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TASER International, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you, sir. (Operator instructions) Our first question is from Paul Coster with JP Morgan.

Paul Coster – JP Morgan

Thank you and good morning.

Rick Smith

Good morning.

Paul Coster – JP Morgan

The improvement in gross margins of course is much welcome. And first question really is do you feel that this is sustainable particularly in the context of so many new products coming to market. Traditionally no new products attract lower absorption rates initially instead of way for a while. What's the outlook say looking out six months and beyond?

Dan Behrendt

Yes, that's a good question, Paul. This is Dan. Obviously as we look to the new products we are making sure that we have set prices appropriately and make sure that the manufacture ability of the products as they come into commercial production so that the short-term impact is minimized. Certainly our target is to keep gross margins above that 60% level and yes, we feel that we've got the right team in place in making the right steps now to continue to drive those efficiencies to offsetting the startups you have in new products but one of the things I think we've learned from some of the new products is there it is over the last couple of years is that the criticality of making sure that manufacturability is built in the products from day one and that as we ramp up production there's not any hiccups and we can go right to commercial production without having any significant impacts to margins.

Rick Smith

I don't know whether we continue to see margins in proving some of their (inaudible) or some product mix since some other things in that as well. That is where Dan is saying we are pretty confident that we'll be able to sustain on the 60% margin levels in our plan.

Paul Coster – JP Morgan

The R&D that you are putting into AXON, once you've got AXON ready, assuming at that point that you haven't got more new products in the pipeline which of course is unrealistic hypothesis, but would R&D then come down in a sort of all things being equaled?

Rick Smith

Yes, we are – a lot of that research and development money is being spent on external resources like ModaVista, that's a significant software element to this. We are also using external design resources mechanically and then there's of course the PC network software which we are using both outside resources and we are building some internal capabilities as well. So, the short answer is if AXON ended up not being a success, we'll not build a huge infrastructure that would be an ongoing expense. So, there is the ability to basically push – R&D expenses background at historic levels. Now of course if it takes off like we think it will, then we see that that platform will provide a interesting and exciting platform for us to deliver other types of software services and communication services to our customers. So, on a success basis, we'd probably continue to see R&D levels closer to the new levels that we are at, but it's not that we've invested in internal infrastructure to where it cannot be downwardly adjusted for some reason it didn't workout.

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