UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

CURRENT REPORT Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

November 7, 2019

Date of Report (Date of earliest event reported)

Axon Enterprise, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

001-16391

(Commission File Number)

86-0741227

(IRS Employer Identification No.)

17800 N. 85th St.
Scottsdale, Arizona 85255
(Address of principal executive offices, including zip code)

(480) 991-0797

(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.00001 Par Value	AAXN	The Nasdaq Global Select Market
	•	

provi	Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following sions:
	Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
	Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
	Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
	Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
	ate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter). Emerging growth company
	emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or ed financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02 Results of Operations and Financial Condition

On November 7, 2019 Axon Enterprise, Inc. (the "Company" or "Axon"), issued a shareholder letter regarding the Company's financial results for its third quarter of 2019. The full text of the letter, together with the unaudited condensed consolidated statements of operations, segment reporting, balance sheets, cash flow information, statistical measures and reconciliations of GAAP to non-GAAP financial measures are attached hereto as Exhibit 99.1.

The information pursuant to Item 2.02 in this report on Form 8-K is being furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section.

Item 9.01 Financial Statements and Exhibits

(d	l))	Ex.	hi	bits

Exhibit Number	Exhibit Description
99.1	Shareholder letter dated November 7, 2019
101	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.
104	The cover page from this Current Report on Form 8-K, formatted as Inline XBRL.
104	The cover page from this Current Report on Form 8-K, formatted as Inline XBRL.

SIGNATURE

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

Dated: November 7, 2019 Axon Enterprise, Inc.

By: /s/ JAWAD A. AHSAN

Jawad A. Ahsan Chief Financial Officer

CONTACT:

Investor Relations Axon Enterprise, Inc. IR@axon.com

Axon Reports Record Revenue of \$131 million; Axon Cloud Grows 42%; Raising Full-Year Revenue Outlook to \$500-\$510 million

Scottsdale, Ariz., November 7, 2019— Axon (Nasdaq: AAXN), the global leader in connected public safety technologies, today released the following quarterly update letter to shareholders.

Dear Shareholders,

Since our August update, we executed on a series of objectives across our product, people, and adjacent markets, and we feel as confident as ever in our strategy and trajectory. We set and delivered on several large goals thus far in 2019 — all with the purpose of driving adoption of our growing software platform, transforming Axon into the leading technology provider for public safety, and serving our ultimate goal of creating safer communities and protecting life.

Importantly, we continue to make substantial progress driving long-term subscriptions. Customers have been rapidly adopting our best-value plans to gain access to more of the Axon network, building upon our historical strength with TASER device and body camera solution subscriptions. Our highest value tiered integrated bundle, for example, of \$199 per officer per month over five years, known as the Officer Safety Plan, includes access to a wide range of benefits including TASER 7, Axon Body 3, and a host of cloud services including Axon Records. In Q3 2019, about a third of our total quarterly bookings, which average about five years per contract, were tied to some version of the Officer Safety Plan.

We are thrilled to be approaching year end with a strong market position and powerful operating platform that will support the next several years of revenue and profit growth.

Product

We have a number of positive updates across our product portfolio.

After completing carrier certification with AT&T FirstNet ReadyTM and Verizon Responder Private Core, we began shipping Axon Body 3, our latest generation camera, in September, as planned. Axon Body 3's cellular communication, wireless data, and geolocation capabilities are poised to revolutionize public safety workflows. And because the majority of our body camera customers are on a multi-year subscription, we expect the majority of our customer base to automatically upgrade to Axon Body 3 over the next three years as we build upon our unmatched, rapidly growing network of cloud-connected cameras and other devices. The portion of agencies choosing to activate the LTE connectivity built into every Axon Body 3 camera is exceeding our expectations and we continue to drive that forward in support of our future vision, where cameras use real-time signals and AI to automate transcription and automatically feed information into Axon Records

Axon Records also achieved a critical milestone in September when the Fresno Police Department went live with a full agency-wide Records Management System (RMS) deployment using our cloud subscription service. Cincinnati Police Department has also started using Axon Records for several critical workloads, including use-of-force reporting, and will continue to deploy additional modules throughout 2020 and beyond as part of an agency-wide RMS upgrade to our service. Fresno and Cincinnati PDs are positive reference customers for Axon as we sign new customers and enhance Axon Records' capabilities over time. As a reminder, Axon Records intends to disrupt the law enforcement software category known as Records Management Systems, or RMS, which powers the workloads for writing, storing, managing and sharing official police incident reports. Axon's strategic advantages in this category include our growing network of cloud-connected sensors and our industry-leading cloud SaaS platform, Axon Evidence (Evidence.com), which today is one of the world's largest repositories of data of any type. Cincinnati PD Police Chief Eliot Isaac said, "We are seeing exceptional benefits with how body camera footage can be directly embedded in our use-of-force, officer accident, citizen complaint and other internal reports."

We are continuing to make progress against our TASER 7 gross margin road map. We are finalizing our new cartridge design that will significantly reduce our bill of materials on the TASER 7 cartridge and we are already seeing cost improvements.

