

# Case Study on IR in Action: Taser International Inc



# Case Study on IR in Action: Taser International Inc



## Background

Taser, the largest manufacturer of stun guns in the world, was a top performing stock on the NASDAQ in 2004 rising 360% and splitting three times. The share price plummeted in January 2005. The change in market sentiment about the stock caught Taser executives by surprise. As they grappled for a response the share price slid more than 75%.

Taser disclosed during the first week of January 2005 that the Securities and Exchange Commission had launched an inquiry into claims the company was making about the safety of their products. The SEC inquiry followed investigative news stories that disputed Taser's claims that their stun guns have never caused a death or serious injury. A story in The Republic newspaper had linked the stun guns to 11 deaths and several serious injuries involving police officers.

In their coverage of the SEC inquiry story the media also brought to the market's attention two other issues for the company. An analyst, Rob Miceli had published a report on Taser on December 30, 2004. In the report he expressed "grave concerns" about the quality of revenues from the sale of 1,000 new consumer stun guns by Taser to Davidson's Inc a firearms distributor. The sale had come just 11 days before the close of the quarter. Rob Miceli described it as, "a deal that could maybe make a quarter". He said "Anytime we see something like that it bears further investigation".

The second issue was the sale by Taser executives of \$68 million worth of Taser shares in the 4<sup>th</sup> quarter of 2004. Newspaper stories quoted the President and CEO of Taser as saying "we feel that the rumors about us "bailing out" are not fair, nor accurate." Readers were left to draw their own conclusions about these insider sales.

In the midst of the media storm and with the share price in free fall Tom Smith (President) went on CNBC to try and restore some investor confidence and a letter to shareholders was released by Taser.

## Part A



### **Tom Smith, President and Co-Founder interviewed on CNBC**

**Reporter:** Well, the SEC is investigating Taser's statements about the safety of its stun guns and press reports have called into question how they might be accounting for a year end sale. Here to respond to all is Tom Smith, President and Co-Founder, Taser International. Tom, welcome back to the show!

Let me ask you, why is everybody always picking on you? Is this a bunch of anti capitalists who are trying to punish success? Or do they know things that you are unwilling to acknowledge? Which way is it?

**Tom Smith:** I would go with your fist comment there. I mean, you know, I think you know, we've been on the show quite a bit and been very open and very public about talking about what our company's been doing. Our results are speaking for themselves, you know, we stand by a 175% growth this year, we're saving lives everyday with the field proven product that I think we go above and beyond the call of being very up front with where our product is, what it is doing. The injuries and lives that it's saving everyday for law enforcement all around the world.

**Reporter:** So why Tom? To pick up Larry's question. Why do people seem to say such mean things about Taser? Why is that?

**Tom Smith:** I don't have a good answer for that. I mean, I think we've proven our product, we've proven the performance, we've stayed focused on the goal and delivered the business results. You know, our problem and challenges've been in the media, it's not been in the market place. In the market with 175% growth in the use of the product, it's made a difference for the men and women of law enforcement. I think our real problem's been the media trying to focus and trying to make links where they may not exist or at least raise confusion to people on issues that they aren't very clear on in their own minds and try to raise those concerns. I don't think the story sells as well when it talks about people being saved, they'd rather look more at the controversy surrounding the product.

**Reporter:** Well Tom, in the flick of an eye brow, can you just dismiss or tell us how would you diss the safety charge from the SEC and the revenue accounting charge by some of the media?

**Tom Smith:** Well, for the safety charge, you have in every press release we've done regarding the safety studies, we've also included copies of the studies. So you've got the public statements we've made along with the copy of studies. So we believe we're very in line with what those studies say and we stand behind those statements. Regarding Davidson its in the

normal course of business, we've got a great relationship with him and something that came in the forth quarter. We made the product, we shipped the product, we did everything in the normal course of business. There's nothing out of the ordinary here and this inquiry from the SEC that we announced today involves those 2 particular items and we're voluntarily supplying all that information to them and willing and working with them very closely on this issue.

**Reporter:** This Mr. Smith pertains that particular thing involving Davidson which is a distributor of the law enforcement equipment involved a 1.5 million dollar order that they placed with you for this, I guess, a citizens' version of your principle product. Why? If you did everything the way you say you did it would the SEC decide to take a look at it.

