Zacks Small-Cap Research

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Guardian 8 Holdings (GRDH-OTCQB)

GRDH: Year-end results reported. Sales directors hired. Incident documented. Pilot program announced. Maintain target of $0.90.

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	09/12/2013
Current Price (04/04/14)	$0.50
Six- Month Target Price	**$0.90**

OUTLOOK

Guardian 8 Holdings is the developer and manufacturer of the G8 Pro V2, a non-lethal security device designed for use in the professional security industry. The innovative product has created a new category which management has dubbed Enhanced Non-Lethals (ENL), namely multi-function professional security defense devices positioned between Conducted Electrical Weapons and single-function devices. An initial tranche of 1,800 units for an open order for 10,000 units is in production. We maintain our Outperform rating and price target of $0.90.

SUMMARY DATA

52-Week High	**$0.80**
52-Week Low	**$0.29**
One-Year Return (%)	**47.06**
Beta	**-0.34**
Average Daily Volume (shrs.)	**49,353**
Shares Outstanding (million)	**40.1**
Market Capitalization ($ mil.)	**$20.0**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**7**
Insider Ownership (%)	**33.0**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2013 Estimate	**N/M**
P/E using 2014 Estimate	**N/M**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Protection-Safety**
Zacks Rank in Industry	**6 of 13**

ZACKS ESTIMATES

Revenue
(in thousands of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	0 A	0 A	0 A	0 A	0 A
2013	0 A	3 A	22 A	18 A	44 A
2014	279 E	530 E	1,088 E	1,703 E	3,600 E
2015					5,221 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$0.02 A	-$0.02 A	-$0.01 A	-$0.02 A	-$0.06 A
2013	-$0.02 A	-$0.02 A	-$0.03 A	-$0.04 A	-$0.11 A
2014	-$0.02 E	-$0.02 E	-$0.01 E	$0.00 E	-$0.04 E
2015					-$0.01 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

Quarterly EPS may not equal annual EPS total due to rounding.

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KEY POINTS

- Guardian 8 Holdings has developed and is producing the **G8 Pro V2**, a new non-lethal security device that is designed for use by the professional security industry.
- The introduction of the G-8 Pro V2 has **created a new non-lethal security device category**, which management has named **Enhanced Non-Lethal** (ENL), which is positioned as a multi-function professional security defense device between single-function Conducted Electrical Weapons used by law enforcement and corrections officers and single-function defensive devices (pepper spray, whistles, etc.), primarily designed for the consumer market.
- For the last two years, management has been cultivating interest in the product through exhibitions at trade shows and with direct contact with the security departments of major corporations. As a result of attending five key trade shows during 2013, 350 additional leads were generated within the Private Security and Hospital Security industries.
  - Guardian 8 continues to build awareness and promote adoption of the G8 Pro V2. Most recently, Guardian 8 participated at the ASIS conference in Chicago and the LD Micro Investor conference in Los Angeles.
  - **In May, the company will present before the International Association of Hospital & Safety** (IAHSS) at the organization's annual meeting **in San Diego**.
- Production of an open order for 10,000 units has begun with an initial tranche of 1,800 units.
- The unique attributes of the G-8 Pro V2 are **protected by several patents** filed in the U.S.
- During the first three quarters of 2013, management was focused on transitioning from prototype development to full-scale manufacturing and raising capital to expand operations.
- During the third and fourth quarters of 2013, the first production units were received, and Pro V2s were shipped both to customers for deployment and to prospects for evaluation. Forty-six (46) test and evaluation programs were initiated with strategic customers. The internally developed user-training program certified 52 instructors.
- **2014 is expected to be a breakout year** as Guardian 8 generates significant revenues from its first product.
- The company has received a report regarding a **documented security incident** in which the Pro V2 device was used **successfully to de-escalation a potentially violent situation in a hospital**.
- Management initiated development activities to design and manufacture a personal defense model targeting the consumer market. Retail availability is expected in 2015.
- Guardian 8 has been successful in obtaining capital through equity offerings, the exercise of warrants and the issuance of short-term notes.
- Management aspires to up-list GRDH from OTCQB to NASDAQ.
- We reiterate our Outperform rating and price target of $0.90.