And finally, we are especially proud of our corporate social responsibility and environmental, social and corporate governance (ESG)efforts regarding Axon Fleet 3, our next-generation in-car video system, and automated license plate recognition (ALPR) technology, which is still under development. ALPR is an important tool for keeping communities safe, as it can help apprehend criminals, find missing children, and recover stolen vehicles — but the existing state of the industry lacks privacy safeguards and thought leadership regarding data retention and data ownership. Axon is leveraging the power of AI to significantly reduce the cost of ALPR systems, making it affordable for every patrol. We are simultaneously addressing industry shortcomings to improve data security, transparency and privacy, and creating an ethical framework to help prevent misuse. Taking a thoughtful approach to issues around AI use in policing, and incorporating guidelines created by Axon's AI and Policing Technology Ethics Board, creates greater long-term value for all our stakeholders: our communities, our customers, and shareholders.

People

Among the most important elements of Axon's success is our people and culture. We have more than 1,500 dedicated employees, a deep management bench and a best-in-class Board of Directors who all bring passion to the business every day. In recent months we have further strengthened our team with additions to both management and the Board.

In August, Caitlin Kalinowski joined Axon's Board of Directors, expanding the total number of independent directors to seven. Caitlin is the Head of VR Hardware for the Augmented Reality/Virtual Reality division at Facebook and a recognized leader in virtual reality and product design. She is responsible for the product design and engineering of Oculus's award-winning VR devices, has led technical teams at Apple for the Mac Pro and MacBook Air, and was part of the original Unibody MacBook Pro team. She is already bringing her considerable hardware expertise to discussions with our product teams, and providing input on our VR-based officer training platform. We are thrilled to have her as a member of our Board.

In September, Jeff Kunins was appointed Chief Product Officer and Executive Vice President of Software, and is responsible for running our global software hub in Seattle. Jeff was most recently with Amazon, where he was Vice President of Alexa Entertainment and led Alexa's global experience, developer platform, and strategic partnerships for music, video, and podcasts across over 100 million Alexa-enabled devices. He has also served in diverse roles including VP of Kindle's global reading experience at Amazon, General Manager of Product and Design at Skype and General Manager of Windows Live Messenger at Microsoft. Jeff is leading Axon's effort to bring to public safety the product experience that consumers have come to expect, and to do so in a way that creates long-term value for our customers, the communities they protect, and Axon. We are thrilled to have him join our executive team.

Adjacent Markets

In Q3, the US Forest Service became the first federal agency to outfit all of its officers with TASER devices and body cameras, backed by Axon Evidence. This win was a direct result of Axon's decision a few years ago to make an investment to obtain FedRAMP certification, which would allow federal government customers to store data in our cloud. Since achieving certification in April, we began making more of a concerted effort to capture the federal law enforcement market, which employs more than 120,000 full-time civilian law enforcement officers across dozens of agencies, the largest of which are the Department of Homeland Security and the Department of Justice.

In October, Canada's York Regional Police, a major Canadian agency, joined the Axon network with the adoption of the Axon Fleet 2 in-car video system. The agency also purchased 6x more software licenses than camera hardware licenses, showcasing that customers see value in our standalone cloud services. The York Regional Police represent our second international Axon Fleet customer, after a UK agency adopted Axon Fleet in June.

Lastly, we are beginning to see positive momentum in the prisons and corrections market, with trials of Axon's body camera and TASER devices leading to significant reductions in staff assaults, use-of-force incidents, and excessive force complaints. The corrections market is adjacent to law enforcement and one that we believe Axon can capture with minimal additional R&D investment. In the US, there are about 430,000 correctional officers and about 92,000 probation and parole officers, and we estimate that TASER device penetration among these officers is minimal, while body camera penetration is nearly zero.

We have tended to be conservative in sizing and discussing our \$8.4 billion total addressable market, which *excludes* opportunities in US federal law enforcement, international Axon Fleet, and prisons and corrections. These early proof points suggest that our annual total addressable market is likely much larger.

Summary of Q3 2019 Results

- Revenue of \$131 million represents 25% year-over-year growth, and reflects strength across both our TASER and Software and Sensors segments. Drivers of
 sequential revenue growth (up 16%) were primarily TASER 7 unit shipments, international demand for Axon Cloud services, increased demand for our legacy
 TASER devices, and growth of Axon Fleet in-car video systems.
- Gross margin of 61.3% increased from 58.3% in Q2 2019, driven by strength across the business.
- Operating expenses of \$74 million include approximately \$4.4 million of incremental "catch up" stock-based compensation expense and reflect ongoing cost discipline, which drove operating leverage in the quarter.
 - Specifically, SG&A included \$4.0 million and R&D included \$0.4 million of stock-based compensation expense for the third tranche of our CEO Performance Award and eXponential Stock Performance Plan ("XSPP") for which the third performance goal became probable of attainment during Q3 2019.
- GAAP EPS was \$0.10; Non-GAAP EPS of \$0.28 excludes non-cash stock-based compensation expense and an impairment charge.
 - GAAP EPS includes the \$4.4 million of "catch-up" stock-based compensation expense referred to above. For more details about Axon's innovative stock-based compensation plans, which were approved by shareholders and align the interests of management and employees with shareholders, please see our online FAQ.
- Adjusted EBITDA was a record \$24 million.
- Cash and investments grew \$16.5 million sequentially to approximately \$353 million. Axon's strong balance sheet, with zero debt, provides us with the latitude to continue growing our subscription contracts as a percentage of revenue.

