consultants, Inc. v. TASER International, Inc. that was filed in the Superior Court for the County of Maricopa, Arizona, which alleged that the Company breached a contract by unilaterally terminating a distributor agreement between the Company and plaintiff without good cause. The complaint sought an award for damages, costs, expenses and attorneys' fees. TASER filed a counterclaim for breach of contract and fraud. During 2012, the Company made a settlement offer of $0.8 million to plaintiff, which was recorded as an expense in SG&A in that year. The offer was not accepted by the plaintiff and thereafter was withdrawn. On February 28, 2014, the jury returned a verdict of $3.3 million against the Company. The Company recorded an additional $2.6 million of expense in the fourth quarter of 2013 as Litigation judgments (recoveries) on the consolidated statements of operations.

On May 6, 2014 the court issued a Minute Entry Order awarding Plaintiff approximately $1.2 million in attorneys' fees, which was recorded as a litigation settlement in the second quarter of 2014. In May 2014 the matter was resolved and dismissed.

Interest and Other (Expense) Income, Net

Interest and other expense was $0.2 million for the year ended December 31, 2014 compared to income of $0.1 million for each of the years ended December 31, 2013 and 2012. Other income amounts for 2014, 2013 and 2012 consisted primarily of investment interest income. In 2014, the other income was more than offset by loss on foreign currency transaction adjustments.

Provision (Benefit) for Income Taxes

The provision for income taxes was $12.4 million for the year ended December 31, 2014. The effective income tax rate for 2014 was 38.4%. The effect of state income tax of $1.4 million was largely offset by a benefit of $0.6 million from incentive stock option deductions as well as $0.5 million of research and development credits in the current year. When an employee exercises ISOs and sells the related stock prior to the end of the mandatory holding period, the associated expense becomes a reduction to the Company's taxable income.

The provision for income taxes was $9.8 million for the year ended December 31, 2013. The effective income tax rate for 2013 was 34.9%. The effect of state income tax of $1.3 million was largely offset by a benefit of $0.5 million from incentive stock option deductions as well as $0.4 million of research and development credits and a $0.4 million favorable return to provision adjustment in the current year. When an employee exercises ISOs and sells the related stock prior to the mandatory holding period, the associated expense becomes a reduction to the Company's taxable income. The 2013 return to provision adjustment was driven by the domestic production activities deduction which decreased taxable income, and therefore, reduced the effective tax rate.

The provision for income taxes was $7.9 million for the year ended December 31, 2012. The effective income tax rate for 2012 was 34.8%. During 2012, the Company reversed a $1.4 million valuation allowance originally established in 2011. The valuation allowance related to a portion of the Arizona R&D tax credit that was expected to expire unused. Due to the Company's return to profitability in 2012, among other things, management believes it is more likely than not the tax credit will be realized. The reversal of the $1.4 million valuation allowance resulted in a reduction to the Company's effective tax rate. However, this favorable result was more than offset by the effects of state income tax and the change in the liability for unrecognized tax benefits of $1.0 million and $0.9 million, respectively. Other items combined for a net favorable impact in the Company's effective tax rate. Excluding the effect of the reversal of the valuation allowance, the Company's effective tax rate would have been 41.1%.

Net Income

Our net income improved by $1.7 million to $19.9 million for 2014 compared to $18.2 million for 2013. Net income per basic share was $0.38 and $0.37 per diluted share, respectively, for 2014 compared to $0.35 and $0.34 per basic and diluted share, respectively for 2013.

Our net income improved by $3.5 million to $18.2 million of 2013 compared to $14.7 million for 2012. Net income per basic and diluted share was $0.35 and $0.34 for 2013, respectively, compared to $0.27 per basic and diluted share for 2012.

Liquidity and Capital Resources

Summary

As of December 31, 2014, we had $48.4 million of cash and cash equivalents, an increase of $6.1 million from the end of 2013.

Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for each of the past three years (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Operating activities	$ 35,432	$ 32,426	$ 26,517
Investing activities	(24,581)	(23,062)	1,681
Financing activities	(4,840)	(3,189)	(13,363)
Effect of exchange rate changes on cash and cash equivalents	85	(31)	(9)
Net increase in cash and cash equivalents	$ 6,096	$ 6,144	$ 14,826

Operating activities

Net cash provided by operating activities in 2014 of $35.4 million consists of $19.9 million in net income, the net add-back of non-cash income statement items totaling $9.6 million and a positive $5.9 million net change in operating assets and liabilities. Included in the non-cash items are $4.3 million in depreciation and amortization expense and $5.6 million in stock-based compensation expense. These additions were partially offset by an $8.0 million reduction related to excess tax benefit from stock-based compensation that is treated as a financing activity for cash flow purposes. The most significant increase to the portion of cash from operating activities related to the changes in operating assets and liabilities is a $15.5 million increase to deferred revenue. Of the increase in deferred revenue, $6.1 million resulted from additional extended warranty sales, $3.9 million resulted from increased hardware deferred revenue from TASER Assurance Program ("TAP") sales, and $5.3 million related to prepayments for AXON SaaS services. In addition, the $9.5 million increase to cash from operating activities related to increases in accounts payable, accrued and other liabilities that was primarily caused by current income tax expense, which would have resulted in an increase to income tax payable, if it had not been reduced by the excess tax benefit from stock-based compensation discussed above. These increases to operating cash flow were partially offset by an increase in accounts and notes receivable of $8.4 million due to higher sales in the fourth quarter of 2014 compared to the same quarter in 2013, and an increase in inventory of $9.4 million in anticipation of higher sales in 2015.

Net cash provided by operating activities in 2013 of $32.4 million consists of $18.2 million in net income, the net add-back of non-cash income statement items totaling $5.6 million and a positive $8.6 million net change in operating assets (net of operating liabilities). Included in the non-cash items are $5.1 million in depreciation and amortization expense and $4.3 million in stock-based compensation expense. These additions were partially offset by a $6.8 million reduction related to excess tax benefit from stock-based compensation that is treated as a financing activity for cash flow purposes. The most significant increase to cash from operating activities related to the changes in operating assets and liabilities was an $8.1 million increase to deferred revenue. Of the increase in deferred revenue, $5.1 million results from additional extended warranty sales and the remainder is primarily a result of prepayments for our EVIDENCE.com SaaS. In addition, the $5.6 million increase to cash from operating activities related to increases in accounts payable and accrued liabilities was primarily caused by current income tax expense, which would have resulted in an increase to income tax payable, if it had not been reduced by the excess tax benefit from stock-based compensation discussed above. These increases to operating cash flow were partially offset by an increase in accounts and notes receivable of $4.4 million. The fluctuation in accounts and notes receivable was primarily driven by sales, which increased 20.1% during 2013 as compared to 2012, and 24.6% in the three months ended December 31, 2013, as compared to the same three-month period in the 2012.

Net cash provided by operating activities in 2012 of $26.5 million consists of $14.7 million in net income, the net add-back of non-cash income statement items totaling $9.1 million and a $2.7 million net change in operating assets (net of operating liabilities). Included in the non-cash items are $6.5 million in depreciation and amortization expense and $3.4 million in stock-based compensation expense. These additions were partially offset by a reduction to operating cash flows of $4.7 million related to excess tax benefit from stock-based compensation that is included in financing activities. The most significant changes in operating assets and liabilities was an increase of $4.2 million related to a change in deferred revenue. Deferred revenue increased $4.2 million due to increased sales of extended warranties as well as sales of EVIDENCE.com service and maintenance. In addition, the $4.4 million increase to cash from operating activities related to increases in accounts payable and accrued liabilities was primarily caused by current income tax expense, which would have resulted in an increase to income tax payable, if it had not been reduced by the excess tax benefit from stock-based compensation discussed above. These changes were partially offset by an increase in accounts and notes receivable of $6.1 million. The fluctuation in accounts and notes receivable was primarily driven by sales, which increased 27.5% during 2012 as compared to 2011, and 50.6% in the three months ended December 31, 2012, as compared to the same three-month period in 2011. The net $0.5 million positive change in accounts payable and other accrued liabilities resulted from increases in accrued liabilities including a $1.6 million increase due to supply purchases to support higher sales activity, as well as $1.0 million in accrued legal settlements during 2012, and a $0.9 million increase in accrued payroll, offset by the $2.2 million reversal of the Turner legal judgment.

Investing activities

Primarily as a result of investing cash generated from operating activities, we used $24.6 million for investing activities in 2014. Purchases of investments, net of calls and maturities, were $21.9 million. The Company also invested $2.7 million in the purchase of property and equipment and intangibles.

Primarily as a result of investing cash generated from operating activities, we used $23.1 million from investing activities in 2013. Purchases of investments, net of calls and maturities, were $19.7 million. The Company also invested $2.1 million in the purchase of property and equipment and intangibles, as well as $1.3 million, net, to purchase Familiar, Inc.

We generated $1.7 million from investing activities in 2012, comprised principally of $3.4 million of net proceeds from call/maturity of short-term investments, offset by $1.7 million for the acquisition of various production and computer equipment and intangible assets, net of proceeds from asset disposals.

Financing activities

Net cash used by financing activities was $4.8 million for the year ended December 31, 2014. The repurchase of $22.4 million of the Company’s common stock, which was purchased for a weighted average cost of $12.99 per share per share, was partially offset by $11.0 million of proceeds from the exercise of stock options, and $8.0 million of excess tax benefit from stock proceeds. The purchase of common stock was made under a stock repurchase program authorized by TASER’s Board of Directors. The Company has approximately $7.6 million remaining on the repurchase authorization as of December 31, 2014. Repurchases may be made from time to time on the open market.

Net cash used by financing activities was $3.2 million for the year ended December 31, 2013. The repurchase of $25.0 million of the Company’s common stock, which was purchased for a weighted average cost of $8.20 per share, was offset by $15.4 million of proceeds from the exercise of stock options, and $6.8 million of excess tax benefit from stock proceeds. The purchase of common stock was made under a stock repurchase program authorized by TASER’s Board of Directors. We completed the authorized repurchases as of June 2013.

During 2013, the Company recorded $6.8 million for excess tax benefits related to stock-based compensation. The tax benefit relates to exercises occurring from the years 2004 through 2013.

During 2012, net cash used by financing activities was $13.4 million, primarily attributable to the repurchase of $20.0 million of the Company’s common stock, which was purchased for an average of $5.22 per share, offset by $1.9 million of proceeds from the exercise of stock options. The purchase of common stock was made under a stock repurchase program authorized by TASER’s Board of Directors.

During 2012, the Company recorded $4.7 million for excess tax benefit related to stock-based compensation. The tax benefit relates to exercises occurring from the years 2006 through 2012 which gave rise to tax attribute carry forwards such as net operating losses and tax credits. The Company was able to recognize this benefit in 2012 due to its positive taxable income during the period that allowed for the utilization of those tax attributes for which no benefit had previously been recorded.

Liquidity and Capital Resources

Our most significant sources of liquidity continue to be funds generated by operating activities and available cash and cash equivalents. In addition, our $10.0 million revolving credit facility is available for additional working capital needs or investment opportunities. Under the terms of the line of credit, available borrowings are reduced by outstanding letters of credit. The line is secured by substantially all of the assets of the Company, and bears interest at varying rates currently LIBOR plus 1.5% or Prime less 0.75%. As of December 31, 2014, we had letters of credit outstanding of $0.4 million, leaving the net amount available for borrowing of $9.6 million. The facility matures on July 31, 2016. There can be no assurance that we will continue to generate cash flows at or above current levels or that we will be able to maintain our ability to borrow under our revolving credit facility. At December 31, 2014 and 2013, there were no borrowings under the line.

Our agreement with the bank requires us to comply with certain financial and other covenants including maintenance of a minimum leverage ratio and fixed charge coverage ratio. The leverage ratio (ratio of total liabilities to tangible net worth) can be no greater than 1:1, and the fixed charge coverage ratio can be no less than 1.25:1, based upon a trailing twelve-month period. At December 31, 2014, the Company's tangible net worth ratio was 0.45:1 and its fixed charge coverage ratio was 2.82:1. Accordingly, the Company was in compliance with these covenants.

Based on our strong balance sheet and the fact that we had just $0.1 million in total long-term debt and capital lease obligations at December 31, 2014, we believe financing will be available, both through our existing credit line and possible additional financing. However, there is no assurance that such funding will be available on terms acceptable to us, or at all.

We believe funds generated from our expected results of operations, as well as available cash and investments, will be sufficient to finance our operations and strategic initiatives for 2015 and the foreseeable future. From time to time, our board of directors considers repurchases of our common stock. Further repurchases of our common stock will take place on the open market, will be financed with available cash and are subject to authorization as well as market and business conditions.

