

Bloomberg.com

Bloomberg.com, May 18, 2008

Taser Imperiled by Shrinking Police Budgets, Rising Short Sales

By Meg Tirrell

May 18 (Bloomberg) — [Taser International Inc.](#), the world's largest stun-gun maker, may get a jolt as the U.S. economic slowdown drains tax revenue from police forces that supply more than two-thirds of its revenue.

Six of Taser's 10 [biggest investors](#) that reported stakes in March 31 regulatory filings, including Veredus Asset Management LLC and Emerald Advisers Inc., said they sold shares. Taser has lost 48 percent this year and short interest, a gauge of bets against the stock, averaged 18 percent higher in the first four months of 2008 than in the past three years.

Shrinking state and local government spending "is something that we're watching very closely," Chairman [Tom Smith](#), 40, said in an interview. "We do believe it's going to have somewhat of an impact."

State sales-tax receipts nationwide fell in the first quarter for the first time since 2002, the Albany, New York- based [Nelson A. Rockefeller Institute of Government](#) said May 1.

The states, which generally collect taxes at the same time as municipal governments, expect to have about \$26 billion less than they need to pay bills in the next budget year, the National Conference of State Legislatures reported last month.

The Vallejo, California, police department has felt the revenue squeeze. The city council voted to file for bankruptcy after the worst U.S. housing slump since the 1930s cut into property tax revenue while labor costs climbed.

'Losing Officers'

"We're losing officers right and left," Lieutenant Richard Nichelman said in a telephone interview. The city has 100 Tasers for about 135 officers and probably won't order more devices soon, Nichelman said.

Taser's mainstay, [the pistol-like X26](#), shoots darts attached to wires that carry a 50,000-volt electric shock. The charge causes people to lose muscle control and most collapse. The Scottsdale, Arizona-based company's introduction of a consumer model, the [C2 Personal Protector](#), helped push the shares up 89 percent last year.

Taser got widespread attention in September when police used a stun-gun on a Florida college student at a political event. The student's cry, "[Don't Tase me, bro!](#)," became a national catchphrase and a video of the incident was viewed at least 7 million times on the Internet, according to [Unruly Media](#), a London advertising firm that tracked it.

Death Lawsuits

Taser is a defendant in 37 lawsuits alleging wrongful death or personal injury and has won dismissals in 69 others, according to a May 12 [regulatory filing](#).

The [shares](#) fell 4.5 percent to \$7.52 on the Nasdaq Stock Market on May 16. The stock, which went public at a split-adjusted price of \$1.08 in May 2001, has dropped 77 percent from its all-time high of \$32.59 in December 2004.

While two-thirds of U.S. police departments own at least one Taser, only a third of officers carry them, estimates Minneapolis-based analyst [Steven Dyer](#) of Craig-Hallum Capital Group LLC. The figures show that some departments can't afford more, he said.

“They’re selling to people who don’t have money,” Dyer said in an interview. He lowered his rating to hold from buy after Taser’s first-quarter sales [missed estimates](#) April 24.

“Their customers are municipalities,” Dyer said. When cities have to scrape for money to finance schools and repair roads, “Tasers become a lot more discretionary.”

The 11 percent first-quarter revenue miss was the first in a year. Four of six [analysts](#) tracked by Bloomberg recommend buying the shares. Two, including Dyer, say hold.

Veredus Asset Management reported selling 545,175 shares in a March regulatory filing, leaving it with 1.98 million shares, and Emerald Advisers pared its stake by 202,306 shares, to 1.18 million. [Kenneth Mertz](#) of Emerald and James Jenkins of Veredus didn’t return calls seeking comment.

Short Sellers

Short interest reached a three-year high of 20.5 million shares in February and was at 16.5 million shares as of April 30. That paralleled a jump in borrowing costs for local governments, as yields for municipal auction-rate securities reached a high of 6.89 percent on Feb. 20.

U.S. law enforcement sales are 70 percent to 75 percent of Taser’s revenue, [Smith](#) said. Taser is counting on consumer and overseas sales to make up for any decline.

Leopard Print

Taser’s civilian model retails for \$300 to \$380 and is available in nine motifs including pink and leopard print. While seven states and Washington, D.C., ban possession of stun guns, the devices drove consumer sales to 10 percent of revenue in the first quarter.

International revenue will grow in the second half of 2008, Smith said. [Overseas sales](#) were \$15.1 million last year, or 15 percent of Taser’s total, up from 4 percent in 2004.

“It’s the sole product out there for a pretty large market opportunity,” [Eric Wold](#), a New York-based analyst for Merriman Curhan Ford & Co., said in an interview. Tampa, Florida-based competitor [Stinger Systems Inc.](#) has a market value of \$11.9 million, compared with Taser’s \$470.6 million.

While tighter municipal spending poses a risk, Tasers provide a return on investment for police departments, [Wold](#) said. He recommends buying the shares.

“You buy a Taser and you get reduction in police officer injuries,” he said. “You reduce those suspect injuries.”

—*With reporting by Margaret Cronin Fisk in Southfield, Michigan, and Michael B. Marois in Sacramento, California. Editors: Pete Young, William Glasgall*

To contact the reporter on this story: [Meg Tirrell](#) in New York at mtirrell@bloomberg.net.