Financial commentary by segment

TASER

		Three Months Ended			Chan	ge
	 September 30, 2019	June 30, 2019	Se	ptember 30, 2018	QoQ	YoY
		(in thousands)				
Net sales	\$ 71,743	\$ 60,572	\$	63,666	18.4%	12.7%
Gross margin	63.1%	59.9%		69.8%	320bp	-670bp

- TASER revenue of \$72 million reflected strong sales of the TASER 7, including the unmet demand at the end of the second quarter, as well as strength in our legacy product lines.
- TASER gross margin of 63.1% increased sequentially from 59.9% in Q2 2019.
 - TASER segment sequential gross margin improvement was driven by higher fixed cost absorption due to increased unit shipment volumes, increased
 contribution from subscription revenue tied to TASER-related cloud software and subscription cartridges, lower build costs associated with the
 TASER 7 cartridge as well as an improvement in TASER 7 scrap costs. Gross margin strength was partially offset by hardware shipment mix.

Software and Sensors

		,	Three Months Ended			Chan	ge
Septe	ember 30, 2019		June 30, 2019	Sep	otember 30, 2018	QoQ	YoY
			(in thousands)				
\$	34,021	\$	31,822	\$	23,913	6.9%	42.3%
	75.8%		73.0%		73.9%	280bp	190bp
\$	25,073	\$	19,968	\$	17,257	25.6%	45.3%
	36.4%		30.1%		20.6%	630bp	1580bp
		75.8% \$ 25,073	\$ 34,021 \$ 75.8%	(in thousands) \$ 34,021 \$ 31,822 75.8% 73.0% \$ 25,073 \$ 19,968	September 30, 2019 June 30, 2019 September 30, 2019 (in thousands) \$ 34,021 \$ 31,822 \$ 73.0% \$ 25,073 \$ 19,968 \$	September 30, 2019 June 30, 2019 September 30, 2018 (in thousands) \$ 34,021 \$ 31,822 \$ 23,913 75.8% 73.0% 73.9% \$ 25,073 \$ 19,968 \$ 17,257	September 30, 2019 June 30, 2019 September 30, 2018 QoQ (in thousands) \$ 34,021 \$ 31,822 \$ 23,913 6.9% 75.8% 73.0% 73.9% 280bp \$ 25,073 \$ 19,968 \$ 17,257 25.6%

• Continued demand for our software offerings drove 42% year-over-year growth in Axon Cloud revenue to \$34 million.

- Axon Cloud gross margin of 75.8% increased year over year and sequentially due to a lower mix of professional services costs and optimized cloud costs. The
 software-only revenue in this segment, which includes cloud storage and compute costs, has consistently carried a gross margin above 80%.
- Sensors and Other revenue, which largely consists of product hardware, grew 45% year over year to \$25 million, with strength driven by initial Axon Body 3 hardware shipments, favorable pricing on Axon Body 2 hardware, and strength in Axon Fleet in-car video system.
- Sensors and Other gross margin of 36.4% was strong due to mix. As a reminder, we manage toward a 25% gross margin for camera and sensors hardware.

Forward-Looking Performance Indicators:

	Sep	tember 30, 2019	June 30, 2019	M	Iarch 31, 2019	December 31, 2018			otember 30, 2018
				(\$	in thousands)				
Annual recurring revenue (1)	\$	141,540	\$ 129,452	\$	122,276	\$	108,496	\$	101,618
Cumulative Axon software seats booked		428,600	397,800		371,100		347,200		325,200
Percentage of TASER devices sold on a recurring paymer plan	nt	55%	60%		42%		35%		33%
Software and Sensors bookings	\$	128,208	\$ 142,004	\$	76,391	\$	109,779	\$	92,895
Total company future contracted revenue	\$	1,130,000	\$ 1,050,000	\$	930,000	\$	900,000	\$	820,000

⁽¹⁾ Monthly recurring license, integration, warranty, and storage revenue annualized.

- Annual recurring revenue grew 39% year over year to approximately \$142 million and reflects only that portion of 428,600 booked seats that is already online
 and contributing to revenue.
- Software and Sensors bookings of \$128 million reflects strong demand for our Officer Safety Plan integrated bundled offerings, which represented about 38% of Software and Sensors bookings in the quarter.
- We have substantially moved the needle on driving TASER subscription bundles in the past year. Approximately 55% of all weapons sold in Q3 were on a recurring payment plan, compared with 33% a year ago. In the United States, recurring payment plans accounted for 64% of new TASER contracts, with TASER 7 contracts driving subscriptions. This represents significant progress on transitioning the TASER business to a subscription model.
- Total company future contracted revenue was \$1.13 billion. The \$1.13 billion shown is limited to revenue from arrangements that meet the definition of a contract under Topic 606 as of September 30, 2019. We expect to recognize between 15% to 20% of this balance over the next 12 months and generally expect the remainder to be recognized over the following five to seven years, subject to risks related to delayed deployments, budget appropriation or other contract cancellation clauses.