**Tom Smith:** I can't comment on behalf of the SEC, their job is to obviously follow up on leads and certainly with the story and thoroughly being on yesterday talking about being raised by an analyst. It's their job to look into this, we're going to give them the documents and that particular order was an order we felt wanted to do a press release on

**Reporter:** You made the product, you shipped the product, they paid you for the product?

**Tom Smith:** They haven't paid for it yet. We produced it and we shipped it and we recognized revenue F.O.B. our plant as we have in the past and we will in the future and they acknowledge receipt of it even before the end of the year. But we received the order in mid December, made it, shipped it and even they acknowledge receipt of it before the end of the year.

**Reporter:** Is the SEC actually investigating that issue?

**Tom Smith:** It's strictly an informal inquiry, there is no investigation. It's just an inquiry, we're not obligated or required under a subpoena to produce these documents but we're doing so voluntary because we want to cooperate with the SEC and we've done nothing wrong, and we believe in whole heartedly where we're going and in the business we're gonna be doing in 2005.

**Reporter:** Alright Tom, last little bit here. Let's look ahead to the future, have you got any new orders to report: military, aviation, police, foreign countries, people who looking at Taser?

**Tom Smith:** We certainly have new business that we're gonna be reporting on in the future, but I have nothing now because we don't report on it until we get a purchase order which is something hard in our hand that we can produce. We're moving in to 100,000 square foot facility, we have a bunch of new products, we hope to announce what we're working on in our R&D layout office later this year, and we're looking forward to 2005.

**Reporter:** Consumer version of the stun gun, why? Why is that a wise idea?

**Tom Smith:** We've been out there since 1994, 11 years with that product. We believe that it's the right thing in our heart of hearts to be able to give people an option that's a proven technology to be able to defend themselves if they're not comfortable with a lethal response which is what's available out there today. It's not a market that per say is brand spanking new for us. We were in the sharper image in the 1990's but now we're obviously a different place with our name recognition with law enforcement using it to save lives everyday and we feel that we needed to make a version available to somebody who wants to protect themselves but doesn't want to have to make a lethal decision.

**Reporter:** Ok Tom. Thanks very much for joining us tonight. We appreciated it.

**Tom Smith:** Thank you for having me.

## **Part B**

### **Open Letter to TASER International Inc. Shareholders and Customers (January 11, 2005)**

Dear Shareholders and Customers of TASER International, Inc.,

Normally these letters are sent at the time of our Annual Report, however given recent events, it is important to address all of you as quickly as possible with an update on the status of your company. As you will read below, your company continues to be strong, and its management focused.

First, as we announced last week, the U.S. Securities and Exchange Commission (SEC) is conducting an informal inquiry and has asked for information about the public statements on the safety of TASER(R) products; and on information regarding our distribution agreement with Davidson's Inc., one of our top stocking distributors. Because of the legal nature of the SEC review, we are compelled to refrain from further comment at this time. We understand these inquiries may not be resolved quickly and that there is no basis upon which to set a timeline for expected completion. Rest assured, we are cooperating with the inquiry by providing the SEC with information and continue to stand firmly behind our actions.

Second, we have received questions indicating there is confusion on the issue of insider stock sales in the fourth quarter. Phil Smith, our Chairman who retired from day to day duties on December 31, 2004 sold the majority of his TASER stock as part of his retirement transition. Tom Smith and Rick Smith, co-founders of the company and whom currently serve as President and CEO, also sold a portion of their position in order to diversify their

holdings. During the fourth quarter of 2004, Tom and Rick sold an average of 22% of their position in TASER including both their stock and vested and unvested options. We still retain a significant position in TASER International, which at year-end comprised a significant majority of our personal assets. Hence, we feel that the rumors about us "bailing out" are not fair, nor accurate. We have pointed out previously that the Smith family along with one other investor provided all of the startup capital to TASER International prior to its public offering, and we have held this investment for up to eleven years. We have historically sold stock and have been straight-forward with our investors that insiders would continue to diversify through continuing stock sales in the future.

In retrospect, 2004 was an amazing year for TASER International. At the beginning of the year, we projected top-line revenue growth of 100%. This was later raised to 150%, and later raised again. Further, the company was able to sustain this level of growth while generating strong cash flow.

In October, we convened the first meeting of our Scientific and Medical Advisory Board (SMAB), with independent representatives from leading academic and private practice institutions. Among others, this board includes well-known medical experts such as Dr. Richard Luceri, a world-renowned cardiac rhythm specialist who has devoted most of his career to fibrillation and defibrillation, who concluded, "I have been impressed by the company's focus on safety and reliability of TASER products and was pleasantly surprised at the depth and quality of the data regarding TASER safety." Another member of the advisory board, Dr. Hugh Calkins, Professor of Medicine and Director of the Arrhythmia Service at Johns Hopkins Hospital, concluded, "I have had an opportunity to review the studies and the results of the studies confirm the general safety of the TASER devices, and I personally believe this technology is saving lives everyday."