Contractual Obligations

The following table outlines our future contractual financial obligations by period in which payment is expected, as of December 31, 2014 (dollars in thousands):

	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	More than 5 Years
Non-cancelable operating leases	$ 4,022	$ 560	$ 1,174	$ 1,039	$ 1,249
Capital leases including interest	71	41	30	—	—
Open purchase orders	19,113	19,113	—	—	—
Total contractual obligations	$ 23,206	$ 19,714	$ 1,204	$ 1,039	$ 1,249

Open purchase orders in the above table primarily represent non-cancelable purchase orders with key vendors, which are included in this table due to the Company's strategic relationships with these vendors.

We are subject to U.S. Federal income tax as well as income taxes imposed by several states and foreign jurisdictions. As of December 31, 2014, we had $1.5 million of unrecognized tax benefits related to uncertain tax positions. The settlement period for our long-term income tax liabilities cannot be determined; however, the liabilities are not expected to significantly increase or decrease within the next 12 months.

Off Balance Sheet Arrangements

We have no off balance sheet arrangements as of December 31, 2014.

Critical Accounting Estimates

We have identified the following accounting estimates as critical to our business operations and the understanding of our results of operations. The preparation of this Annual Report on Form 10-K 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 consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. While we don't believe that a change in these estimates is reasonably likely, there can be no assurance that our actual results will not differ from these estimates. The effect of these estimates on our business operations is discussed below.

Product Warranties

The Company warranties its CEWs, AXON cameras and E-Docks from manufacturing defects on a limited basis for a period of one year after purchase and, thereafter, will replace any defective unit for a fee. Estimated costs for our standard warranty are charged to cost of products sold and services delivered when revenue is recorded for the related product. We estimate future warranty costs based on historical data related to returns and warranty costs on a quarterly basis and apply this rate to current product anticipated returns from our customers. 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. The accrued warranty liability is reviewed quarterly to evaluate whether it sufficiently reflects the remaining warranty obligations based on the anticipated expenditures over the balance of the warranty obligation period, and adjustments are made when actual warranty claim experience differs from estimates. As of December 31, 2014 and 2013, our reserve for warranty returns was approximately $0.7 million and $1.0 million, respectively. Warranty expense in the years ended December 31, 2014, 2013 and 2012 was $0.4 million, $1.0 million and $0.5 million, respectively.

Revenue related to separately-priced extended warranties is recorded as deferred revenue at its contractual amount and subsequently recognized in net sales on a straight-line basis over the delivery period. Costs related to extended warranties are charged to cost of products sold and services delivered when incurred.

Inventory

Inventories are stated at the lower of cost or market, with cost determined using the weighted average cost of raw materials, which approximates the first-in, first-out ("FIFO") method, and an allocation of manufacturing labor and overhead costs. The allocation of manufacturing labor and overhead costs includes management's judgments of what constitutes normal capacity of our production facilities and a determination of what costs are considered to be abnormal fixed production costs, which are expensed as current period charges. Provisions are made to reduce potentially excess, obsolete or slow-moving inventories to their net realizable value. These provisions are based on our best estimates after considering historical demand, projected future demand, inventory purchase commitments, industry and market trends and conditions and other factors. Our reserve for excess and obsolete inventory increased to $1.4 million at December 31, 2014, compared to $1.0 million at December 31, 2013. This increase is attributable primarily to a reserve taken for X26 CEW inventory which ended production during the year ended December 31, 2014. The Company also accrued approximately $1.1 million of inventory losses related to products it may not be able to use in production of certain AXON camera products. In the event that actual excess, obsolete or slow-moving inventories differ from these estimates, changes to inventory reserves may be necessary.

Revenue Recognition, Deferred Revenue and Accounts and Notes Receivable

We derive our revenue from two primary sources: (1) the sale of physical products, including our CEWs, AXON cameras, E-Docks, corresponding hardware extended warranties, and related accessories such as cartridges and batteries, and (2) subscription to our EVIDENCE.com digital evidence management SaaS (including data storage fees and other ancillary services), which includes varying levels of support. To a lesser extent, we also recognize training and other revenue. Revenue is recognized when persuasive 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. Extended warranty revenue, SaaS revenue and related data storage revenue are recognized ratably over the term of the contract beginning on the commencement date of each contract.

Revenue arrangements with multiple deliverables are divided into separate units and revenue is allocated using the relative selling price method based upon vendor-specific objective evidence of selling price or third-party evidence of the selling prices if vendor-specific objective evidence of selling prices does not exist. If neither vendor-specific objective evidence nor third-party evidence exists, management uses its best estimate of selling price.

EVIDENCE.com, AXON cameras and E-docks are sometimes sold separately, but in most instances are sold together. In these instances, customers typically purchase and pay for the equipment and one year of EVIDENCE.com in advance. Additional years of service are generally billed annually over a specified service term, which has typically ranged from one to five years. AXON equipment represents a deliverable that is provided to the customer at the time of sale, while EVIDENCE.com services are provided over the specified term of the contract. The Company recognizes revenue for the AXON equipment at the time of the sale consistent with the discussion of multiple deliverable arrangements above. Revenue for EVIDENCE.com is deferred at the time of the sale and recognized over the service period. In certain circumstances, not all requirements are met for the recognition of revenue relative to equipment sold in conjunction with EVIDENCE.com at the time the equipment is provided to customers. In such circumstances, based on limitations associated with the allocation of arrangement consideration, part of the revenue may be recognized ratably over the specified term of the contract, or when all conditions for revenue recognition are met, if sooner.

Deferred revenue consists of payments received in advance related to products and services for which the criteria for revenue recognition have not yet been met. Deferred revenue that will be recognized during the succeeding twelve month period is recorded as current deferred revenue and the remaining portion is recorded as long-term. Deferred revenue does not include future revenue from multi-year contracts for which no invoice has yet been created. We generally bill customers in annual installments.

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 and notes receivable are presented net of an allowance for doubtful accounts. This allowance represents our best estimate and is based on our judgment after considering a number of factors including third-party credit reports, actual payment history, customer-specific financial information and broader market and economic trends and conditions. In the event that actual uncollectible amounts differ from our estimates, additional expense could be necessary.

Valuation of Goodwill, Intangibles and Long-lived Assets

In the fourth quarter of 2013, we recorded goodwill related to the Familiar business acquisition. The recoverability of the goodwill is evaluated and tested for impairment at least annually during the fourth quarter or more often, if and when circumstances indicate that goodwill may not be recoverable. Finite-lived intangible assets and other long-lived assets are amortized over their useful lives. We evaluate whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets and intangible assets may warrant revision or that the remaining balance of these assets, including intangible assets with indefinite lives, may not be recoverable.

Circumstances that might indicate long-lived assets might not be recoverable could include, but are not limited to, a change in the product mix, a change in the way products are created, produced or delivered, or a significant change in the way our products are branded and marketed. When performing a review for recoverability, we estimate the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The amount of the impairment loss, if impairment exists, is calculated based on the excess of the carrying amounts of the assets over their estimated fair value computed using discounted cash flows. No impairment losses were recorded in 2014, 2013 or 2012.

Income Taxes

We recognize federal, state and foreign current tax liabilities or assets based on our estimate of taxes payable or refundable in the current fiscal year by tax jurisdiction. We also recognize federal, state and foreign deferred tax assets or liabilities, as appropriate, for our estimate of future tax effects attributable to temporary differences and carry forwards.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Management must also assess whether uncertain tax positions as filed could result in the recognition of a liability for possible interest and penalties if any. We have completed research and development tax credit studies which identified approximately $10.4 million in tax credits for federal, Arizona and California income tax purposes related to the 2003 through 2014 tax years, net of the federal benefit on the Arizona and California research and development tax credits. Management determined that it was more likely than not that the full benefit of the research and development tax credit would not be sustained on examination and accordingly, has established a liability for unrecognized tax benefits of $3.1 million as of December 31, 2014. In addition, we established a $0.2 million liability related to uncertain tax positions for certain state income tax liabilities, for a total unrecognized tax benefit at December 31, 2014 of $3.3 million. As of December 31, 2014, management expects the amount of the unrecognized tax benefit liability to decrease within the next 12 months due to completion of the current ongoing IRS examination for the year ended December 31, 2012. Should the unrecognized tax benefit of $3.3 million be recognized, the Company's effective tax rate would be favorably impacted. Our estimates are based on the information available to us at the time we prepare the income tax provisions. Our income tax returns are subject to audit by federal, state, and local governments, generally years after the returns are filed. These returns could be subject to material adjustments or differing interpretations of the tax laws.

Our calculation of current and deferred tax assets and liabilities is based on certain estimates and judgments and involves dealing with uncertainties in the application of complex tax laws. Our estimates of current and deferred tax assets and liabilities may change based, in part, on added certainty or finality to an anticipated outcome, changes in accounting or tax laws in the U.S. and overseas, or changes in other facts or circumstances. In addition, we recognize liabilities for potential U.S. tax contingencies based on our estimate of whether, and the extent to which, additional taxes may be due. If we determine that payment of these amounts is unnecessary, or if the recorded tax liability is less than our current assessment, we may be required to recognize an income tax benefit, or additional income tax expense, respectively, in our consolidated financial statements.

In preparing our consolidated financial statements, management assesses the likelihood that our deferred tax assets will be realized from future taxable income. In evaluating our ability to recover our deferred income tax assets, management considers all available positive and negative evidence, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis. A valuation allowance is established if we determine that it is more likely than not that some portion or all of the net deferred tax assets will not be realized.

Although management believes that its tax estimates are reasonable, the ultimate tax determination involves significant judgments that could become subject to audit by tax authorities in the ordinary course of business. As of December 31, 2014, the Company would need to generate approximately $42.3 million of pre-tax book income in order to realize the net deferred tax assets for which a benefit has been recorded. This estimate considers the reversal of approximately $5.1 million of gross deferred tax liabilities, $1.9 million tax-effected. We also have state NOLs of $1.3 million, which produce deferred tax assets of $114,000, which expire at various dates between 2016 and 2031. We anticipate the Company's future income to continue to trend upward from our 2014 results, with sufficient pre-tax book income to realize a large portion of our deferred tax assets. However, based on specific income projections in years in which certain tax assets are set to expire, a reserve of approximately $0.5 million has been recorded as a valuation allowance against deferred tax assets as of December 31, 2014.

Stock-Based Compensation

We have historically granted stock-based compensation to key employees and non-employee directors as a means of attracting and retaining quality personnel. We have utilized restricted stock units and stock options; however, no stock options were issued during 2014, 2013 or 2012. The fair value of restricted stock units is estimated as the closing price of our common stock on the date of grant. We estimate the fair value of granted stock options by using the Black-Scholes-Merton option pricing model, which requires the input of highly subjective assumptions. These assumptions include estimating the length of time employees will retain their stock options before exercising them (expected term), the estimated volatility of our common stock price over the expected term and the number of options that will ultimately not vest (forfeitures). The expense for both restricted stock units and stock options is recorded over the life of the grant, net of forfeitures.

We have granted a total of approximately 1.6 million performance-based awards (options and restricted stock units) of which approximately 0.5 million are outstanding as of December 31, 2014, the vesting of which is contingent upon the achievement of certain performance criteria including the successful development and market acceptance of future product introductions as well as our future sales targets and operating performance. These awards will vest and compensation expense will be recognized based on management's best estimate of the probability of the performance criteria being satisfied using the most currently available projections of future product adoption and operating performance, adjusted at each balance sheet date. Changes in the subjective and probability-based assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amount recognized in our statements of operations. Refer to Note 1(q) to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further discussion of our valuation assumptions.

Contingencies and Accrued Litigation Expense

We are subject to the possibility of various loss contingencies including product-related litigation, arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required. Refer to Note 9(c) of our consolidated financial statements included elsewhere in this annual report on Form 10-K for further discussion of our contingencies and accrued litigation expense.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

We typically invest in a limited number of financial instruments, consisting principally of investments in money market accounts, certificates of deposit and corporate and municipal bonds with a typical long-term debt rating of "AA" or better by any nationally recognized statistical rating organization, denominated in U.S. dollars. All of our cash equivalents and investments are treated as "held-to-maturity." Investments in fixed-rate interest-earning instruments carry a degree of interest rate risk as their market value may be adversely impacted due to a rise in interest rates. As a result, we may suffer losses in principal if we sell securities that have declined in market value due to changes in interest rates. However, because we classify our debt securities as "held-to-maturity" based on our intent and ability to hold these instruments to maturity, no gains or losses are recognized due to changes in interest rates. These securities are reported at amortized cost. As of December 31, 2014, we estimate that a 10 basis point increase or decrease in interest rates would result in a change in the fair market value of these instruments of less than $0.1 million and would result in a change in annual interest income of less than $0.1 million.

Additionally, we have access to a line of credit borrowing facility which bears interest at varying rates, currently at LIBOR plus 1.5% or Prime less 0.75%. Under the terms of the line of credit, available borrowings are reduced by outstanding letters of credit, which totaled $0.4 million at December 31, 2014. At December 31, 2014, there was no amount outstanding under the line of credit and the available borrowing under the line of credit was $9.6 million. We have not borrowed any funds under the line of credit since its inception; however; should we need to do so in the future, such borrowings could be subject to adverse or favorable changes in the underlying interest rate.