RECENT NEWS

Financial results for the 2013

On April 4, 2013, Guardian 8 Holdings reported financial results for the year ending December 31, 2013. Guardian 8 generated revenues of $43,619 from the sales of newly produced units of the Pro V2 device, as the company transitioned from a development stage company to an operating entity. In addition, many test and evaluation trial units have been dispersed to potential customer but not yet recognized as revenue. The gross margin for the year was 5.8% due to unexpectedly high cost of sales. Our expectations are for the gross margin to approach 70% as sales ramp up. General and administrative expenses increased 137% year-over-year to $3.5 million, primarily due to the company's growing sales and marketing effort, along with significant research and development costs of $794,663. Management anticipates R&D spending on the new consumer product to approach $500,000 in 2014. The net loss for the year was $3.625 million (or $0.11 per diluted share) compared to a loss of $1.768 million (or $0.06) in

2013. Management expects that the company will continue operating at a loss in 2014 and until sufficient revenue is being generated to cover both cost of goods and SG&A expenditures. During 2013, Guardian 8 Holdings raised $1,756,988 through private placements, $51,875 from the exercise of warrants and $958,933 from the issuance of notes payable.

Domestic sales effort of Guardian 8 Holdings achieves milestone

On February 6, 2014, Guardian 8 announced the initial round of **strategic hires for newly created sales director positions**, each responsible for a 10-state region of the U.S. (West, Midwest and Southern). In the near future, Guardian 8 is expected to have a national sales presence as management anticipates to be hiring a sales director for the Atlantic territory (Virginia to upstate New York). Domestic sales directors report to COO Paul Hughes.

Alliance with CALSAGA

On January 9, 2014, the company announced the signing of a two-year agreement with the California Association of Licensed Security Agencies, Guards and Associates (CALSAGA). Under the arrangement, CALSAGA can provide its 90,000+ membership with the opportunity to purchase package deals of a Pro V2 unit, holster and instructor course training at an attractive bundle price point. Guardian 8's domestic sales effort ought to be assisted by the alliance.

On February 27, 2014, Guardian 8 Holdings signed a letter of intent (LOI) with Securitas USA to test the use of the G8 Pro V2. Securitas-USA manages the security programs for 350 North American hospitals, which employ almost 3,000 security officers. This **pilot program** is a direct result of the alliance with CALSAGA, which was announced in January. At least 50 G8 Pro V2 devices will be provided to Securitas USA for a period of 90 days, after which Securitas will provide an evaluation report to Guardian 8. The assessment of the Pro V2 device during real-life security situations should bolster the product's claims as a layered defense system in terms of applicability, usability and effectiveness, especially with the device's distinctive ability to record events with both audio and images.

International Distribution Agreements

The international sales effort also expanded with distribution agreements having been signed with Techkomplekt (**Russia**) and Controles Graficos (**Mexico**) in early February. Techkomplekt has an exclusive distribution arrangement for G8 Pro V2 enhanced non-lethal (ENL) devices and has an initial $25,000 order pending upon the completion of the import customs clearance process. The non-exclusive distribution agreement with Controles Graficos is the second for Guardian 8 in Mexico. An initial $10,000 order is also subject to import clearance procedures. The international sales effort is being coordinated by Jose Rojas, VP of Customer Services.

Production

The first 120 units of the G8 Pro V2 were produced in July 2013. Management validated the manufacturing process by testing units of the initial production run in terms of quality, consistency and functionality. By August 6th, all the units of the initial production run have been delivered to customers for evaluation or deployment. With the initial inventory having been depleted, management decided to re-stock the company's inventory of the Pro V2 with an open production order for 10,000 units, of which the first batch has been delivered and tested.

Having paid a personal visit to the company's headquarters in Scottsdale in mid-January, I can attest that units of the G8 Pro V2 are in stock and have been tested for both quality and functionality as part of the company's Low Rate Initial Production (LRIP) phase. Initially, small production quantities of the Pro V2 are being thoroughly and individually tested to gain a confidence in the performance of the manufacturing process before mass production begins. The inventory build is being funded by the $2.0 million private

placement in November 2013 and a $700,000 revolving line of credit with Cornerstone Bank of Overland Park, Kansas.