Outlook

Axon Body 3's successful manufacturing ramp and on-plan Q3 ship date supports our upwardly revised full year revenue guidance.

- We are raising our annual revenue outlook range to \$500 million-\$510 million, from \$485 million-\$495 million;
- We are reiterating our expectations for annual Adjusted EBITDA of \$80 million;
 - We expect Adjusted EBITDA margin to improve sequentially in Q4 2019 driven by leverage on operating expenses, partially offset by gross margin pressure due to increased hardware mix.
 - The expected strength of Axon Body 3 and TASER 7 cartridge shipments will result in an increased mix of lower margin hardware revenue in Q4 2019. We expect to continue driving opportunities to layer in more cloud services, which will increase our mix of higher margin software revenue over time.

- We expect stock-based compensation expenses to be approximately \$41 million for the full year, which is subject to change depending on our assessment of the probability of attaining operational metrics for the CEO Performance Award and XSPP awards, and the expected timing of such attainment; and
- We expect a normalized tax rate of 20% to 25%, which can fluctuate depending on geography of income and the effects of discrete items, including changes in our stock price.

Axon is developing products that serve law enforcement and public safety professionals, who are present in some of the most significant moments in people's lives. This means that ultimately our products serve the communities and people whom our customers protect. We take our public mission seriously and believe our business is well-positioned to continue serving our customers and communities while creating long-term value for our shareholders.

Signed,

Rick Smith, CEO Luke Larson, President Jawad Ahsan, CFO

Quarterly conference call and Webcast

We will host our Q3 2019 earnings conference call on November 7 at 2 p.m. PT / 5 p.m. ET.

The call will be available via live audio webcast and archived replay on Axon's investor relations website at https://investor.axon.com.

Statistical Definitions

Software and Sensors bookings are an indication of the activity the Company is seeing relative to Software and Sensors hardware, software and Axon Evidence. We consider bookings to be a statistical measure defined as the sales price of orders (not invoiced sales), including contractual optional periods we expect to be exercised, net of cancellations, inclusive of renewals, placed in the relevant fiscal period, regardless of when the products or services ultimately will be provided. Most bookings will be invoiced in subsequent periods.

Due to municipal government funding rules, in some cases certain of the future period amounts included in bookings are subject to budget appropriation or other contract cancellation clauses. Although Axon has entered into contracts for the delivery of products and services in the future and anticipates the contracts will be fulfilled, if agencies do not exercise contractual options, do not appropriate money in future year budgets or do enact a cancellation clause, revenue associated with these bookings may not ultimately be recognized, resulting in a future reduction to bookings.

For more information relative to our revenue recognition policies, please reference our SEC filings.

Non-GAAP Measures

To supplement the Company's financial results presented in accordance with GAAP, we present the non-GAAP financial measures of EBITDA, Adjusted EBITDA, Non-GAAP Net Income, Non-GAAP Diluted Earnings Per Share and Free Cash Flow. The Company's management uses these non-GAAP financial measures in evaluating the Company's performance in comparison to prior periods. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing its performance, and when planning and forecasting our future periods. A reconciliation of GAAP to the non-GAAP financial measures is presented herein.

- EBITDA (Most comparable GAAP Measure: Net income) Earnings before interest expense, investment interest income, income taxes, depreciation and amortization.
- Adjusted EBITDA (Most comparable GAAP Measure: Net income) Earnings before interest expense, investment interest income, income taxes, depreciation, amortization, non-cash stock-based compensation expense and pre-tax certain other items (described below).
- Non-GAAP Net Income (Most comparable GAAP Measure: Net income) Net income excluding the costs of non-cash stock-based compensation and
 excluding pre-tax certain other items, including, but not limited to, net gain/loss/write-down/disposal/abandonment of property, equipment and intangible
 assets; loss on impairment; and costs related to business acquisitions. The Company tax-effects non-GAAP adjustments using the blended statutory federal and
 state tax rates for each period presented.
- Non-GAAP Diluted Earnings Per Share (Most comparable GAAP Measure: Earnings Per share) Measure of Company's Non-GAAP Net Income divided by
 the weighted average number of diluted common shares outstanding during the period presented.
- Free Cash Flow (Most comparable GAAP Measure: Cash flow from operating activities) cash flows provided by operating activities minus purchases of property and equipment, intangible assets and cash flows related to business acquisitions.

Caution on Use of Non-GAAP Measures

Although these non-GAAP financial measures are not consistent with GAAP, management believes investors will benefit by referring to these non-GAAP financial measures when assessing the Company's operating results, as well as when forecasting and analyzing future periods. However, management recognizes that:

- these non-GAAP financial measures are limited in their usefulness and should be considered only as a supplement to the Company's GAAP financial
 measures:
- these non-GAAP financial measures should not be considered in isolation from, or as a substitute for, the Company's GAAP financial measures;
- · these non-GAAP financial measures should not be considered to be superior to the Company's GAAP financial measures; and
- these non-GAAP financial measures were not prepared in accordance with GAAP or under a comprehensive set of rules or principles.