Exchange Rate Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro related to transactions by TASER Europe. To date, we have not engaged in any currency hedging activities, although we may do so in the future. Fluctuations in currency exchange rates could harm our business in the future.

The majority of our sales to international customers are transacted in U.S. dollars and therefore, are not subject to exchange rate fluctuations on these transactions. However, the cost of our products to our customers increases when the U.S. dollar strengthens against their local currency and the Company may have more sales and expenses denominated in foreign currencies in 2015 which would increase its foreign exchange rate risk.

Item 8. *Financial Statements and Supplementary Data*

Index to Consolidated Financial Statements

TASER INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 48,367	$ 42,271
Short-term investments	32,774	9,101
Accounts and notes receivable, net of allowance of $251 and 200 as of December 31, 2014 and 2013, respectively	30,735	22,488
Inventory, net	18,323	11,109
Prepaid expenses and other current assets	4,443	5,397
Deferred income tax assets, net	5,186	7,101
Total current assets	139,828	97,467
Property and equipment, net	17,523	19,043
Deferred income tax assets, net	10,877	13,679
Intangible assets, net	3,115	3,317
Goodwill, net	2,206	2,235
Long-term investments	9,296	12,023
Other assets	2,523	618
Total assets	$ 185,368	$ 148,382
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,682	$ 6,221
Accrued liabilities	9,245	8,840
Current portion of deferred revenue	14,020	6,878
Customer deposits	988	1,154
Current portion of capital lease	38	36
Total current liabilities	31,973	23,129
Deferred revenue, net of current portion	21,668	13,341
Liability for unrecognized tax benefits	1,471	3,122
Long-term deferred compensation	1,121	376
Long-term portion of capital lease payable	29	67
Total liabilities	56,262	40,035
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, $0.00001 par value; 25,000,000 shares authorized; no shares issued and outstanding as of December 31, 2014 and 2013	—	—
Common stock, $0.00001 par value; 200,000,000 shares authorized; 53,000,867 and 52,725,247 shares issued and outstanding as of December 31, 2014 and 2013, respectively	1	1
Additional paid-in capital	162,641	139,424
Treasury stock at cost, 18,139,958 and 16,412,755 shares as of December 31, 2014 and 2013, respectively	(114,645)	(92,203)
Retained earnings	81,045	61,127
Accumulated other comprehensive income (loss)	64	(2)
Total stockholders' equity	129,106	108,347
Total liabilities and stockholders' equity	$ 185,368	$ 148,382

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

TASER INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(in thousands, except per share data)

	For the Years Ended December 31,		
	2014	2013	2012
Net sales	$ 164,525	$ 137,831	$ 114,753
Cost of products sold and services delivered	62,977	51,988	47,038
Gross margin	101,548	85,843	67,715
Operating expenses:			
Sales, general and administrative	54,158	46,557	39,247
Research and development	14,885	9,888	8,139
Litigation judgments (recoveries)	—	1,450	(2,200)
Total operating expenses	69,043	57,895	45,186
Income from operations	32,505	27,948	22,529
Interest and other (expense) income, net	(194)	86	83
Income before provision for income taxes	32,311	28,034	22,612
Provision for income taxes	12,393	9,790	7,874
Net income	$ 19,918	$ 18,244	$ 14,738
Net income per common and common equivalent shares:			
Basic	$ 0.38	$ 0.35	$ 0.27
Diluted	$ 0.37	$ 0.34	$ 0.27
Weighted average number of common and common equivalent shares outstanding:			
Basic	52,948	51,880	53,827
Diluted	54,500	54,152	54,723

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2014	2013	2012
Net income	$ 19,918	$ 18,244	$ 14,738
Foreign currency translation adjustments	66	55	24
Comprehensive income	$ 19,984	$ 18,299	$ 14,762

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

TASER INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance, December 31, 2011	55,696,608	$ 1	$ 101,597	9,556,183	$ (47,207)	$ (81)	$ 28,145	$ 82,455
Stock options exercised and RSUs vested	881,390	—	1,929	—	—	—	—	1,929
Stock-based compensation	—	—	3,422	—	—	—	—	3,422
Excess tax benefit from stock-based compensation	—	—	4,713	—	—	—	—	4,713
Purchase of treasury stock	(3,807,606)	—	—	3,807,606	(19,996)	—	—	(19,996)
Net income	—	—	—	—	—	—	14,738	14,738
Foreign currency translation adjustments	—	—	—	—	—	24	—	24
Balance, December 31, 2012	52,770,392	1	111,661	13,363,789	(67,203)	(57)	42,883	87,285
Stock options exercised and RSUs vested, net of withholdings	2,896,072	—	15,048	—	—	—	—	15,048
Stock-based compensation	—	—	4,340	—	—	—	—	4,340
Excess tax benefit from stock-based compensation	—	—	6,797	—	—	—	—	6,797
Purchase of treasury stock	(3,048,966)	—	—	3,048,966	(25,000)	—	—	(25,000)
Shares issued related to business acquisition	107,749	—	1,578	—	—	—	—	1,578
Net income	—	—	—	—	—	—	18,244	18,244
Foreign currency translation adjustments	—	—	—	—	—	55	—	55
Balance, December 31, 2013	52,725,247	1	139,424	16,412,755	(92,203)	(2)	61,127	108,347
Stock options exercised and RSUs vested, net of withholdings	2,002,823	—	9,653	—	—	—	—	9,653
Stock-based compensation	—	—	5,579	—	—	—	—	5,579
Excess tax benefit from stock-based compensation	—	—	7,985	—	—	—	—	7,985
Purchase of treasury stock	(1,727,203)	—	—	1,727,203	(22,442)	—	—	(22,442)
Net income	—	—	—	—	—	—	19,918	19,918
Foreign currency translation adjustments	—	—	—	—	—	66	—	66
Balance, December 31, 2014	53,000,867	$ 1	$ 162,641	18,139,958	$ (114,645)	$ 64	$ 81,045	$ 129,106

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

TASER INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income	$ 19,918	$ 18,244	$ 14,738
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,317	5,131	6,519
Loss (gain) on write-down / disposal of property and equipment, net	17	(27)	161
Loss on disposal of intangibles	215	168	195
Bond premium amortization	957	289	29
Provision (recovery) for doubtful accounts	142	24	(242)
Provision for excess and obsolete inventory	2,157	595	554
Provision for warranty	396	1,001	527
Stock-based compensation	5,579	4,340	3,422
Deferred income taxes	3,598	621	1,683
Unrecognized tax benefits	202	219	920
Excess tax benefit from stock-based compensation	(7,985)	(6,797)	(4,713)
Change in assets and liabilities:			
Accounts and notes receivable	(8,389)	(4,411)	(6,080)
Inventory	(9,371)	(711)	(62)
Prepaid expenses and other current assets	(1,080)	(569)	177
Accounts payable, accrued and other liabilities	9,456	5,559	4,433
Deferred revenue	15,469	8,096	4,169
Customer deposits	(166)	654	87
Net cash provided by operating activities	35,432	32,426	26,517
Cash flows from investing activities:			
Purchases of investments	(32,900)	(29,112)	(6,242)
Proceeds from call / maturity of investments	10,997	9,380	9,640
Purchases of property and equipment	(2,505)	(1,783)	(1,334)
Proceeds from disposal of fixed assets	10	34	46
Purchases of intangible assets	(183)	(323)	(429)
Business acquisition, net of cash acquired	—	(1,258)	—
Net cash (used in) provided by investing activities	(24,581)	(23,062)	1,681
Cash flows from financing activities:			
Repurchase of common stock	(22,442)	(25,000)	(19,996)
Proceeds from options exercised	11,000	15,357	1,929
Payroll tax payments for net-settled stock awards	(1,347)	(309)	—
Payments on capital lease obligation	(36)	(34)	(9)
Excess tax benefit from stock-based compensation	7,985	6,797	4,713
Net cash used in financing activities	(4,840)	(3,189)	(13,363)
Effect of exchange rate changes on cash and cash equivalents	85	(31)	(9)
Net increase in cash and cash equivalents	6,096	6,144	14,826
Cash and cash equivalents, beginning of year	42,271	36,127	21,301
Cash and cash equivalents, end of year	$ 48,367	$ 42,271	$ 36,127

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

1. Organization and Summary of Significant Accounting Policies

TASER International, Inc. ("TASER" or the "Company") is a developer and manufacturer of advanced conducted electrical weapons ("CEWs") designed for use for use by law enforcement, military, corrections, and private security personnel and by private individuals for personal defense. In addition, the Company has developed full technology solutions for the capture, storage and management of video/audio evidence as well as other tactical capabilities for use in law enforcement. The Company sells its products worldwide through its direct sales force, distribution partners, online store and third-party resellers. The Company was incorporated in Arizona in September 1993, and reincorporated in Delaware in January 2001. The Company's corporate headquarters and manufacturing facilities are located in Scottsdale, Arizona. The Company's software development unit facility is located in Seattle, Washington.

The accompanying consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, including TASER International Europe SE ("TASER Europe"). TASER Europe was established in 2009 to facilitate sales and provide customer service to our customers in the European region. All material intercompany accounts, transactions, and profits have been eliminated.

In 2014, the Company established TASER International, B.V. located in Amsterdam, the Netherlands, that will serve as its international headquarters. No transactions were recorded within TASER International, B.V. during the year ended December 31, 2014.

a. Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the U.S. of America ("U.S. GAAP"). The preparation of these consolidated financial statements 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions in these consolidated financial statements include:

- product warranty reserves,
- inventory valuation reserves,
- revenue recognition allocated in multiple-deliverable contracts or arrangements,
- valuation of goodwill, intangibles and long-lived assets,
- recognition, measurement and valuation of current and deferred income taxes,
- fair value of stock awards issued, the estimated vesting period for performance-based stock awards and forfeiture rates, and
- recognition and measurement of contingencies and accrued litigation expense.

Actual results could differ materially from those estimates.

b. Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments include cash, money market funds, certificates of deposit, state and municipal obligations and corporate bonds. The Company places its cash and cash equivalents with high quality financial institutions. Balances with these institutions regularly exceed FDIC insured limits; however, to manage the related credit exposure, the Company continually monitors the creditworthiness of the financial institutions where it has deposits.

Cash and cash equivalents include funds on hand and highly liquid investments purchased with initial maturity of three months or less. Short-term investments include securities with an expected maturity date within one year of the balance sheet date that do not meet the definition of a cash equivalent, and long-term investments are securities with an expected maturity date greater than one year. Based on management's intent and ability, the Company's investments are classified as held to maturity investments and are recorded at amortized cost. Held-to-maturity investments are reviewed quarterly for impairment to determine if other-than-temporary declines in the carrying value have occurred for any individual investment. Other-than-temporary declines in the value of held-to-maturity investments are recorded as expense in the period the determination is made.

c. Inventory

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average cost of raw materials which approximates the first-in, first-out ("FIFO") method and includes allocations of manufacturing labor and overhead. Provisions are made to reduce potentially excess, obsolete or slow-moving inventories to their net realizable value. These provisions are based on management's best estimate after considering historical demand, projected future demand, inventory purchase commitments, industry and market trends and conditions and other factors. Management evaluates inventory costs for abnormal costs due to excess production capacity and treats such costs as period costs.

d. Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. 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.

e. Software Development Costs

The Company expenses software development costs, including costs to develop software products or the software component of products to be marketed to external users, before technological feasibility of such products is reached. The Company has determined that technological feasibility is reached shortly before the release of those products and as a result, the development costs incurred after the establishment of technological feasibility and before the release of those products are not material.

Software development costs also include costs to develop software programs to be used solely to meet the Company's internal needs and cloud based applications used to deliver its services. The Company capitalizes development costs related to these software applications once the preliminary project stage is complete and it is probable that the project will be completed and the software will be used to perform the intended function. Additionally, the Company capitalizes qualifying costs incurred for upgrades and enhancements to existing software that result in additional functionality. Costs related to preliminary project planning activities, post-implementation activities, maintenance and minor modifications are expensed as incurred. Internal-use software is amortized on a straight line basis over its estimated useful life. There were no software development costs capitalized for the years ending December 31, 2014, 2013 or 2012. The capitalized development costs related to the Company's software-as-a-service ("SaaS") product, EVIDENCE.com, were fully amortized as of December 31, 2013. Amortization of capitalized software development costs was $0.6 million and $1.2 million for the years ended December 31, 2013 and 2012, respectively.

Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

f. Valuation of Goodwill, Intangibles and Long-lived Assets

In the fourth quarter of 2013, the Company recorded goodwill related to the acquisition of Familiar, Inc. ("Familiar"). The recoverability of goodwill is evaluated and tested for impairment at least annually during the fourth quarter or more often, if and when circumstances indicate that goodwill may not be recoverable. Finite-lived intangible assets and other long-lived assets are amortized over their useful lives. Management evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets and intangible assets may warrant revision or that the remaining balance of these assets, including intangible assets with indefinite lives, may not be recoverable.