Actual Incident Documented at Hospital

On April 3, 2014, Guardian 8 announced that the company had received a documented hospital security incident in which the Pro V2 device was used to defuse a situation. A violent patient assumed a fighting stance with clenched fists and threatened hospital staff. The hospital's security personnel responded to the incident and as the situation escalated, drew out a Pro V2 and deployed a Level 2 response (strobe light, sonic sounder and an automated alert transmission to the command center). Ultimately, the patient voluntarily complied; the Pro V2 recorded the incident on both video and audio. The documentation of the **successful de-escalation of a potentially violent situation in a hospital setting** validates and verifies the precept for the necessity of deploying enhanced non-lethal devices throughout the security industry.

Financial

Subsequent to the 2013 year-end, on January 22, 2014, Guardian 8 announced that a **$700,000 revolving line of credit** has been secured with Cornerstone Bank of Overland Park, KS. The 6% credit line is targeted towards the financing of about half of the company's initial 10,000 unit production order for Pro V2.

On February 12, 2014, Guardian 8 issued **$500,000 of 5-month 12% notes** with three-year warrants attached. The notes mature on July 15, 2014 and the warrants, which were issued one per each dollar of principal amount of the note, are exercisable at $0.50 per share. CEO Stephen Cochennet invested in $400,000 of the notes.

OVERVIEW

Headquartered in Scottsdale, Guardian 8 Holdings (GRDH: OTCQB) is the developer and manufacturer of the **G8 Pro V2**, a **non-lethal security device the designed for use in the professional security industry.** Having completed the R&D phase, the company's initial product is available through the company's website; also, units are currently being evaluated in trial programs by potential corporate customers. For over a year, marketing efforts at national and regional trade shows have garnered significant interest in the G-8 Pro V2, especially by security departments that are charged with guarding employees and facilities of large corporations. After the commercial launch of the company's initial device for the corporate market, management plans to design and sell a personal defense model targeting the consumer market for use by private individuals.
I
Guardian 8 has the design and protective **patents** for the creation of a new category of non-lethal devices for the protection of security personnel and consumers. The category lies between conducted electrical weapons of TASER (for use by law enforcement and corrections officers) and single-action defense devices, such as pepper spray, whistles, etc. (designed for the retail consumer market). By integrating multiple non-lethal technologies with a communications platform, the G-8 Pro V2 offer security officers a **non-lethal layered defense solution**. The company has dubbed this new category as **Enhanced Non-Lethal** (ENL), and the launch of the G-8 Pro V2 constitutes the **creation of this new category** defined as **multi-function professional security defense devices**.

Despite the usually lengthy sales cycle associated by corporate purchasers, **we expect large-scale adoption of Guardian 8's product by the corporate security market** due to the device's unique assortment of scaled responses and attractive price point. The estimated market is over 3 million security officers in the United States in addition to even larger international potential. The company has received interest from distributors in over 15 countries.

The company has been successful in obtaining capital through equity offerings and the exercise of warrants. Between June of 2009 and December 31, 2013, Guardian 8 has raised over $4.0 million: $3,024,485 through private placements of common stock and warrants, $113,625 from the exercise of warrants and $1,828,433 through the issuance of notes payable. Subsequently, a $700,000 revolving line of credit was secured in January and $500,000 of 5-month 12% notes was issued in February.