Further, these non-GAAP financial measures may be unique to the Company, as they may be different from similarly titled non-GAAP financial measures used by other companies. As such, this presentation of non-GAAP financial measures may not enhance the comparability of the Company's results to the results of other companies.

About Axon

Axon is a network of devices, apps and people that helps public safety personnel become smarter and safer. With a mission of protecting life, our technologies give customers the confidence, focus and time they need to keep their communities safe. Our products impact every aspect of a public safety officer's day-to-day experience.

We work hard for those who put themselves in harm's way for all of us. More than 224,000 lives and countless dollars have been saved with the Axon network of devices, apps and people. Learn more atwww.axon.com or by calling(800) 978-2737.

Alexa is a trademark of Amazon; AT&T is a trademark of AT&T Intellectual Property; Facebook is a trademark of Facebook, Inc.; FirstNet Ready is a trademark of the US Department of Commerce; MacBook Air and MacBook Pro are trademarks of Apple Inc.; Oculus Pro and Oculus Rift are trademarks of Facebook Technologies, LLC; Skype and Windows are trademarks of Microsoft Corporation; Twitter is a trademark of Twitter, Inc.; and Verizon is a trademark of Verizon Trademark Services LLC.

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Forward-looking statements

These forward-looking statements include, without limitation, statements regarding: proposed products and services and related development efforts and activities; expectations about the market for our current and future products and services; expectations about customer behavior; statements concerning projections, predictions, estimates or forecasts as to our business, financial and operational results and future economic performance; and statements of management's strategies, goals and objectives and other similar expressions; as well as the ultimate resolution of financial statement items requiring critical accounting estimates, including those set forth in our Form 10-K for the year ended December 31, 2018. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Words such as "may," "will," "should," "could," "would," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate," and similar expressions, as well as statements in future tense, identify forward-looking statements. However, not all forward-looking statements contain these identifying words.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. The following important factors could cause actual results to differ materially from those in the forward-looking statements: customer purchase behavior, including adoption of our software as a service delivery model; the impact of product mix on

projected gross margins; our ability to manage our supply chain and avoid production delays, shortages, and impacts to expected gross margins; changes in the costs of product components and labor; defects in our products; delayed cash collections and possible credit losses due to our subscription model; exposure to international operational risks; our ability to design, introduce and sell new products or features; our ability to defend against litigation and protect our intellectual property, and the resulting costs of this activity; our exposure to cancellations of government contracts due to appropriation clauses, exercise of a cancellation clause, or non-exercise of contractually optional periods; loss of customer data, a breach of security or an extended outage, including our reliance on third party cloud-based storage providers; negative media publicity regarding our products; changes in government regulations in the U.S. and in foreign markets, especially related to the classification of our product by the United States Bureau of Alcohol, Tobacco, Firearms and Explosives and to evolving regulations surrounding privacy and data protection; our ability to integrate acquired businesses; our ability to attract and retain key personnel; and counter-party risks relating to cash balances held in excess of FDIC insurance limits. Many events beyond our control may determine whether results we anticipate will be achieved. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements. Our Annual Report on Form 10-K lists various important factors that could cause actual results to differ materially from expected and historical results. These factors are intended as cautionary statements for investors within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act. Rea

Except as required by law, we undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q, 8-K and 10-K reports to the SEC.

Please visit https://investor.axon.com, https://www.axon.com/press, www.twitter.com/axon_us and https://www.facebook.com/Axon.ProtectLife/ where Axon discloses information about the company, its financial information, and its business.

For investor relations information please contact Andrea James via email at IR@axon.com.

AXON ENTERPRISE, INC. UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands, except per share data)

			Thre	e Months Ended		Nine Months Ended September 30,					
	Septe	ember 30, 2019	J	une 30, 2019	September 30, 2018		2019		2018		
Net sales from products	\$	96,497	\$	80,391	\$ 80,923	\$	264,977	\$	238,618		
Net sales from services		34,340		31,971	23,913		94,032		66,659		
Net sales		130,837		112,362	104,836		359,009		305,277		
Cost of product sales		42,445		38,220	32,953		120,265		96,474		
Cost of service sales		8,223		8,582	6,250		24,098		15,566		
Cost of sales		50,668		46,802	39,203		144,363		112,040		
Gross margin		80,169		65,560	65,633		214,646		193,237		
Operating expenses:											
Sales, general and administrative		48,424		43,362	39,685		134,678		114,787		
Research and development		25,129		23,493	21,982		71,976		55,602		
Total operating expenses		73,553		66,855	61,667		206,654		170,389		
Income from operations		6,616		(1,295)	3,966		7,992		22,848		
Interest and other income (expense), net		1,820		1,845	1,274		5,978		2,242		
Income before provision for income taxes		8,436		550	5,240		13,970		25,090		
Provision for (benefit from) income taxes		2,332		(188)	(471)		709		(2,032)		
Net income	\$	6,104	\$	738	\$ 5,711	\$	13,261	\$	27,122		
Net income per common and common equivalent shares:											
Basic	\$	0.10	\$	0.01	\$ 0.10	\$	0.22	\$	0.49		
Diluted	\$	0.10	\$	0.01	\$ 0.10	\$	0.22	\$	0.47		
Weighted average number of common and common equivalershares outstanding:	ent										
Basic		59,278		59,187	58,340		59,128		55,681		
Diluted		60,059		60,000	59,805		59,938		57,254		