We are very proud of our commitment to supporting the safety testing of our products and we believe that we have assembled the strongest team of medical advisors of any non-lethal weapon manufacturer. The new Scientific and Medical Advisory Board will help us to further public understanding of TASER technology and assist us in the design and evaluation of future systems as well as ongoing safety testing protocols.

We firmly believe that our public statements are fully supported by medical and scientific studies. These studies include both TASER-sponsored studies and completely independent safety evaluations that were conducted by the U.S. Department of Defense, the Home Office in the United Kingdom, various government agencies in Canada as well as studies in Australia and other countries. Many of these studies have been posted at <http://www.TASER.com> where readers can learn more on this important topic first hand.

It is with a great sense of hope and anticipation that we enter 2005. Our new 100,000 square foot state of the art manufacturing facility should come on-line by April. The new plant is over three times the size of our combined

current facilities and will enable us to continue to grow the business. Similarly, we have greatly expanded our Research and Development team and expect to announce significant progress this year on many announced new products that we have disclosed, such as the Extended Range Electronic Projectile (XREP) and the TASER Anti-Personnel Munition (TAPM), as well as other new yet-to-be-announced products expected throughout the year.

We have received numerous questions regarding potential competitors and their expected effect on our sales growth. During the first half of 2005, it is possible that we may see some delays in orders as agencies test and evaluate potential new entrants. However, we are confident TASER is in a strong position to defend our leadership role in the marketplace. We have extensive intellectual property in our patents and trademarks. In addition to our issued patents, we have 19 patents pending including two patent applications with over 140 claims relating to the TASER X26. We have developed significant trade secrets and process technologies over the past decade. We have patents and pending patents on our electronic waveforms, which have been extensively independently studied as outlined above. We believe potential competitors will have a significant task in establishing safety data on a scale comparable to the scientific and medical studies that have been assembled on our TASER devices. Finally, with our field proven M26 product priced at \$399 and our industry leading X26 product priced at \$799, we feel we are well positioned to address both the high performance and price sensitive market segments.

We know the best way to stay ahead of potential competitors is to innovate with our proven TASER technology. Our expanded R&D team is pushing our technology into new frontiers for future products. In fact, we have recently hired a full time patent attorney to ensure our intellectual property portfolio keeps pace with our technological progress and to ensure that our technology is not infringed upon.

We also know that our primary focus must remain on providing the best products and finest service to our customers. We believe we have excellent relationships with our customer base, which includes over 6,000 law enforcement agencies testing or deploying our products. To keep pace with our growth, we have recently expanded our customer service department to ensure that we maintain our reputation for providing highly responsive service to the law enforcement market.

We understand how unsettling these times can be for our investors and we hope that this letter has answered some of your concerns. This company has been in the business of saving lives for over a decade and like you, we take great pride in that fact. We have survived many challenges and built a thriving, dynamic company. Our management team shares these beliefs and is dedicated and focused on continuing to build a great company. We have overcome great challenges through the years. Just like yesterday, today we stand with our supporters building industry leading products and providing

our best service to our customers, just like we will continue to do in the days to come.

In closing, we expect to announce our financial results for the fourth quarter and the year 2004 on February 8, 2005. We appreciate your continued support as we look forward to a bright future and invite you all to visit us during our annual shareholder meeting to be held in our new world-class headquarters this spring.

Thank you for your support,

Rick Smith, Tom Smith (Chief Executive Officer, President)

---

## Case Study Questions

### Question 1

**How would you rate the credibility of Tom Smith, based on this interview?**

Not at all credible

Very Credible

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

### Question 2

**How effectively did Tom Smith answer the questions?**

Very Ineffectively

Very Effectively

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

### Question 3

**How effectively did Tom Smith handle this chance of media exposure?**

Very Ineffectively

Very Effectively

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

### Question 4

**How effectively was Taser's B2I brand communicated in the interview?**

Very Ineffectively

Very Effectively

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

### Question 5

**How effectively did Tom Smith use relevant metrics to support his answers?**

Very Ineffectively

Very Effectively

1	2	3	4	5	6	7	8	9	10
---	---	---	---	---	---	---	---	---	----

***Question 6***

**Do you think that the open letter to Taser's shareholders and customers was consistent with Tom Smith's interview? If not, why?**

***Question 7***

**What could Tom Smith do better in this interview?**

**Discussion Question**

**The Taser case highlights many of the different elements that make up an effective IR program and what happens when things go wrong.**

**Examine this case and discuss it with reference to each of today's workshop module themes and components.**