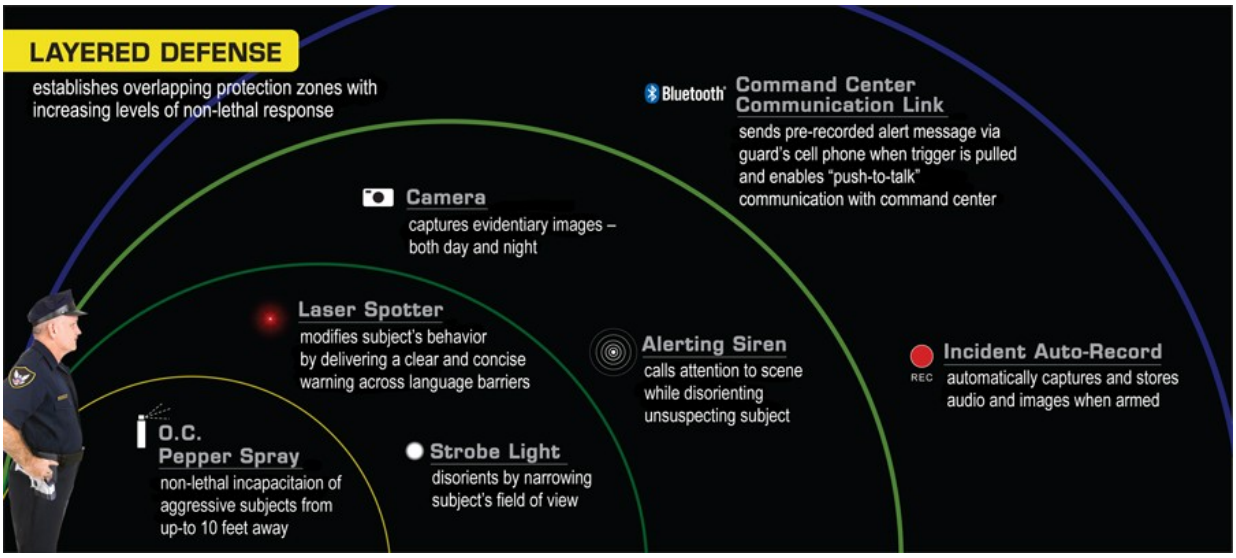
G8 Pro V2

The G8 Pro V2 provides security guards with eight non-lethal methods of action that are designed to de-escalate a confrontation during an encounter with a perceived threat between a security guard and a trespasser. The hand-held unit provides **three levels of response** to an approaching and intensifying threat. The three levels are activated by raising the arming switch, partially depressing the trigger and fully pulling the trigger. Each action provides a different response, which can be custom-programmed by the user.



The G-8 Pro V2 not only is an effective intimidation device that potentially may avert incidents from occurring, but also provides guards with several solutions for communicating with authorities/supervisors and for documenting the engagement, along with four non-lethal defensive countermeasures.

When a subject has not been deterred by the presence of a security officer and is not obeying verbal commands, a **Level I** threat arises which requires a reasonable and measured response both to protect the guard from harm and to prevent liability risk. After withdrawing the G-8 Pro V2 from its holster, the arming switch is raised with the thumb, which arms the unit and activates the high-resolution HD **camera** an auto-record **microphone** and a **red laser targeting beam**. With the subject being informed that he is being filmed and recorded along with the targeting element instantly communicating the seriousness of the situation, the subject may modify his behavior and retreat.



However, if the situation escalates to **Level II**, with a half-pull on the trigger, the guard activates an alerting high-decibel **siren**, an LED **strobe light** and a **prerecorded alert message** is transmitted

through the guard's cell phone (via a patented Bluetooth connection protocol) to the communications command center or any other preprogrammed telephone number (for example, 911). The prerecorded message usually identifies the user, the location and the reason for the initiation of the telephone call. The guard can fully concentrate on the evolving situation without the distraction of reaching for a cell phone or two-way radio. The audible alarm draws attention to the scene, which should unsettle the subject and dissuade a potential attacker from aggression, while at the same time the strobe light impairs the subject's field of view and depth perception. A button on the device enables **push-to-talk communications** for the user to initiate a real-time conversation with the command center (or 911), which may further convince the subject to disengage and opt for an exit strategy.

At Level III, using the laser spotter to target the subject, the guard may deploy oleoresin capsicum (OC) **pepper spray** through a full pull of the trigger. The OC spray is accurate within 10 feet and capable of up to eight bursts or a continuous stream for multiple subjects.

The 8.5-ounce G8 Pro V2 unit has ambidextrous controls and is powered by a rechargeable battery. The OC spray canisters contain 1/2 ounce of OC and has a five-year shelf life. Practice canisters are also available. On the company's web store, the G8 Pro V2 is priced at $279.99.