AXON ENTERPRISE, INC. SEGMENT REPORTING

(Unaudited) (dollars in thousands)

	Three M	onths	Ended Septem	ber 30), 2019	Three	Mont	hs Ended June	30, 2	2019		Three Mo	nths I	Ended Septeml	ber 30	, 2018
	TASER	S	oftware and Sensors		Total	TASER	Software and Sensors		Total		TASER		Software and Sensors		Total	
Net sales from products (1)	\$ 71,424	\$	25,073	\$	96,497	\$ 60,423	\$	19,968	\$	80,391	\$	63,666	\$	17,257	\$	80,923
Net sales from services (2)	319		34,021		34,340	149		31,822		31,971				23,913		23,913
Net sales	71,743		59,094		130,837	60,572		51,790		112,362		63,666		41,170		104,836
Cost of product sales	26,504		15,941		42,445	24,262		13,958		38,220		19,256		13,697		32,953
Cost of service sales	 _		8,223		8,223			8,582		8,582				6,250		6,250
Cost of sales	26,504		24,164		50,668	24,262		22,540		46,802		19,256		19,947		39,203
Gross margin	45,239		34,930		80,169	36,310		29,250		65,560		44,410		21,223		65,633
Gross margin %	63.1%		59.1%		61.3%	59.9%		56.5%		58.3%		69.8%		51.5%		62.6%
Research and development	3,485		21,644		25,129	3,087		20,406		23,493		4,837		17,145		21,982

	Nine	Months	Ended September 30	, 2019		Nin	e Months	Ended September 3	0, 2018	
	TASER	S	oftware and Sensors		Total	TASER	S	oftware and Sensors		Total
Net sales from products (1)	\$ 197,148	\$	67,829	\$	264,977	\$ 187,814	\$	50,804	\$	238,618
Net sales from services (2)	 558		93,474		94,032	_		66,659		66,659
Net sales	197,706		161,303		359,009	187,814		117,463		305,277
Cost of product sales	74,044		46,221		120,265	57,480		38,994		96,474
Cost of service sales	 _		24,098		24,098	_		15,566		15,566
Cost of sales	74,044		70,319		144,363	57,480		54,560		112,040
Gross margin	123,662		90,984		214,646	130,334		62,903		193,237
Gross margin %	62.5%		56.4%		59.8%	69.4%		53.6%		63.3%
Research and development	10,284		61,692		71,976	11,816		43,786		55,602

⁽¹⁾ Software and Sensors "products" revenue consists of sensors, including on-officer body cameras, Axon Fleet cameras, other hardware sensors, warranties on sensors, and other products, and is sometimes referred to as Sensors and Other revenue.

⁽²⁾ Software and Sensors "services" revenue comprises sales related to the Axon Cloud, which includes Axon Evidence, cloud-based evidence management software revenue, other recurring cloud-hosted software revenue and related professional services, and is sometimes referred to as Axon Cloud revenue. TASER "services" revenue similarly includes amounts for Axon Evidence and related professional services.

AXON ENTERPRISE, INC.

UNIT SALES STATISTICS
(Unaudited)
Units in whole numbers

	Thre	ee Months Ended S	September 30,		Nine Months Ended September 30,								
	2019	2018	Unit Change	Percent Change	2019	2018	Unit Change	Percent Change					
TASER 7	17,674	_	17,674	*	34,644	_	34,644	*					
TASER X26P	10,766	18,842	(8,076)	(42.9)	35,244	53,226	(17,982)	(33.8)					
TASER X2	9,819	16,729	(6,910)	(41.3)	29,439	52,767	(23,328)	(44.2)					
TASER Pulse and Bolt	3,923	3,750	173	4.6	8,807	10,908	(2,101)	(19.3)					
Cartridges	566,347	598,119	(31,772)	(5.3)	1,789,084	1,742,207	46,877	2.7					
Axon Body	22,037	17,622	4,415	25.1	68,231	59,798	8,433	14.1					
Axon Flex	5,409	3,487	1,922	55.1	12,508	10,461	2,047	19.6					
Axon Fleet	2,967	1,601	1,366	85.3	7,143	5,537	1,606	29.0					
Axon Dock	3,724	3,525	199	5.6	12,126	13,903	(1,777)	(12.8)					
TASER Cam	899	1,339	(440)	(32.9)	4,356	6,358	(2,002)	(31.5)					

^{*} Not meaningful

AXON ENTERPRISE, INC. RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES (Unaudited) Dollars in thousands