Circumstances that might indicate long-lived assets might not be recoverable could include, but are not limited to, a change in the product mix, a change in the way products are created, produced or delivered, or a significant change in the way the Company's products are branded and marketed. When performing a review for recoverability, management estimates the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. The amount of the impairment loss, if impairment exists, is calculated based on the excess of the carrying amounts of the assets over their estimated fair value computed using discounted cash flows. No impairment losses were recorded during the years ended December 31, 2014, 2013 and 2012.

g. Customer Deposits

The Company requires deposits in advance of shipment for certain customer sales orders. Customer deposits are recorded as a current liability in the accompanying consolidated balance sheets.

h. Revenue Recognition, Deferred Revenue and Accounts and Notes Receivable

The Company derives revenue from two primary sources: (1) the sale of physical products, including our CEWs, AXON cameras, corresponding extended warranties, and related accessories such as cartridges and batteries, and (2) subscription to the Company's EVIDENCE.com SaaS (including data storage fees and other ancillary services), which includes varying levels of support. To a lesser extent, the Company also recognizes training and other revenue. Revenue is recognized when persuasive 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. Extended warranty revenue, SaaS revenue and related data storage revenue are recognized ratably over the term of the contract beginning on the commencement date of each contract.

Revenue arrangements with multiple deliverables are divided into separate units and revenue is allocated using the relative selling price method based upon vendor-specific objective evidence of selling price or third-party evidence of the selling prices if vendor-specific objective evidence of selling prices does not exist. If neither vendor-specific objective evidence nor third-party evidence exists, management uses its best estimate of selling price.

The Company offers the right to purchase extended warranties that include additional services and coverage beyond the limited warranty for certain products. Revenue for extended warranty purchases is deferred at the time of sale and recognized over the warranty period commencing on the date of sale. Extended warranties range from one to five years.

EVIDENCE.com and AXON cameras are sometimes sold separately, but in most instances are sold together. In these instances, customers typically purchase and pay for the equipment and one year of EVIDENCE.com in advance. Additional years of service are generally billed annually over a specified service term, which has typically ranged from one to five years. AXON equipment has stand-alone value and represents a deliverable that is provided to the customer at the time of sale, while EVIDENCE.com services are provided over the specified term of the contract. The Company recognizes revenue for the AXON equipment at the time of the sale consistent with the discussion of multiple deliverable arrangements above. Revenue for EVIDENCE.com is deferred at the time of the sale and recognized over the service period. In certain circumstances, not all requirements are met for the recognition of revenue relative to equipment sold in conjunction with EVIDENCE.com at the time the equipment is provided to customers. In such circumstances, based on limitations associated with the allocation of arrangement consideration, part of the revenue may be recognized ratably over the specified term of the contract, or when all conditions for revenue recognition are met, if sooner.

In 2012, the Company introduced a program, the TASER Assurance Program ("TAP") whereby a customer purchasing a product and joining the program will have the right to trade-in the original product for a new product of the same or like model in the future. Upon joining TAP, customers also receive an extended warranty for the initial products purchased and spare inventory. Under this program the customer generally pays additional annual installments over the contract period, generally three to five years. The Company records consideration received related to the future product purchase as deferred revenue until all revenue recognition criteria are met, which is generally at the end of the contract period.

Sales tax collected on sales is netted against government remittances and thus, recorded on a net basis. Training revenue is recorded as the service is provided.

Deferred revenue consists of payments received in advance related to products and services for which the criteria for revenue recognition have not yet been met. Deferred revenue that will be recognized during the succeeding twelve month period is recorded as current deferred revenue and the remaining portion is recorded as long-term. Deferred revenue does not include future revenue from multi-year contracts for which no invoice has yet been created. Generally, customers are billed in annual installments. See Note 7 for further disclosures about of the Company's deferred revenue.

Sales are typically made on credit and the Company generally does not require collateral. Management performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for estimated potential losses. Uncollectible accounts are charged to expense when deemed uncollectible, and accounts and notes receivable are presented net of an allowance for doubtful accounts. This allowance represents management's best estimate and is based on their judgment after considering a number of factors, including third-party credit reports, actual payment history, cash discounts, customer-specific financial information and broader market and economic trends and conditions.

The Company may, from time to time, enter into agreements with its customers to finance their purchases with a note receivable that may range in terms up to five years. Sales are recorded at the fair value of the note, which is generally sold and assigned to a third-party financing company. The terms of the assignments are such that the Company expects to receive payment within 30 days of the original sale. The assignments are non-recourse and the Company has no obligations or continuing involvement with the notes receivable. Prior to entering into an assignment, the Company evaluates the credit quality and financial condition of the third-party financing company. The Company does not generally record interest income on notes receivable due to minimal holding periods, nor has the Company recognized gains or losses upon the assignment of the notes. As of December 31, 2014 and 2013, there was no balance in accounts and notes receivable related to such arrangements.

i. Cost of Products Sold and Services Provided

Cost of products sold represents manufacturing costs, consisting of 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. Cost of services delivered includes third party cloud services, and software maintenance costs, including personnel costs, associated with supporting EVIDENCE.com.

j. Advertising Costs

The Company expenses advertising costs in the period in which they are incurred. The Company incurred advertising costs of $0.3 million, $0.2 million and $0.2 million in the years ended December 31, 2014, 2013 and 2012, respectively. Advertising costs are included in sales, general and administrative expenses in the accompanying statements of operations.

k. Standard Warranties

The Company warranties its CEWs, AXON cameras and E-Docks from manufacturing defects on a limited basis for a period of one year after purchase and, thereafter, will replace any defective unit for a fee. Estimated costs for the standard warranty are charged to cost of products sold and services delivered when revenue is recorded for the related product. Future warranty costs are estimated based on historical data related to returns and warranty costs on a quarterly basis and this rate is applied to current product sales. Historically, reserve amounts have been increased if management becomes aware of a component failure that could result in larger than anticipated returns from customers. The accrued warranty liability expense is reviewed quarterly to verify that it sufficiently reflects the remaining warranty obligations based on the anticipated expenditures over the balance of the warranty obligation period, and adjustments are made when actual warranty claim experience differs from estimates. Costs related to extended warranties are charged to cost of products sold and services delivered when incurred. The reserve for warranty returns is included in accrued liabilities on the accompanying consolidated balance sheets.

Changes in the Company's estimated product warranty liabilities are as follows (in thousands):

	2014	2013	2012
Balance, January 1	$ 955	$ 484	$ 427
Utilization of accrual	(676)	(530)	(470)
Warranty expense	396	1,001	527
Balance, December 31	$ 675	$ 955	$ 484

l. Research and Development Expenses

The Company expenses as incurred research and development costs that do not meet the qualifications to be capitalized. The Company incurred research and development expense of $14.9 million, $9.9 million and $8.1 million, in 2014, 2013 and 2012, respectively.

m. Income Taxes

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 amounts of 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. Deferred tax assets are reduced through the establishment of a valuation allowance if, based upon available evidence, it is determined that it is more likely than not that the deferred tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. Management also assesses whether uncertain tax positions, as filed, could result in the recognition of a liability for possible interest and penalties. The Company's policy is to include interest and penalties related to unrecognized tax benefits as a component of income tax expense. Refer to Note 10 for additional information regarding the change in unrecognized tax benefits.

n. Concentration of Credit Risk and Major Customers / Suppliers

Financial instruments that potentially subject the Company to concentrations of credit risk consist of accounts and notes receivable and cash. Sales are typically made on credit and the Company generally does not require collateral. Management performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for estimated losses. Uncollectible accounts are written off when deemed uncollectible, and accounts receivable are presented net of an allowance for doubtful accounts, which totaled $0.3 million and $0.2 million as of December 31, 2014 and 2013, respectively. Historically, the Company has experienced a low level of write-offs related to doubtful accounts.

The Company maintains the majority of its cash and cash equivalents accounts at three depository institutions. As of December 31, 2014, the aggregate balances in such accounts were $48.4 million. The Company's cash balances with these institutions regularly exceed FDIC insured limits; however, to manage the related credit exposure, management continually monitors the creditworthiness of the financial institutions where the Company has deposits.

The Company sells its products primarily through a network of unaffiliated distributors. The Company also reserves the right to sell directly to the end user to secure the customer's account. In 2014, no customer represented more than 10% of total net sales. In 2013 and 2012 one distributor represented 12.2% and 12.8%, respectively, of total net sales with no other customers exceeding 10%.

At December 31, 2014, the Company had a trade receivable from one unaffiliated customer comprising 13.4% of the aggregate accounts receivable balance. At December 31, 2013, the Company had a trade receivable from one unaffiliated customer comprising 17.4% of the aggregate accounts receivable balance.

The Company currently purchases finished circuit boards and injection-molded plastic components from suppliers located in the U.S. Although the Company currently obtains many of these components from single source suppliers, the Company owns the injection molded component tooling used in their production. As a result, management believes it could obtain alternative suppliers in most cases without incurring significant production delays. The Company also purchases small, machined parts from a vendor in Taiwan, custom cartridge assemblies from a proprietary vendor in the U.S., and electronic components from a variety of foreign and domestic distributors. Management believes that there are readily available alternative suppliers in most cases who can consistently meet the Company's needs for these components. The Company acquires most of its components on a purchase order basis and does not have long-term contracts with suppliers.

o. Fair Value of Financial Instruments

The Company uses the fair value framework that prioritizes the inputs to valuation techniques for measuring financial assets and liabilities measured on a recurring basis and for non-financial assets and liabilities when these items are re-measured. Fair value is considered to be the exchange price in an orderly transaction between market participants, to sell an asset or transfer a liability at the measurement date. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. The Company categorizes each of its fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – Valuation techniques in which all significant inputs are unadjusted quoted prices from active markets for assets or liabilities that are identical to the assets or liabilities being measured.
- Level 2 – Valuation techniques in which significant inputs include quoted prices from active markets for assets or liabilities that are similar to the assets or liabilities being measured and/or quoted prices for assets or liabilities that are identical or similar to the assets or liabilities being measured from markets that are not active. Also, model-derived valuations in which all significant inputs and significant value drivers are observable in active markets are Level 2 valuation techniques.

- Level 3 – Valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are valuation technique inputs that reflect the Company's own assumptions about inputs that market participants would use in pricing an asset or liability.

The Company has cash equivalents and investments, which at December 31, 2014 and 2013, were comprised of money market funds, state and municipal obligations, corporate bonds, and certificates of deposits. See additional disclosure regarding the fair value of the Company's cash equivalents and investments in Note 2. Included in the balance of other assets as of December 31, 2014 and 2013 was $1.1 million and $0.4 million, respectively, related to corporate-owned life insurance policies which are used to fund the Company's deferred compensation plan. The Company determines the fair value of its insurance contracts by obtaining the cash surrender value of the contracts from the issuer, a Level 2 valuation technique.

The Company's financial instruments also include accounts and notes receivable, accounts payable and accrued liabilities. Due to the short-term nature of these instruments, their fair values approximate their carrying values on the balance sheet.

p. Segment and Geographic Information

The Company is comprised of two reportable segments: the sale of CEWs, accessories and other products and services (the "TASER Weapons" segment); and the video business which includes the TASER Cam, AXON camera products and EVIDENCE.com (the "AXON" segment). Reportable segments are determined based on discrete financial information reviewed by the Company's Chief Executive Officer who is the Chief Operating Decision Maker (the "CODM") for the Company. The Company organizes and reviews operations based on products and services, and currently there are no operating segments that are aggregated. The Company performs an annual analysis of its reportable segments. Additional information related to the Company's business segments is summarized in Note 15.

For the three years ended December 31, 2014, 2013 and 2012, net sales by geographic area were as follows (in thousands):

	Year Ended December 31,					
	2014		2013		2012	
United States	$ 132,205	80.4%	$ 115,674	83.9%	$ 93,427	81.4%
Other Countries	32,320	19.6	22,157	16.1	21,326	18.6
Total	$ 164,525	100.0%	$ 137,831	100.0%	$ 114,753	100.0%

Sales to customers outside of the U.S. are typically denominated in U.S. dollars and are attributed to each country based on the shipping address of the distributor or customer. For the three years ended December 31, 2014, 2013 and 2012, no individual country outside the U.S. represented more than 10% of net sales. Substantially all of the Company's assets are located in the U.S.

q. Stock-Based Compensation

The Company calculates the fair value of stock options using the Black-Scholes-Merton option pricing valuation model, which incorporates various assumptions including volatility, expected life and risk-free interest rates. The fair value of restricted stock units is estimated as the closing price of our common stock on the date of grant. No options were awarded during the years ended December 31, 2014, 2013 or 2012.