The use of each of the eight features can be customized through deactivation so that the device can adapt to each specific company's security policies and protocols. Every potential customer views the force continuum differently; for example, the OC spray functionality may be disabled, eliminating all risk exposure to any liability concerning pepper spray.

Protective Patents

The company holds several patents on the attributes of this physical security device, including pairing the device with a cell phone, the procedure of prerecording messages for use when there is a need for assistance (and the associated programmable microprocessor) and the product's unique pistol-shaped housing design.

Incident Reporting

An important feature of the G8 Pro V2 is the **incident reporting** capability of the device to document events and reduce liability. After the event, sometimes corporations and their security guards are required to defend themselves against **legal claims**. Documentation of the encounter with both audio and date/time stamped images aids in the forensic reconstruction of an incident and broadens the scope of probative examination beyond total dependence on human memory. After engaging the arming switch, the camera automatically captures high-resolution images and high-definition videos of the event and stores the recorded images, video and audio evidence to act as an adjunct to eyewitness testimonies. The accuracy of human memory is subject to distortion, namely by intervening cognitive functions of the reconstructive memory process in which an individual's interpretive perceptions are used to fill in the gaps found in episodic memory. Video, image and audio evidence are considered physical evidence that are immune to selective or prejudicial recall and can be used to support a legal case in any potential litigation.

Not only do the recorded video, images and audio of an event reduce the legal risks associated with an incident, but also they **improve the efficiency of incident reporting**, an important and integral part of most security jobs. These digital records aid in documenting and assessing the incident. Many security incident report templates include a physical evidence summary that provides for the reporting of the existence of a video record. Furthermore, the images, video and audio can be utilized by the corporate security office for **guard training** in the future.

Training

Guardian 8 provides **training programs** to instruct users in the proper use of the G-8 Pro V2. Though the multiple capabilities of the device are intuitive to use, the practice afforded in a training session extend beyond reinforcing the procedure for activating each tool. The training also clarifies the guard's role in a confrontation, the appropriate response for given threats, the importance of maximizing distance during the situation and the role of documenting the incident with images and audio. The training programs and demonstrations that Guardian 8 has developed are geared towards the specific needs of each customer, whether a large corporate client or a private patrol security company.

The company offers one-day courses which certify attendees to train other security professionals on the implementation of a layered defense system and the proper use of the G8 Pro V2. The curriculum includes an overview of the digital image, video and audio evidence produced by the device, instructions on downloading and utilizing that evidence, training on the use of the communications platform, the application of the alarm/warning functions (siren and strobe light) and practice in targeting and operating the non-lethal pepper spray. During the course, there will be an emphasis on integrating the communications, warning and OC spray capabilities as a layered, defensive response to defuse a confrontational situation. The training sessions are offered nationally at a cost of $179 per person.

Professional Security Industry

Management is focused on providing enhanced non-lethal devices to the professional security industry. Currently, approximately 1.1 million security guards are employed in the United States, and the number of security jobs is expected to rise to over 1.2 million by 2020.[1] Management estimates the market to be 3.2 million potential users, including transportation security screeners, real estate agents, subpoena servers, etc. but not including the potential demand for protecting postal, utility and delivery personnel. The professional security market is significantly larger than the law enforcement/correctional market that TASER addresses, which is estimated to employ 632,000 police officers and 435,000 correctional officers and jailers.

The professional security industry provides security for personnel and buildings of corporations and governments as well as facilities protection, retail security, executive protection, campus safety, event security, transit security and hospital security. The security guards themselves are often former military and law enforcement personnel as well as civilians whose mission is to protect life and property, which at times requires managing a confrontational situation while dealing with a threat to one's own safety.

Product Potential

Thus far, management has successfully executed the development of the company's initial product, from designing a unique self-defense device, through the R&D and testing phase, to the production of a commercially viable product, all the while marketing the product and building customer interest at industry trade shows across the nation. The company's prototype received the Security's Best award at the ASIS conference in Orlando in September 2011.