			Th	ree Months Ended				Nine Mor	ths Er	ided
	Septe	ember 30, 2019		June 30, 2019	Sep	tember 30, 2018	Sep	tember 30, 2019	Sep	tember 30, 2018
EBITDA and Adjusted EBITDA:		_				_				
Net income	\$	6,104	\$	738	\$	5,711	\$	13,261	\$	27,122
Depreciation and amortization		2,709		2,687		3,065		8,196		8,226
Interest expense		4		17		16		27		53
Investment interest income		(1,647)		(1,630)		(1,256)		(5,280)		(1,926)
Provision for (benefit from) income taxes		2,332		(188)		(471)		709		(2,032)
EBITDA	\$	9,502	\$	1,624	\$	7,065	\$	16,913	\$	31,443
Adjustments:										
Stock-based compensation expense	\$	13,663	\$	8,627	\$	6,255	\$	30,195	\$	15,302
Transaction costs and adjustments related to business acquisition		_		_		_		_		1,382
Loss on disposal and abandonment of intangible assets		33		_		2,049		51		2,103
Loss on disposal, abandonment, and impairment of property and equipment, net		845		1,321		137		2,408		290
Adjusted EBITDA	\$	24,043	\$	11,572	\$	15,506	\$	49,567	\$	50,520
Net income as a percentage of net sales		4.7%		0.7%		5.4%		3.7%		8.9%
Adjusted EBITDA as a percentage of net sales		18.4%		10.3%		14.8%		13.8%		16.5%
Stock-based compensation expense:										
Cost of product and service sales	\$	312	\$	237	\$	93	\$	775	\$	359
Sales, general and administrative		9,508		4,941		3,748		19,130		8,783
Research and development		3,843		3,449		2,414		10,290		6,160
Total	\$	13,663	\$	8,627	\$	6,255	\$	30,195	\$	15,302

AXON ENTERPRISE, INC. RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES - continued

(Unaudited)

Dollars in thousands, except per-share amounts

			Th	ree Months Ended			Nine Months End	ded Se	ptember 30,
	Septe	ember 30, 2019		June 30, 2019	S	September 30, 2018	2019		2018
Non-GAAP net income:				_					
GAAP net income	\$	6,104	\$	738	\$	5,711	\$ 13,261	\$	27,122
Non-GAAP adjustments:									
Stock-based compensation expense		13,663		8,627		6,255	30,195		15,302
Loss on disposal and abandonment of intangible assets		33		_		2,049	51		2,103
Loss on disposal, abandonment, and impairment of property and equipment, net		845		1,321		137	2,408		290
Transaction costs and adjustments related to business acquisition		_		_		_	_		1,382
Income tax effects		(3,654)		(2,517)		(2,048)	(8,205)		(4,629)
Income tax benefit of CEO stock option exercise		_				_	_		(3,362)
Non-GAAP net income	\$	16,991	\$	8,169	\$	12,104	\$ 37,710	\$	38,208

			Thr	ee Months Ended			 Nine Months End	ded S	eptember 30,
	Septem	ber 30, 2019		June 30, 2019	Sep	otember 30, 2018	2019		2018
Non-GAAP diluted earnings per share:									
GAAP diluted earnings per share	\$	0.10	\$	0.01	\$	0.10	\$ 0.22	\$	0.47
Non-GAAP adjustments:									
Stock-based compensation expense		0.23		0.14		0.10	0.50		0.27
Loss on disposal and abandonment of intangible assets		_		_		0.03	_		0.04
Loss on disposal, abandonment, and impairment of property and equipment, net		0.01		0.02		_	0.04		0.01
Transaction costs and adjustments related to busines acquisition	s	_		_		_	_		0.02
Income tax effects		(0.06)		(0.04)		(0.03)	(0.14)		(0.08)
Income tax benefit of CEO stock option exercise		_		_		_	_		(0.06)
Non-GAAP diluted earnings per share (1)	\$	0.28	\$	0.14	\$	0.20	\$ 0.63	\$	0.67
Weighted average number of diluted common and common equivalent shares outstanding (in thousands)		60,059		60,000		59,805	59,938		57,254

⁽¹⁾ The per share calculations for GAAP net income, Non-GAAP adjustments and Non-GAAP diluted earnings per share are each computed independently. Per share amounts may not sum due to rounding.