The expected life of the options represents the estimated period of time from grant date until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. Expected stock price volatility is based on a combination of historical volatility of the Company's stock and the one-year implied volatility of its publicly traded options for the related vesting periods. The risk-free interest rate is based on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term. The Company has not paid dividends in the past and does not plan to pay any dividends in the near future.

The estimated fair value of stock-based compensation awards is amortized to expense on a straight-line basis over the requisite service periods. As stock-based compensation expense recognized is based on awards ultimately expected to vest, it is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company's forfeiture rate was calculated based on its historical experience of awards which ultimately vested. See Note 12 for further disclosure about of the Company's stock-based compensation.

r. Income per Common Share

Basic income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the periods presented. Diluted income per share reflects the potential dilution that would occur if outstanding stock options were exercised utilizing the treasury stock method. The calculation of the weighted average number of shares outstanding and earnings per share are as follows (in thousands except per share data):

	For the Year Ended December 31,		
	2014	2013	2012
Numerator for basic and diluted earnings per share:			
Net income	$ 19,918	$ 18,244	$ 14,738
Denominator:			
Weighted average shares outstanding—basic	52,948	51,880	53,827
Dilutive effect of stock-based awards	1,552	2,272	896
Diluted weighted average shares outstanding	54,500	54,152	54,723
Anti-dilutive stock-based awards excluded	177	507	3,205
Net income per common share:			
Basic	$ 0.38	$ 0.35	$ 0.27
Diluted	$ 0.37	$ 0.34	$ 0.27

s. Recently Issued Accounting Guidance

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" ("ASU 2014-12"). The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Accounting Standards Codification Topic No. 718, "Compensation—Stock Compensation" ("ASC 718"), as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in ASU 2014-12 either: (i) prospectively to all awards granted or modified after the effective date; or (ii) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company is currently evaluating the potential impact of the adoption of this guidance on its consolidated financial statements, however does not expect there to be a material impact at this time.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, ASU 2014-09 provides for the following steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification Topic No. 605, "Revenue Recognition," most industry-specific guidance throughout the industry topics of the Accounting Standards Codification, and some cost guidance related to construction-type and production-type contracts. ASU 2014-09 is effective for public entities for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company is currently evaluating the potential impact of the adoption of this guidance on its consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11 to standardize the balance sheet presentation of unrecognized tax benefits. This update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The new guidance was effective for fiscal years beginning after December 15, 2013. The adoption of this guidance resulted in an immaterial reclassification on the Company's consolidated balance sheet.

t. Foreign Currency Translation

The Company's foreign subsidiary uses the local currency as its functional currency. Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Income and expense accounts are translated at the average monthly exchange rates during the year. Resulting translation adjustments are recorded as a component of accumulated other comprehensive income (loss) on the consolidated balance sheets.

u. Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

2. Cash, Cash Equivalents and Investments

The following tables summarize the Company's cash, cash equivalents, and held-to-maturity investments at December 31 (in thousands):

	As of December 31, 2014						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash	$ 44,260	$ —	$ —	$ 44,260	$ 44,260	$ —	$ —
Level 1:							
Money market funds	3,932	—	—	3,932	3,932	—	—
Corporate bonds	20,388	—	(34)	20,354	—	15,656	4,732
Subtotal	24,320	—	(34)	24,286	3,932	15,656	4,732
Level 2:							
State and municipal obligations	19,145	18	—	19,163	175	15,891	3,079
Certificates of deposit	2,712	—	—	2,712	—	1,227	1,485
Subtotal	21,857	18	—	21,875	175	17,118	4,564
Total	$ 90,437	$ 18	$ (34)	$ 90,421	$ 48,367	$ 32,774	$ 9,296

	As of December 31, 2013						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Cash	$ 37,196	$ —	$ —	$ 37,196	$ 37,196	$ —	$ —
Level 1:							
Money market funds	5,030	—	—	5,030	5,030	—	—
Corporate bonds	7,743	3	(14)	7,732	—	1,102	6,641
Subtotal	12,773	3	(14)	12,762	5,030	1,102	6,641
Level 2:							
State and municipal obligations	10,807	14	—	10,821	45	5,626	5,136
Certificates of deposit	2,619	—	—	2,619	—	2,373	246
Subtotal	13,426	14	—	13,440	45	7,999	5,382
Total	$ 63,395	$ 17	$ (14)	$ 63,398	$ 42,271	$ 9,101	$ 12,023

The Company believes the unrealized losses on the Company's investments are due to interest rate fluctuations. As these investments are either short-term in nature, are expected to be redeemed at par value and/or because the Company has the ability and intent to hold these investments to maturity, the Company does not consider these investments to be other than temporarily impaired at December 31, 2014. None of Company's investments have been in an unrealized loss position for more than one year.

The following table summarizes the amortized cost and fair value of the short-term and long-term investments held by the Company at December 31, 2014 by contractual maturity (in thousands):

	Amortized Cost	Fair Value
Due in less than one year	$ 32,774	$ 33,773
Due after one year, through two years	9,048	9,032
Due after two years	248	248
Total short-term and long-term investments	$ 42,070	$ 43,053

3. Inventory

Inventories consisted of the following at December 31 (in thousands):

	2014	2013
Raw materials	$ 12,229	$ 7,376
Work-in-process	111	44
Finished goods	7,337	4,688
Reserve for excess and obsolete inventory	(1,354)	(999)
Total inventory	$ 18,323	$ 11,109

4. Property and Equipment

Property and equipment consisted of the following at December 31 (in thousands):

	Estimated Useful Life	2014	2013
Land	N/A	$ 2,900	$ 2,900
Building and leasehold improvements	39 years	14,302	13,922
Production equipment	3-7 years	18,443	18,047
Computer equipment	3-5 years	7,209	7,789
Furniture and office equipment	5-7 years	3,066	2,646
Vehicles	5 years	270	270
Website development costs	3 years	601	601
Capitalized software development costs	3 years	3,670	3,670
Construction-in-process	N/A	968	576
Total cost		51,429	50,421
Less: Accumulated depreciation		(33,906)	(31,378)
Property and equipment, net		$ 17,523	$ 19,043

During the years ended December 31, 2014, 2013 and 2012 the Company recognized a net (loss) gain of approximately $(17,000), $27,000 and $(0.2) million, respectively, for write-down and disposal of property and equipment.

Depreciation and amortization expense relative to property and equipment, including equipment under capital lease, was $4.0 million, $4.8 million and $6.3 million for the years ended December 31, 2014, 2013 and 2012, respectively, of which $2.8 million, $3.7 million and $4.7 million is included in cost of products sold and services provided for the respective years.

5. Goodwill and Intangible Assets

In the fourth quarter of 2013, the Company recorded goodwill related to the Familiar business acquisition. Goodwill is calculated as the excess of the purchase price over the fair value of the identifiable tangible and intangible assets. The balance of goodwill at December 31, 2014 and 2013 was $2.2 million.

Intangible assets (other than goodwill) consisted of the following (in thousands):

		December 31, 2014			December 31, 2013		
	Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:							
Domain names…………	5 years	$ 125	$ (114)	$ 11	$ 125	$ (102)	$ 23
Issued patents………….	4-15 years	1,759	(549)	1,210	1,529	(441)	1,088
Issued trademarks……..	9-11 years	566	(205)	361	437	(147)	290
Total amortized………...		2,450	(868)	1,582	2,091	(690)	1,401
Not amortized:							
TASER trademark……..		900		900	900		900
Patents and trademarks pending………………...		633		633	1,016		1,016
Total not amortized……		1,533		1,533	1,916		1,916
Total intangible assets…….		$ 3,983	$ (868)	$ 3,115	$ 4,007	$ (690)	$ 3,317

Amortization expense relative to intangible assets was $0.2 million, $0.2 million and $0.1 million for the years ended December 31, 2014, 2013 and 2012, respectively. Estimated amortization for intangible assets with definitive lives for the next five years is as follows for the year ended December 31 (in thousands):

2015……	$ 178
2016……	172
2017……	167
2018……	158
2019……	148
Thereafter……	759
Total……	$ 1,582

6. Other Long-Term Assets

Other long-term assets consisted primarily of approximately $1.1 million related to the cash surrender value of corporate-owned life insurance policies (see Note 1) and approximately $1.1 million of long-term prepaid commissions. The remaining balance includes amounts for long-term prepaid licenses and other deposits.

7. Deferred Revenue

Deferred revenue consisted of the following at December 31 (in thousands):

	Year Ended December 31,	
	2014	2013
Warranty	$ 21,973	$ 15,889
AXON services	9,286	4,026
Hardware equipment	4,252	304
Other	177	—
Total deferred revenue	35,688	20,219
Total current portion of deferred revenue	14,020	6,878
Total long-term portion of deferred revenue	$ 21,668	$ 13,341

The current portion of deferred revenue consists primarily of approximately $5.7 million related to AXON related services, $7.3 million related to warranties and $0.9 million related to deferred hardware. For more information relating to the Company's revenue recognition policies please refer to Note 1(h).

8. Accrued Liabilities

Accrued liabilities consisted of the following at December 31 (in thousands):

	2014	2013
Accrued salaries and benefits	$ 3,699	$ 2,328
Accrued judgments and settlements	202	3,350
Accrued professional fees	257	286
Accrued warranty expense	675	955
Accrued income and other taxes	539	437
Other accrued expenses	3,873	1,484
Accrued liabilities	$ 9,245	$ 8,840

9. Commitments and Contingencies

a. Operating and capital lease obligations

The Company has entered into operating leases for various office space, storage facilities and equipment. Rent expense under all operating leases, including both cancelable and non-cancelable leases, was $0.9 million, $0.8 million and $0.9 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Included in property and equipment in the consolidated balance sheet as of December 31, 2014, is approximately $61,000 of office equipment the Company acquired under a capital lease during 2012. The leased equipment has an original cost of approximately $147,000 and associated accumulated amortization of approximately $86,000 as of December 31, 2014. The Company's capital lease obligation as of December 31, 2014, was approximately $67,000 and bears an interest rate of 6.2%.

Future minimum lease payments under non-cancelable leases at December 31, 2014, are as follows (in thousands):

	Operating	Capital
2015	$ 560	$ 41
2016	583	30
2017	591	—
2018	590	—
2019	449	—
Thereafter	1,249	—
Total minimum lease payments	$ 4,022	71
Less: Amount representing interest		(4)
Capital lease obligation		$ 67

b. Purchase commitments

The Company routinely enters into cancelable purchase orders with many of its key vendors. Based on the strategic relationships with many of these vendors, the Company's ability to cancel these purchase orders and maintain a favorable relationship would be limited. As of December 31, 2014, the Company has $19.1 million of open purchase orders.

c. Litigation

Product Litigation

The Company is currently named as a defendant in 12 lawsuits in which the plaintiffs allege either wrongful death or personal injury in situations in which a TASER CEW was used (or present) by law enforcement officers in connection with arrests or during training exercises. In addition, two other product litigation matters in which the Company is involved are currently on appeal. While the facts vary from case to case, the product liability claims are typically based on an alleged product defect resulting in injury or death, usually involving a failure to warn, and the plaintiffs are seeking monetary damages.

As a general rule, it is the Company's policy not to settle suspect injury or death cases. Exceptions are sometimes made where the settlement is strategically beneficial to the Company. Also, on occasion, the Company's insurance company has settled such lawsuits over the Company's objection where the risk is over the Company's liability insurance deductibles. Due to the confidentiality of our litigation strategy and the confidentiality agreements that are executed in the event of a settlement, the Company does not identify or comment on which specific lawsuits have been settled or the amount of any settlement.

In 2009, the Company implemented new risk management strategies, including revisions to product warnings and training to better protect both the Company and its customers from litigation based on 'failure to warn' theories – which comprise the vast majority of the cases against the Company. These risk management strategies have been highly effective in reducing the rate and exposure from litigation post-2009. From the third quarter of 2011 to the fourth quarter of 2014, product liability cases have been reduced from 55 active to 12 active cases, with two new lawsuits filed in the fourth quarter of 2014.

Management believes that pre-2009 cases have a different risk profile than cases which have occurred since the risk management procedures were introduced in 2009. Therefore, the Company necessarily treats certain pre-2009 cases as exceptions to the Company's general no settlement policy in order to reduce caseload, legal costs and liability exposure. The Company intends to continue its successful practice of aggressively defending and generally not settling litigation except in very limited and unusual circumstances as described above.

With respect to each of the pending lawsuits, the following table lists the name of plaintiff, the date the Company was served with process, the jurisdiction in which the case is pending, the type of claim and the status of the matter.