Despite the usually lengthy sales cycle associated by corporate purchasers, we expect large-scale adoption of Guardian 8's product by the private security market, especially by major corporations, due to the device's unique assortment of scaled responses and attractive price point. The estimated market is

[1] Bureau of Labor Statistics, U.S. Department of Labor, Occupational Outlook Handbook, 2012-13 Edition, Security Guards (33-9032).

over 3 million personnel providing security for employees, property and assets in the United States. In addition, the potential for significant international demand is high.

The G-8 Pro V2 has been in development for two years with the first production run having been completed in July 2013. Initial market interest is very encouraging. So far, marketing efforts at several private security tradeshows, conferences and industry association meetings have generated **1,200 prospects, of which 60 are Fortune 1000 companies**. Initial sales of Pro V2 test and evaluation units began in the second half of 2013.

In August 2013, Guardian 8 launched its web store. Items available on the website include the G-8 Pro V2, OC pepper spray canisters, water test cartridges, holsters, batteries, battery chargers and training. The company also has web exposure on LinkedIn and YouTube (Guardian8Inc).

As the initial units are deployed by early-adopters, awareness will build. The G-8 Pro V2's relatively low price point at $279.99 per unit (somewhat less than cost of a smart phone) makes the device economically accessible to the protective services industries for broad deployment and **we expect rapid adoption of Guardian 8's ENL by the private security market**, including the security departments of major corporations, hospitals, real estate companies and insurance firms.

In October 2013, Guardian 8 signed Nova Security Group as a distributor to school administrators and campus safety personnel. Nova Security Group provides "less lethal" products to the security industry and has distribution agreements with L3 Communications and Adani of Belarus for body scanners and x-ray baggage scanners, with CIEA (Costruzioni Elettroniche Industriali Automatismi S.p.A.) for walk-through and hand-held metal detectors and Transit for multi-mode hand-held metal detectors. In late October, Phoenix-based provider of security guards for high-end homes and executive protection (King Asset Protection Services LLC) bought 10 Pro V2s and is planning to buy five, all of which will be deployed to the 15 security guards he employs.

Guardian 8 received early interest from **international distributors** serving South Korea and Israel as well as countries in Central and South America, Africa and Europe. Distribution agreements have been signed already with companies in South Korea and Mexico. In particular, the company announced in December 2012 that an order for $10,000 worth of devices had been received from a South Korean distributor. Evaluation units were shipped in July 2013.

The international sales effort was expanded in February 2014 when distribution agreements were signed with Techkomplekt (Russia) and Controles Graficos (Mexico). Eechkomplekt has an exclusive distribution arrangement for G8 Pro V2 enhanced non-lethal (ENL) devices while Controles Graficos entered into a non-exclusive distribution agreement for Mexico. The international sales effort is being coordinated by Jose Rojas, VP of Customer Services.

Management plans to expand into the retail market with a unit specially designed for the consumer, which is expected to be available in retail stores as well as the company's web store in 2015. Currently, it is being contemplated that the consumer model will be smaller than the Pro V2 and be designed with a non-lethal device, HD video camera and emergency communication platform. Also, management is investigating retail sales through other venues such as amazon.com and the Home Shopping Network.

ABBREVIATED CORPORATE TIMELINE

Guardian 8 is an operating company having completed the research and development phase and is generating sales from its first product: the G-8 Pro V2. The company was incorporated as Guardian 6 in June 2009 concurrent with the acquisition of all the patentable intellectual rights to the device.[2] Later that year the company's name was changed to Guardian 8. In November 2010, a reverse merger was completed with Global Risk Management & Investigative Solutions, a company previously focused on security information. Resulting company was named Guardian 8, and management proceeded to design, develop, test and market a prototype of the G-8 Pro V2. After two years of R&D, beta-testing and manufacturing process tooling, the initial production run of 120 test units was completed in July 2013. Due to management's marketing efforts, 100 of the devices were shipped within weeks for evaluation to prospects that previously had expressed keen interest in deploying the device. The remaining 20 were retained for training purposes. Since interest in the initial units has been high, an additional 1,800 units were produced.