AXON ENTERPRISE, INC. CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

		ember 30, 2019	Dece	mber 31, 2018
ASSETS	((Unaudited)		
Current Assets:				
Cash and cash equivalents	\$	202,551	\$	349,462
Short-term investments	Φ	108,913	Ф	349,402
Accounts and notes receivable, net		149,013		130,579
Contract assets, net		33,602		130,379
Inventory		40,666		33,763
Prepaid expenses and other current assets		41,277		30,391
Total current assets		576,022	_	558,155
Total current assets		370,022		336,133
Property and equipment, net		42,592		37,893
Deferred income tax assets, net		23,290		19,347
Intangible assets, net		13,528		15,935
Goodwill		24,876		24,981
Long-term investments		41,391		_
Long-term notes receivable, net of current portion		33,463		40,230
Other assets		37,142		22,999
Total assets	\$	792,304	\$	719,540
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Accounts payable	\$	14,638	\$	15,164
Accrued liabilities		35,745		41,092
Current portion of deferred revenue		127,160		107,016
Customer deposits		2,294		2,702
Other current liabilities		3,997		37
Total current liabilities		183,834		166,011
Deferred revenue, net of current portion		82,149		74,417
Liability for unrecognized tax benefits		3,443		2,849
Long-term deferred compensation		3,694		3,235
Other long-term liabilities		11,537		5,704
Total liabilities		284,657		252,216
Stockholders' Equity:				
Preferred stock		_		_
Common stock		1		1
Additional paid-in capital		480,747		453,400
Treasury stock		(155,947)		(155,947
Retained earnings		184,644		171,383
Accumulated other comprehensive loss		(1,798)		(1,513
Total stockholders' equity		507,647		467,324
Total liabilities and stockholders' equity	\$	792,304	\$	719,540

AXON ENTERPRISE, INC. UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

			Thre	ee Months Ended		 Nine Months En	ded Se	ptember 30,
	Septem	ber 30, 2019		June 30, 2019	 september 30, 2018	2019		2018
Cash flows from operating activities:								
Net income	\$	6,104	\$	738	\$ 5,711	\$ 13,261	\$	27,122
Adjustments to reconcile net income to net cash provided by operating activities:								
Depreciation and amortization		2,709		2,687	3,065	8,196		8,226
Loss on disposal and abandonment of intangible assets		33		_	2,049	51		2,103
Loss (gain) on disposal and impairment of property and equipment, net		845		1,321	137	2,408		290
Stock-based compensation		13,663		8,627	6,255	30,195		15,302
Deferred income taxes		(2,635)		(1,888)	(2,268)	(3,946)		(2,326
Unrecognized tax benefits		(19)		306	(113)	594		99
Other noncash, net		1,101		926	4	2,923		34
Change in assets and liabilities:								
Accounts and notes receivable and contract assets		(19,491)		10,988	(26,381)	(30,497)		(51,172
Inventory		1,213		(3,579)	4,525	(6,302)		9,033
Prepaid expenses and other assets		(6,206)		(2,609)	(4,652)	(11,967)		(12,081
Accounts payable, accrued liabilities and other liabilities		3,224		(9,468)	6,994	(13,528)		4,306
Deferred revenue		21,899		3,345	21,204	28,476		31,700
Net cash provided by operating activities		22,440		11,394	16,530	19,864		32,636
Cash flows from investing activities:								
Purchases of investments		(100,701)		(36,670)	_	(242,693)		(4,331
Proceeds from call / maturity of investments		66,888		25,319	3,620	92,207		10,658
Purchases of property and equipment		(4,250)		(2,590)	(2,215)	(12,111)		(6,880
Purchases of intangible assets		16		(182)	(206)	(328)		(460
Business acquisitions, net of cash acquired		_		_	24	_		(4,990
Net cash provided by (used in) investing activities		(38,047)		(14,123)	1,223	(162,925)		(6,003
Cash flows from financing activities:								
Net proceeds from equity offering		_		_	_	_		233,993
Proceeds from options exercised		2		4	127	106		713
Income and payroll tax payments for net-settled stock awards		(1,136)		(873)	(1,166)	(3,268)		(11,973
Payment of contingent consideration for business acquisitions		_		_	_	_		(575
Net cash provided by (used in) financing activities		(1,134)		(869)	(1,039)	(3,162)		222,158
Effect of exchange rate changes on cash and cash equivalents		(426)		(319)	157	(678)		(381
Net increase (decrease) in cash and cash equivalents and restricted cash		(17,167)		(3,917)	16,871	(146,901)		248,410
Cash and cash equivalents, beginning of period		221,293		225,210	309,977	351,027		78,438
Cash and cash equivalents, end of period	\$	204,126	\$	221,293	\$ 326,848	\$ 204,126	\$	326,848

AXON ENTERPRISE, INC. SUPPLEMENTAL CASH FLOW INFORMATION (Unaudited) (in thousands)

	Septe	September 30, 2019		June 30, 2019		September 30, 2018		September 30, 2019		mber 30, 2018
Cash and cash equivalents	\$	202,551	\$	219,720	\$	324,371	\$	202,551	\$	324,371
Restricted cash		1,575		1,573		2,477		1,575		2,477
Cash, cash equivalents and restricted cash, end of period	\$	204,126	\$	221,293	\$	326,848	\$	204,126	\$	326,848
	Sente	omber 30 2019		Months Ender		eptember 30,		Nine Months En	ded Sep	
	Septe	ember 30, 2019		Months Ended		eptember 30, 2018		Nine Months En	ded Sep	2018
Net cash provided by operating activities	Septe \$	22,440					\$		ded Sep	
Net cash provided by operating activities Purchases of property and equipment		,	Ju	une 30, 2019	\$ Se	2018	\$	2019		2018

18,206

\$

Cash flows related to business acquisitions

Free cash flow, a non-GAAP measure

24

14,133 \$

8,622 \$

(4,990)

20,306

7,425 \$