Plaintiff	Month Served	Jurisdiction	Claim Type	Status
Koon	Dec-08	17th Judicial Circuit Court, Broward County, FL	Training Injury	Discovery Phase
Derbyshire	Nov-09	Ontario, Canada Superior Court of Justice	Officer Injury	Discovery Phase
Thompson	Mar-10	11th Judicial Circuit Court, Miami-Dade County, FL	Suspect Injury During Arrest	Discovery Phase
Doan	Apr-10	The Queen's Bench Alberta, Red Deer Judicial Dist.	Wrongful Death	Discovery Phase
Shymko	Dec-10	The Queen's Bench, Winnipeg Centre, Manitoba	Wrongful Death	Pleading Phase
Ramsey	Jan-12	17th Judicial Circuit Court, Broward County, FL	Wrongful Death	Discovery Phase
Firman	Apr-12	Ontario, Canada Superior Court of Justice	Wrongful Death	Pleading Phase
Ricks	May-12	US District Court, WD LA	Wrongful Death	Motion Phase
Rascon	Apr-14	US district Court, AZ	Wrongful Death	Discovery Phase
Schrock	Sep-14	San Bernardino County Superior Court, CA	Wrongful Death	Pleading Phase
Moore	Nov-14	St. Louis County Circuit Court, MO	Wrongful Death	Pleading Phase
Jones	Jan-15	Los Angeles County Superior Court, CA	Suspect Injury	Pleading Phase

In addition, other product litigation matters in which the Company is involved that are currently on appeal are listed below:

Plaintiff	Month Served	Jurisdiction	Claim Type	Status
Mitchell	Apr-12	US District Court, ED MI	Wrongful Death	Notice of Appeal filed August 2014; Briefing Phase
Thomas (Pikes)	Oct-08	US District Court, WD LA	Wrongful Death	Notice of Appeal filed January 2015

Cases that were dismissed or judgment entered during the fourth quarter of 2014 and through the filing date of this Annual Report on Form 10-K are listed in the table below. Cases that were dismissed or judgment entered in prior fiscal quarters are not included in this table.

Plaintiff	Month Served	Jurisdiction	Claim Type	Status
Grable	Aug-08	6th Judicial Circuit Court, Pinellas County, FL	Training Injury	Dismissed
Juran	Dec-10	Hennepin County District Court, 4th Judicial District	Officer Injury	Dismissed
Wilson	May-11	US District Court, ED MO	Wrongful Death	Dismissed
Miller	Jan-13	New Castle County Superior Court, DE	Wrongful Death	Dismissed
Ward	Oct-14	Richmond County Superior Court, GA	Officer Fired	Dismissed

The claims, and in some instances the defense, of each of these lawsuits have been submitted to the Company's insurance carriers that maintained insurance coverage during the applicable periods. The Company continues to maintain product liability insurance coverage with varying limits and deductibles. The following table provides information regarding the Company's product liability insurance. Remaining insurance coverage is based on information received from the Company's insurance provider (in millions).

Policy Year	Policy Start Date	Policy End Date	Insurance Coverage	Deductible Amount	Defense Costs Covered	Remaining Insurance Coverage	Active Cases and Cases on Appeal
2004	12/1/2003	12/1/2004	$ 2.0	$ 0.1	N	$ 2.0	n/a
2005	12/1/2004	12/1/2005	10.0	0.3	Y	7.0	n/a
2006	12/1/2005	12/1/2006	10.0	0.3	Y	3.7	n/a
2007	12/1/2006	12/1/2007	10.0	0.3	Y	8.0	n/a
2008	12/1/2007	12/15/2008	10.0	0.5	Y	—	Koon, Thomas (Pikes)
2009	12/15/2008	12/15/2009	10.0	1.0	N	10.0	Derbyshire
2010	12/15/2009	12/15/2010	10.0	1.0	N	10.0	Thompson, Shymko, Doan
2011	12/15/2010	12/15/2011	10.0	1.0	N	10.0	n/a
Jan-Jun 2012	12/15/2011	6/25/2012	7.0	1.0	N	7.0	Ramsey, Mitchell, Firman, Ricks
Jul-Dec 2012	6/25/2012	12/15/2012	12.0	1.0	N	12.0	n/a
2013	12/15/2012	12/15/2013	12.0	1.0	N	12.0	n/a
2014	12/15/2013	12/15/2014	11.0	4.0	N	11.0	Schrock, Moore, Rascon
2015	12/15/2014	12/15/2015	10.0	5.0	N	10.0	Jones

Other Litigation

None

General

From time to time, the Company is notified that it may be a party to a lawsuit or that a claim is being made against it. It is the Company's policy to not disclose the specifics of any claim or threatened lawsuit until the summons and complaint are actually served on the Company. After carefully assessing the claim, and assuming we determine that we are not at fault or we disagree with the damages or relief demanded, we vigorously defend any lawsuit filed against the Company. In certain legal matters, we record a liability when losses are deemed probable and reasonably estimable. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters of a similar nature, the specific facts and circumstances asserted, the likelihood of our prevailing, and the severity of any potential loss. We reevaluate and update our accruals as matters progress over time.

Based on our assessment of outstanding litigation and claims as of December 31, 2014, the Company has determined that it is not reasonably possible that these lawsuits will individually, or in the aggregate, materially affect our results of operations, financial condition or cash flows. However, the outcome of any litigation is inherently uncertain and there can be no assurance that any expense, liability or damages that may ultimately result from the resolution of these matters will be covered by our insurance or will not be in excess of amounts recognized or provided by insurance coverage and will not have a material adverse effect on our operating results, financial condition or cash flows.

d. Employment Agreements

The Company has employment agreements with certain key executives. The Company may terminate the agreements with or without cause. Should the Company terminate the agreements without cause, or upon a change of control of the Company or death or disability of the employee, the employee, or family of the employee, are entitled to additional compensation. Under these circumstances, these officers and employees would receive the amounts remaining under their contracts upon termination, which total approximately $1.0 million in the aggregate at December 31, 2014. In March 2015, the Company finalized its severance agreement with a former executive whose position was eliminated in 2014, and accordingly, the Company accrued approximately $0.5 million as of December 31, 2014.

10. Income Taxes

Significant components of the Company's deferred income tax assets and liabilities are as follows at December 31 (in thousands):

	2014	2013
Deferred income tax assets:		
Net operating loss carryforward	$ 343	$ 513
Deferred warranty revenue	4,141	2,837
Inventory reserve	508	389
Non-qualified and non-employee stock option expense	3,094	3,518
Capitalized research and development	4,847	6,588
Alternative minimum tax carryforward	1,081	1,466
Research and development tax credit carryforward	2,139	3,165
Deferred legal settlement	—	1,294
IRC section 481(a) adjustment—tangible property	—	1,316
Reserves, accruals, and other	2,320	2,066
Total deferred income tax assets	18,473	23,152
Deferred income tax liabilities:		
Depreciation	(1,674)	(2,136)
Amortization	(236)	(236)
Total deferred income tax liabilities	(1,910)	(2,372)
Net deferred income tax assets before valuation allowance	16,563	20,780
Valuation allowance	(500)	—
Net deferred income tax assets	$ 16,063	$ 20,780

The Company's net deferred tax assets are presented as follows on the accompanying consolidated balance sheets at December 31 (in thousands):

	2014	2013
Current deferred tax assets, net	$ 5,186	$ 7,101
Long-term deferred tax assets, net	10,877	13,679
Total	$ 16,063	$ 20,780

For the years ended December 31, 2014, 2013 and 2012 the provision for income taxes includes $8.0 million, $6.8 million and $4.7 million, respectively, of tax expense resulting from the fact that stock-based compensation tax benefits have been recorded as increases to additional paid-in capital on the consolidated statement of changes in stockholders' equity.

The Company has deferred tax assets of $0.1 million related to state NOLs which expire at various dates between 2016 and 2031. The Company also has deferred tax assets of approximately $0.2 million related to federal NOLs which expire between 2031 and 2033, and are subject to limitation under IRC Section 382. The Company has Arizona R&D credit carry forwards for financial reporting purposes of $3.2 million, which expire at various dates between 2018 and 2028, and California R&D credit carry forwards for financial reporting purposes of $0.2 million which do not expire. The Company has a minimum tax credit carryover of $1.1 million which does not expire.

The Company recognizes the income tax benefits associated with certain stock compensation deductions only when such deductions produce a reduction to the Company's actual tax liability. Accordingly, in 2014 and 2013, the Company recognized benefits of $8.0 million and $6.8 million, respectively, for the reduction of federal and state taxes payable, which was recorded as a credit to additional paid-in capital. At each of December 31, 2014 and 2013, the Company had income tax receivables of $1.3 million and $2.3 million, respectively.

In preparing the Company's consolidated financial statements, management has assessed the likelihood that deferred income tax assets will be realized from future taxable income. In evaluating the ability to recover its deferred income tax assets, management considers all available evidence, positive and negative; including the Company's operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis. A valuation allowance is established if it is determined that it is more likely than not that some portion or all of the net deferred income tax assets will not be realized. Management exercises significant judgment in determining the Company's provisions for income taxes, its deferred income tax assets and liabilities and its future taxable income for purposes of assessing its ability to utilize any future tax benefit from its deferred income tax assets.

Although management believes that its tax estimates are reasonable, the ultimate tax determination involves significant judgments that could become subject to audit by tax authorities in the ordinary course of business. As of each reporting date, management considers new evidence, both positive and negative, that could impact management's view with regards to future realization of deferred tax assets. As of December 31, 2012, in part because in that year the Company achieved three years of cumulative pre-tax income in the U.S. federal and Arizona tax jurisdictions, management determined that sufficient positive evidence existed to conclude that it is more likely than not that additional deferred taxes related to Arizona R&D credits are realizable, and therefore, reversed in full the valuation allowance related to that item. As of December 31, 2014, the Company continues to demonstrate three-year cumulative pre-tax income in the U.S. federal and Arizona tax jurisdictions; however, the Arizona R&D Tax Credits start to expire in 2018 with a significant tranche with a gross value of $1.2 million expiring in 2019. Under the Company's new tax structure, it appears that long term investments which impact short term profits will likely result in some of the R&D credits expiring before they are utilized. Therefore, management has concluded that it is more likely than not that a portion of the Company's deferred tax assets will not be realized.

Significant components of the provision for income taxes are as follows for the years ended December 31 (in thousands):

	2014	2013	2012
Current:			
Federal	$ 7,793	$ 7,963	$ 4,605
State	800	987	666
Total current	8,593	8,950	5,271
Deferred:			
Federal	2,656	764	3,168
State	942	(143)	(1,485)
Total deferred	3,598	621	1,683
Tax provision recorded as an increase in liability for unrecorded tax benefits	202	219	920
Provision for income taxes	$ 12,393	$ 9,790	$ 7,874

The Company is subject to federal, state, local and foreign taxes; however, no separate calculation of the foreign provision for deferred tax assets was calculated for the periods presented due to the minimal amount of book income in the Company's foreign subsidiary and the comparability of the foreign tax rate to the tax rate in the U.S. A reconciliation of the Company's effective income tax rate to the federal statutory rate for the years ended December 31, 2014, 2013 and 2012 is as follows (in thousands):

	2014	2013	2012
Federal income tax at the statutory rate	$ 11,236	$ 9,812	$ 7,914
State income taxes, net of federal benefit	1,433	1,283	969
Permanent differences (i)	98	(96)	156
Research and development	(452)	(386)	(327)
Return to provision adjustment (ii)	28	(361)	(270)
Change in liability for unrecognized tax benefits	202	219	921
Incentive stock option detriment/(benefit)	(616)	(538)	174
Change in valuation allowance	500	—	(1,429)
Other	(36)	(143)	(234)
Provision for income taxes	$ 12,393	$ 9,790	$ 7,874
Effective tax rate	38.4%	34.9%	34.8%

(i) Permanent differences include certain expenses that are not deductible for tax purposes including lobbying fees as well as favorable items including the domestic production activities deduction

(ii) The 2012 return to provision adjustment was driven by higher than estimated 2011 R&D tax credits which increased the net tax benefit and therefore, reduced the effective tax rate. The 2013 return to provision adjustment was driven by the domestic production activities deduction which decreased taxable income, and therefore, reduced the effective tax rate.

The Company has completed research and development tax credit studies which identified approximately $10.4 million in tax credits for federal, Arizona and California income tax purposes related to the 2003 through 2014 tax years. Management has made the determination that it is more likely than not that the full benefit of the R&D tax credit will not be sustained on examination and recorded a liability for unrecognized tax benefits of $3.1 million as of December 31, 2013. In addition, management accrued approximately $0.2 million for estimated uncertain tax positions related to certain state income tax liabilities. The Company is currently under an IRS audit for the tax year 2012. Depending on the outcome of the audit, the uncertain tax positions relating to 2012 may significantly change in the next 12 months. Should the unrecognized tax benefit of $3.3 million be recognized, the Company's effective tax rate would be favorably impacted.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying Consolidated Statement of Operations. As of December 31, 2014 and 2013, respectively, the Company had accrued interest of $46,000 and $12,000.

The following table presents a roll forward of our liability for unrecognized tax benefits, exclusive of accrued interest, as of December 31 (in thousands):

	2014	2013	2012
Balance, beginning of period	$ 3,110	$ 2,903	$ 1,982
Increase in previous year tax positions	—	57	659
Increase in current year tax positions	121	144	151
Increase (decrease) related to adjustment of previous estimates of activity	94	6	111
Balance, end of period	$ 3,325	$ 3,110	$ 2,903

Federal income tax returns for 2004 through 2013 remain open to examination by the U.S. Internal Revenue Service (the "IRS"), while state and local income tax returns for 2004 through 2013 also remain open to examination. The 2004 through 2009 income tax returns are only open to the extent that net operating loss or other tax attributes carrying forward from those years were utilized in 2010 through 2013. The foreign tax returns for 2011 through 2013 also remain open to examination. The Company is currently under examination by the IRS for tax year 2012. As of December 31, 2014 the exam is still ongoing. No adjustments have been proposed to date. The Company has not been notified by any major state tax jurisdiction that it will be subject to examination.

11. Line of Credit

The Company has a $10.0 million revolving line of credit with a domestic bank. At December 31, 2014 and 2013, there were no borrowings under the line. As of December 31, 2014, the Company had letters of credit outstanding of $0.4 million under the facility and available borrowing of $9.6 million. The line is secured by substantially all of the assets of the Company, and bears interest at varying rates (currently LIBOR plus 1.5% or Prime less 0.75%). The line of credit matures on July 31, 2016, and requires monthly payments of interest only. The Company's agreement with the bank requires it to comply with certain financial and other covenants including maintenance of a minimum leverage ratio and fixed charge coverage ratio. The leverage ratio (ratio of total liabilities to tangible net worth) can be no greater than 1:1, and the fixed charge coverage ratio can be no less than 1.25:1, based upon a trailing twelve-month period. At December 31, 2014, the Company's tangible net worth ratio was 0.45:1 and its fixed charge coverage ratio was 2.82:1. Accordingly, the Company was in compliance with these covenants.

12. Stockholders' Equity

a. Common Stock and Preferred Stock

The Company has authorized the issuance of two classes of stock designated as "common stock" and "preferred stock," each having a par value of $0.00001 per share. The Company is authorized to issue 200 million shares of common stock and 25 million shares of preferred stock.

b. Stock Repurchase

In May 2014, the Company announced that TASER's Board of Directors authorized a stock repurchase program to acquire up to $30.0 million of the Company's outstanding common stock subject to stock market conditions and corporate considerations. Under this program, the Company purchased approximately 1.7 million common shares for a total cost of approximately $22.4 million, or a weighted average cost, including commissions of $12.99 per share. As of December 31, 2014, $7.6 million remains available under the plan for future purchases.

In February 2013, the Company announced that TASER's Board of Directors authorized a stock repurchase program to acquire up to $25 million of the Company's outstanding common stock subject to stock market conditions and corporate considerations. Under this program, which was completed in the second quarter of 2013, the Company purchased approximately 3.0 million common shares for a total cost of approximately $25.0 million, or a weighted average cost, including commissions, of $8.20 per share.

On April 25, 2012, TASER's Board of Directors authorized a stock repurchase program to acquire up to $20.0 million of the Company's outstanding common stock subject to stock market conditions and corporate considerations. The Company purchased approximately 3.8 million common shares under this program for a total cost of $20.0 million, or a weighted average cost, including commissions, of $5.22 per share. The buyback was completed in the third quarter of 2012.

c. Stock-based Compensation Plans

The Company has historically utilized stock-based compensation, consisting of restricted stock units ("RSUs") and stock options, for key employees and non-employee directors as a means of attracting and retaining quality personnel. Service-based grants generally have a vesting period of 3 to 4 years and a contractual maturity of ten years. Performance-based grants generally have vesting periods ranging from 1 to 4 years and a contractual maturity of ten years.

On February 25, 2013, the Company's Board of Directors approved the 2013 Stock Incentive Plan (the "2013 Plan) which was subsequently approved by stockholders at the Annual Meeting of Stockholders on May 23, 2013. Under the 2013 Plan, the Company reserved for future grants: (i) 1.6 million shares of common stock, plus (ii) the number of shares of common stock that were authorized but unissued under the Company's 2009 Stock Incentive Plan (the "2009 Plan") as of the effective date of the 2013 Plan, and (iii) the number of shares of stock that have been granted under the 2009 Plan that either terminate, expire or lapse for any reason after the effective date of the 2013 Plan. As of December 31, 2014, 1.7 million shares remain available for future grants. Shares issued upon exercise of stock awards from these plans have historically been issued from the Company's authorized unissued shares.

d. Performance-based stock awards

The Company has issued performance-based stock options and performance-based RSUs, the vesting of which is contingent upon the achievement of certain performance criteria related to the operating performance of the Company as well as successful and timely development and market acceptance of future product introductions. In addition, certain of the performance RSUs have additional service requirements subsequent to the achievement of the performance criteria. Compensation expense is recognized over the implicit service period (the longer of the period the performance condition is expected to be achieved or the required service period) based on management's estimate of the probability of the performance criteria being satisfied, adjusted at each balance sheet date.

e. Restricted Stock Units

The following table summarizes RSU activity for the years ended December 31, 2014, 2013 and 2012:

	2014		2013		2012	
	Number of Units	Weighted Average Grant-Date Fair Value	Number of Units	Weighted Average Grant-Date Fair Value	Number of Units	Weighted Average Grant-Date Fair Value
Units outstanding, beginning of year…………………………...	1,279,123	$ 9.67	582,212	$ 5.42	1,096	$ 4.76
Granted……………………….	554,328	16.98	1,054,293	10.72	713,148	5.40
Released………………………	(432,706)	7.61	(257,693)	5.44	(97,007)	5.30
Forfeited………………………	(174,657)	13.08	(99,689)	6.86	(35,025)	5.29
Units outstanding, end of year	1,226,088	13.23	1,279,123	9.67	582,212	5.42
Aggregate intrinsic value at year end (in thousands)……….	$ 32,467					

Aggregate intrinsic value represents the Company's closing stock price on the last trading day of the period, which was $26.48 per share, multiplied by the number of restricted stock units. In 2014, 2013 and 2012, the Company granted approximately 0.1 million, 0.3 million and 0.2 million performance-based RSUs, respectively (included in the table above). As of December 31, 2014, the performance criteria has been met for approximately 0.1 million of the 0.2 million performance-based RSUs outstanding. The Company recognized $1.0 million, $1.4 million and $0.7 million of compensation expense related to performance-based RSUs during the years ended December 2014, 2013 and 2012, respectively.

Certain RSUs that vested in 2014 were net-share settled such that the Company withheld shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. Total shares withheld were approximately 74,000 and had a value of approximately $1.3 million on their respective vesting dates as determined by the Company's closing stock price. Payments for the employees' tax obligations are reflected as a financing activity within the statement of cash flows. These net-share settlements had the effect of share repurchases by the Company as they reduced the amount of shares that would have otherwise been issued as a result of the vesting.

f. Stock Option Activity

The following table summarizes stock option activity for the years ended December 31, 2014, 2013 and 2012:

	2014		2013		2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	3,365,692	$ 6.15	6,321,076	$ 6.05	7,576,493	$ 5.75
Granted	—	—	—	—	—	
Exercised	(1,644,146)	6.69	(2,671,058)	5.75	(784,383)	2.46
Expired / terminated	(80,463)	16.59	(284,326)	7.83	(471,034)	7.15
Options outstanding, end of year	1,641,083	5.26	3,365,692	6.15	6,321,076	6.05
Options exercisable, end of year	1,605,789	5.27	3,217,146	6.22	5,278,243	6.31
Options expected to vest, end of year	4,443	4.66				

No stock options were granted in 2014, 2013 or 2012. Total intrinsic value of options exercised was $20.2 million, $15.7 million and $3.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. The intrinsic value for options exercised was calculated as the difference between the exercise price of the underlying stock option awards and the market price of the Company's common stock on the date of exercise.

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2014:

	Options Outstanding			Options Exercisable		
Range of Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Options Exercisable	Weighted Average Price	Weighted Average Remaining Contractual Life (Years)
$3.85 - $5.00	1,206,798	$ 4.63	4.8	1,172,329	$ 4.63	4.8
$5.01 - $7.00	210,663	5.58	4.0	209,838	5.58	4.0
$7.01 - $10.00	151,761	7.38	2.9	151,761	7.38	2.9
$10.01 - $16.23	71,861	10.29	2.4	71,861	10.29	2.4
$3.85 - $16.23	1,641,083	5.26	4.4	1,605,789	5.27	4.4

The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2014, was $34.8 million and $34.1 million, respectively. Aggregate intrinsic value represents the difference between the exercise price of the underlying stock option awards and the closing market price of the Company's common stock of $26.48 on December 31, 2014.

At December 31, 2014, the Company had 35,294 unvested options outstanding with a weighted average exercise price of $4.74 per share, weighted average fair value of $2.51 per share and weighted average remaining contractual life of 4.3 years. The aggregate intrinsic value of unvested options at December 31, 2014 was $0.8 million.

The Company granted approximately 1.0 million performance-based stock options (included in the table above) from 2008 through 2011. As of December 31, 2014, approximately 0.3 million performance-based stock options are outstanding, of which approximately 30,600 are unvested and none are expected to vest. The aggregate grant-date fair value of the 0.3 million performance-based stock options vested and expected to vest as of December 31, 2014 is approximately $0.8 million. Performance-based stock options were expensed in full as of December 31, 2013. The Company recognized $0.1 million of stock-based compensation expense related to performance-based stock options during each of 2013 and 2012.

g. Stock-based Compensation Expense

The Company accounts for stock-based compensation using the fair-value method. Reported stock-based compensation was classified as follows for the years ended December 31 (in thousands):

	2014	2013	2012
Cost of products sold and services delivered	$ 204	$ 175	$ 172
Sales, general and administrative expenses	3,555	3,158	2,647
Research and development expenses	1,820	1,007	603
Total stock-based compensation	$ 5,579	$ 4,340	$ 3,422

Total stock-based compensation expense recognized in the statements of operations for the years ended December 31, 2014, 2013 and 2012 includes $28,000, $0.1 million and $0.5 million, respectively, related to ISOs for which no tax benefit is recognized. The Company recorded a tax benefit in 2014, 2013, and 2012 of $2.5 million, $6.8 million, and $4.7 million, respectively, to offset taxes payable related to the non-qualified disposition of ISOs exercised and sold. The total future tax benefits related to non-qualified and restricted stock units was $3.1 million and $3.5 million as of December 31, 2014 and 2013, respectively.

As of December 31, 2014, there was $11.1 million in unrecognized compensation costs related to RSUs under the Company's stock plans. The Company expects to recognize the cost related to the RSUs over a weighted average period of 2.5 years.

13. Related Party Transactions

The Company engages Mark Kroll, a member of the Board of Directors, to provide consulting services. The expenses related to these services were $0.2 million for each of the years ended December 31, 2014, 2013 and 2012. At December 31, 2014 and 2013, the Company had accrued liabilities of approximately $8,000 and $12,000, respectively, related to these services.

14. Employee Benefit Plans

The Company has a defined contribution profit sharing 401(k) plan for eligible employees, which is qualified under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended. Employees are entitled to make tax-deferred contributions of up to the maximum allowed by law of their eligible compensation.

The Company also has a non-qualified deferred compensation plan for certain executives, key employees and non-employee directors through which participants may elect to postpone the receipt and taxation of a portion of their compensation, including stock-based compensation, received from the Company. The non-qualified deferred compensation plan allows eligible participants to defer up to 80% of their base salary and up to 100% of other types of compensation. The plan also allows for (i) matching and discretionary employer contributions and (ii) the deferral of vested RSU awards. Employee deferrals are deemed 100% vested upon contribution. Distributions from the plan are made upon retirement, death, separation of service, specified date or upon the occurrence of an unforeseeable emergency. Distributions can be paid in a variety of forms from lump sum to installments over a period of years. Participants in the plan are entitled to select from a wide variety of investments available under the plan and are allocated gains or losses based upon the performance of the investments selected by the participant. All gains or losses are allocated fully to plan participants and the Company does not guarantee a rate of return on deferred balances. Assets related to this plan consist of corporate-owned life insurance contracts and are included in other assets in the consolidated balance sheets. Participants have no rights or claims with respect to any plan assets and any such assets are subject to the claims of the Company’s general creditors.

Contributions to the plans are made by both the employee and the Company. Company contributions are based on the level of employee contributions and are immediately vested. The Company’s matching contributions to the plan for the years ended December 31, 2014, 2013 and 2012, were approximately $0.9 million, $0.7 million and $0.5 million, respectively. The Company expects to make contributions to the non-qualified deferred compensation plan related to the year ended December 31, 2014, of approximately $27,000. Future matching or profit sharing contributions to the plans are at the Company’s sole discretion.

15. Segment Data

The Company's operations are comprised of two reportable segments: the sale of CEWs, accessories and other products and services (the "TASER Weapons" segment); and the video business, which includes the TASER Cam, AXON video products and EVIDENCE.com (the "AXON" segment). The Company includes only revenues and costs directly attributable to the AXON segment in that segment. Included in AXON segment costs are: costs of sales for both products and services, overhead allocation based on direct labor, selling expense for the video sales team, video product management expenses, video trade shows and related expenses, and research and development for products included in the AXON segment. All other costs are included in the TASER Weapons segment. The CODM does not review assets by segment as part of the financial information provided; therefore, no asset information is provided in the following tables.

Information relative to the Company's reportable segments is as follows (in thousands):

	For the year ended December 31, 2014		
	TASER Weapons	AXON	Total
Product sales	$ 145,613	$ 14,700	$ 160,313
Service revenue	—	4,212	4,212
Net sales	145,613	18,912	164,525
Cost of products sold	47,680	13,233	60,913
Cost of services delivered	—	2,064	2,064
Gross margin	97,933	3,615	101,548
Sales, general and administrative	42,989	11,169	54,158
Research and development	3,872	11,013	14,885
Income (loss) from operations	$ 51,072	$ (18,567)	$ 32,505
Purchase of property and equipment	$ 2,233	$ 272	$ 2,505
Purchase of intangible assets	180	3	183
Depreciation and amortization	3,936	381	4,317

	For the year ended December 31, 2013		
	TASER Weapons	AXON	Total
Product sales	$ 127,474	$ 8,649	$ 136,123
Service revenue	—	1,708	1,708
Net sales	127,474	10,357	137,831
Cost of products sold	44,025	6,074	50,099
Cost of services delivered	—	1,889	1,889
Gross margin	83,449	2,394	85,843
Sales, general and administrative	40,174	6,383	46,557
Research and development	4,311	5,577	9,888
Litigation judgment	1,450	—	1,450
Income (loss) from operations	$ 37,514	$ (9,566)	$ 27,948
Purchase of property and equipment	$ 1,324	$ 459	$ 1,783
Purchase of intangible assets	307	16	323
Depreciation and amortization	4,011	1,120	5,131

	For the year ended December 31, 2012		
	TASER Weapons	AXON	Total
Product sales	$ 109,055	$ 5,071	$ 114,126
Service revenue	—	627	627
Net sales	109,055	5,698	114,753
Cost of products sold	39,350	3,773	43,123
Cost of services delivered	—	3,915	3,915
Gross margin	69,705	(1,990)	67,715
Sales, general and administrative	35,737	3,510	39,247
Research and development	3,938	4,201	8,139
Litigation recovery	(2,200)	—	(2,200)
Income (loss) from operations	$ 32,230	$ (9,701)	$ 22,529
Purchase of property and equipment	$ 922	$ 412	$ 1,334
Purchase of intangible assets	429	—	429
Depreciation and amortization	4,327	2,192	6,519

16. Selected Quarterly Financial Data (unaudited)

Selected quarterly financial data for years ended December 31, 2014 and 2013 follows (in thousands, except per share data):

	Quarter Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
Net sales	$ 36,185	$ 37,175	$ 44,349	$ 46,816
Gross margin	22,208	23,214	28,713	27,413
Net income	3,391	3,883	7,558	5,086
Earnings per share [(1)]:				
Basic	$ 0.06	$ 0.07	$ 0.14	$ 0.10
Diluted	$ 0.06	$ 0.07	$ 0.14	$ 0.09

	Quarter Ended			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Net sales	$ 30,434	$ 32,175	$ 35,197	$ 40,025
Gross margin	18,451	19,742	22,096	25,554
Net income	3,298	4,457	5,114	5,375
Earnings per share [(1)]:				
Basic	$ 0.06	$ 0.09	$ 0.10	$ 0.10
Diluted	$ 0.06	$ 0.08	$ 0.10	$ 0.10

[(1)] Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted per share information may not equal annual basic and diluted earnings per share.

17. Supplemental Disclosure to Cash Flows

Supplemental non-cash and other cash flow information are as follows for the years ended December 31 (in thousands),

	2014	2013	2012
Cash paid for income taxes—net	$ 386	$ 3,625	$ 1,079
Non Cash Transactions:			
Stock issued for business acquisition	$ —	$ 1,578	$ —
Property and equipment purchases in accounts payable	270	279	113
Purchase of assets under capital lease obligations	—	—	147

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
TASER International, Inc.

We have audited the accompanying consolidated balance sheets of TASER International, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of TASER International, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 11, 2015, expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Phoenix, Arizona
March 11, 2015

Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Attached as exhibits to this Form 10-K are certifications of the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This "Controls and Procedures" section includes information concerning the controls and controls evaluation referred to in the certifications. This section should be read in conjunction with the certifications and the Grant Thornton LLP attestation report for a more complete understanding of the topics presented.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, we evaluated under the supervision of our CEO and our CFO, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act). Based on this evaluation, our CEO and our CFO have concluded that as of December 31, 2014 our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) is accumulated and communicated to our management, including our CEO and our CFO, as appropriate to allow timely decisions regarding required disclosure.

Management Report On Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the 1934 Act. Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2014 based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management concluded that, as of December 31, 2014, our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Grant Thornton LLP has independently assessed the effectiveness of our internal control over financial reporting and its report is included below.

Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2014, there was no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
TASER International, Inc.

We have audited the internal control over financial reporting of TASER International, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2014, and our report dated March 11, 2015, expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP
Phoenix, Arizona
March 11, 2015

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required to be disclosed by this item is incorporated herein by reference to our definitive proxy statement for the 2015 Annual Meeting of Stockholders (the "2015 Proxy Statement") 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, 2014.

Item 11. *Executive Compensation*

The information required to be disclosed by this item is incorporated herein by reference to our 2015 Proxy Statement.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Equity Compensation Plan Information

A description of our equity compensation plans approved by our stockholders is included in Note 12 (c) to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K. The following table provides details of our equity compensation plans at December 31, 2014:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) (1)	Number of Securities Remaining Available Under Equity Compensation Plans for Future Issuance (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	2,867,171	$ 5.26	1,717,292
Equity compensation plans not approved by security holders	—		—
Total	2,867,171	$ —	1,717,292

(1) The weighted average exercise price is calculated based solely on the exercise prices of the outstanding options and does not reflect the shares that will be issued upon the vesting of outstanding awards of restricted stock units which have no exercise price.

All other information required to be disclosed by this item is incorporated herein by reference to our 2015 Proxy Statement.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required to be disclosed by this item is incorporated herein by reference to our 2015 Proxy Statement.

Item 14. *Principal Accounting Fees and Services*

The information required to be disclosed by this item is incorporated herein by reference to our 2015 Proxy Statement.

PART IV

Item 15. *Exhibits, Financial Statement Schedules*

(a) The following documents are filed as part of this report:

1. Consolidated financial statements: All consolidated financial statements as set forth under Part II, Item 8 of this report.
2. Supplementary Financial Statement Schedules: Schedule II — Valuation and Qualifying Accounts

Other schedules have not been included because they are not applicable or because the information is included elsewhere in this report. *(Dollars in thousands)*

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Allowance for doubtful accounts:					
Year ended December 31, 2014	$ 200	$ 142	$ —	$ (91)	$ 251
Year ended December 31, 2013	200	24	—	(24)	200
Year ended December 31, 2012	450	(242)	—	(8)	200
Allowance for excess and obsolete inventory:					
Year ended December 31, 2014	$ 999	$ 2,157	$ —	$ (1,802)	$ 1,354
Year ended December 31, 2013	2,320	595	—	(1,916)	999
Year ended December 31, 2012	4,431	554	—	(2,665)	2,320
Warranty reserve:					
Year ended December 31, 2014	$ 955	$ 396	$ —	$ (676)	$ 675
Year ended December 31, 2013	484	1,001	—	(530)	955
Year ended December 31, 2012	427	527	—	(470)	484

3. Exhibits:

Exhibit Number		Description
3.1		Certificate of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to Registration Statement on Form SB-2, effective May 11, 2001 (Registration No. 333-55658))
3.2		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))
3.3		Certificate of Amendment to Certificate of Incorporation dated September 1, 2004 (incorporated by reference to Exhibit 3.3 to Annual Report on Form 10-KSB, filed March 31, 2005)
4.1		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))
10.1*		Executive 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))
10.2*		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))
10.3*		Form of Indemnification Agreement between the Company and its officers (incorporated by reference to Exhibit 10.15 to Registration Statement on Form SB-2, effective May 11, 2001 (Registration No. 333-55658))
10.4*		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))
10.5*		Executive Employment Agreement with Douglas E. Klint, dated December 15, 2002 (incorporated by reference to Exhibit 10.14 to Annual Report on Form 10-KSB, filed March 14, 2003)
10.6*		Executive Employment Agreement with Daniel Behrendt, dated April 28, 2004 (incorporated by reference to Exhibit 10.14 to Annual Report on Form 10-KSB, filed March 31, 2005)
10.7*		2004 Stock Option Plan (incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-KSB, filed March 31, 2005)
10.8*		2004 Outside Director Stock Option Plan, as amended (incorporated by reference to Exhibit 10.16 to the Annual Report on Form 10-KSB, filed March 31, 2005)
10.9*		2009 Stock Incentive Plan. (incorporated by reference to Appendix A to 2009 Proxy Statement, filed April 15, 2009)
10.10*		Executive Employment Agreement with Jeff Kukowski, dated August 9, 2010 (incorporated by reference to Exhibit 10.18 to the Annual Report on Form 10-K, filed March 8, 2013)
10.11*		2013 Stock Incentive Plan (incorporated by reference to Appendix of 2013 Proxy Statement, filed on April 3, 2013)
10.12*		TASER International, Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to Form 8-K, filed on July 12, 2013)
10.13**		Amended and Restated Credit Agreement dated August 18, 2014 between the Company and JP Morgan Chase Bank, NA
21.1**		List of Subsidiaries
23.1**		Consent of Grant Thornton, LLP, independent registered public accounting firm
24.1**		Powers of attorney (see signature page)
31.1**		Principal Executive Officer Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2**		Principal Financial Officer Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32**		Principal Executive Officer and Principal Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**		XBRL Instance Document
101.SCH**		XBRL Taxonomy Extension Schema Document
101.CAL**		XBRL Taxonomy Calculation Linkbase Document
101.LAB**		XBRL Taxonomy Label Linkbase Document
101.PRE**		XBRL Taxonomy Presentation Linkbase Document

* Management contract or compensatory plan or arrangement
** Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 11, 2015	By:	/s/ PATRICK W. SMITH
		Chief Executive Officer, Director
Date: March 11, 2015	By:	/s/ DANIEL M. BEHRENDT
		Chief Financial Officer (Principal Financial and Accounting Officer)

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Patrick W. Smith his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, including all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he or she might or could do in person hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ HADI PARTOVI Hadi Partovi	Director	March 11, 2015
/s/ JUDY MARTZ Judy Martz	Director	March 11, 2015
/s/ MARK W. KROLL Mark W. Kroll	Director	March 11, 2015
/s/ MICHAEL GARNREITER Michael Garnreiter	Director	March 11, 2015
/s/ JOHN S. CALDWELL John S. Caldwell	Director	March 11, 2015
/s/ RICHARD H. CARMONA Richard H. Carmona	Director	March 11, 2015
/s/ BRET S. TAYLOR Bret S. Taylor	Director	March 11, 2015

EXHIBIT 21.1

List of Subsidiaries

TASER International Europe SE

Familiar, Inc.

TASER International, B.V.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 11, 2015, with respect to the consolidated financial statements, schedule, and internal control over financial reporting included in the Annual Report of TASER International, Inc. on Form 10-K for the year ended December 31, 2014. We hereby consent to the incorporation by reference of said reports in the Registration Statements of TASER International, Inc. on Forms S-8 (File No. 333-190442; File No. 333-190441; File No. 333-125455; File No. 333-89434).

/s/ GRANT THORNTON LLP

Phoenix, Arizona
March 11, 2015

EXHIBIT 31.1

CERTIFICATION PURSUANT TO
Rule 13a-14(a) or Rule 15d-14(a) of Chief Executive Officer

I, Patrick W. Smith, certify that:

1. I have reviewed this Annual Report on Form 10-K of TASER International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2015

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

EXHIBIT 31.2

CERTIFICATION PURSUANT TO
Rule 13a-14(a) or Rule 15d-14(a) of Chief Financial Officer

I, Daniel M. Behrendt, certify that:

1. I have reviewed this Annual Report on Form 10-K of TASER International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2015

By: /s/ Daniel M. Behrendt
Daniel M. Behrendt
Chief Financial Officer

EXHIBIT 32

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 on Form 10-K of TASER International, Inc. (the “Company”) for the year ended December 31, 2014 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 11, 2015

In connection with the Annual Report on Form 10-K of TASER International, Inc. (the “Company”) for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Daniel M. Behrendt, 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/ Daniel M. Behrendt

Daniel M. Behrendt
Chief Financial Officer
March 11, 2015

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