- June 8, 2009 Guardian 6 incorporated; patents & right of device acquired
- August 2009 Name changed to Guardian 8
- November 30, 2010 Reverse merger with Global Risk Management & Investigative Solutions
- September 21, 2011 G8 device received Security's Best award from ASIS Accolades
- March 28, 2012 The company's first product, the G8 Pro V2, debuted at the ISC West 2013
- July 2013 Guardian 8 completed initial 120-unit production run; all units deployed
- August 6, 2013 Guardian 8 launch of web store at www.guardian8.com/store
- September 27, 2013 Offered training class at ASIS 2013 conference in Chicago
- October 7, 2013 1st tranche of 1,800 units (part of 10,000 unit open order) in production
- February 4, 2014 Distribution agreements signed with Techkomplekt (Russia) & Controles Graficos (Mexico).
- January 9, 2014 Two-year agreement / alliance with CALSAGA
- February 6, 2014 Hire sales directors for West, Midwest and Southern regions of the U.S.
- February 27, 2014 90 day pilot program with Securitas USA (mgr. of 3,000 security officers)

VALUATION

The appropriate valuation methodology for Guardian 8 is based on price-to-sales (P/S) due the character of Guardian's enterprise, namely a small-capitalization company, currently with negative profitability, but with an expected sales profile that should grow and expand over time as the company's initial product begins to be deployed within the private security industry. Ultimately, the growing revenue stream should manifest itself into positive earnings. The P/S valuation range for a small-cap, protection-safety company with a stable or moderately growing sales profile is usually between 3.0 and 5.5. However, during the early growth phase, when a company appears to have vast potential with the initial product that defines a new category, the top-end of the range can dramatically and significantly expand to well above 30 times sales.

Some insights into the valuation progression can be gleaned by examining the stock of TASER International (TASR: NASDAQ) during its formative years, which appears to be relevant to Guardian 8. Not only do both TASER and Guardian 8 operate in the protection-safety industry and focus on self-defense devices, but also TASER began as a single product company and evolved through the development and introduction of next generation devices. Therefore, TASER International has been analyzed as a benchmark for the valuation of Guardian 8.

[2] The rights, title and interest in all intellectual property rights of the device were acquired from Charles Andy Ross, Jr. for $300,000 in cash and 14.5 million shares of common stock.

In 1994, TASER introduced its first product, AIR TASER, a less-lethal self-defense device for the consumer market (at the time, TASER was prohibited from selling to the U.S. law enforcement and military markets). After a non-compete agreement expired, TASER introduced another product in late 1999 (ADVANCED TASER) which targeted the law enforcement market. The company's IPO in 2001 revealed that TASER had generated revenues of $2.2 million in 1999 and $$3.4 million in 2000. The stock began trading at 3.0 times sales. As the company's sales grew rapidly, over the ensuing 12 months, the P/S valuation range expanded to 18.5 times. The stock then experienced a correction but after a year, rallied again to a valuation level over 40 times sales. When sales plateaued between 2007 and 2012, the valuation range reverted to a range between 3.0 and 5.5 times sales.

We expect the valuation of Guardian 8 to be similar to the TASER analysis. Guardian 8's revenue profile is expected to exhibit dramatic growth through management's execution of its strategy to market the company's novel defense device, which targets an unaddressed need of the security guard industry. Though Guardian 8 is a public company earlier in its life cycle, we expect Guardian's stock to trade initially in a **price-to-sales valuation range between 3.0 and 11.0.** If and when the company's sales exceed $5.0 annually, the stock valuation range is expected to expand to a higher premium multiple that is usually afforded small-cap companies that exhibit rapid sales growth and that operationally cross the breakeven point to profitability, which is also supported by the analysis of TASER's historical valuation profile.

Since Guardian 8 has the potential and is expected to generate meaningful revenues beginning in the fourth quarter of 2013, our price target is based on a price-to-sales ratio valuation using estimated revenues. At a P/S ratio of 11.0 on this year's projected sales of $3.9 million, **our price target is $0.90.** The target remains stable despite our slightly lower projected sales for 2014 because our estimated number of shares outstanding is also lower, which is a factor in determining the numerator in the P/S ratio.

BALANCE SHEET &PROJECTED INCOME STATEMENT

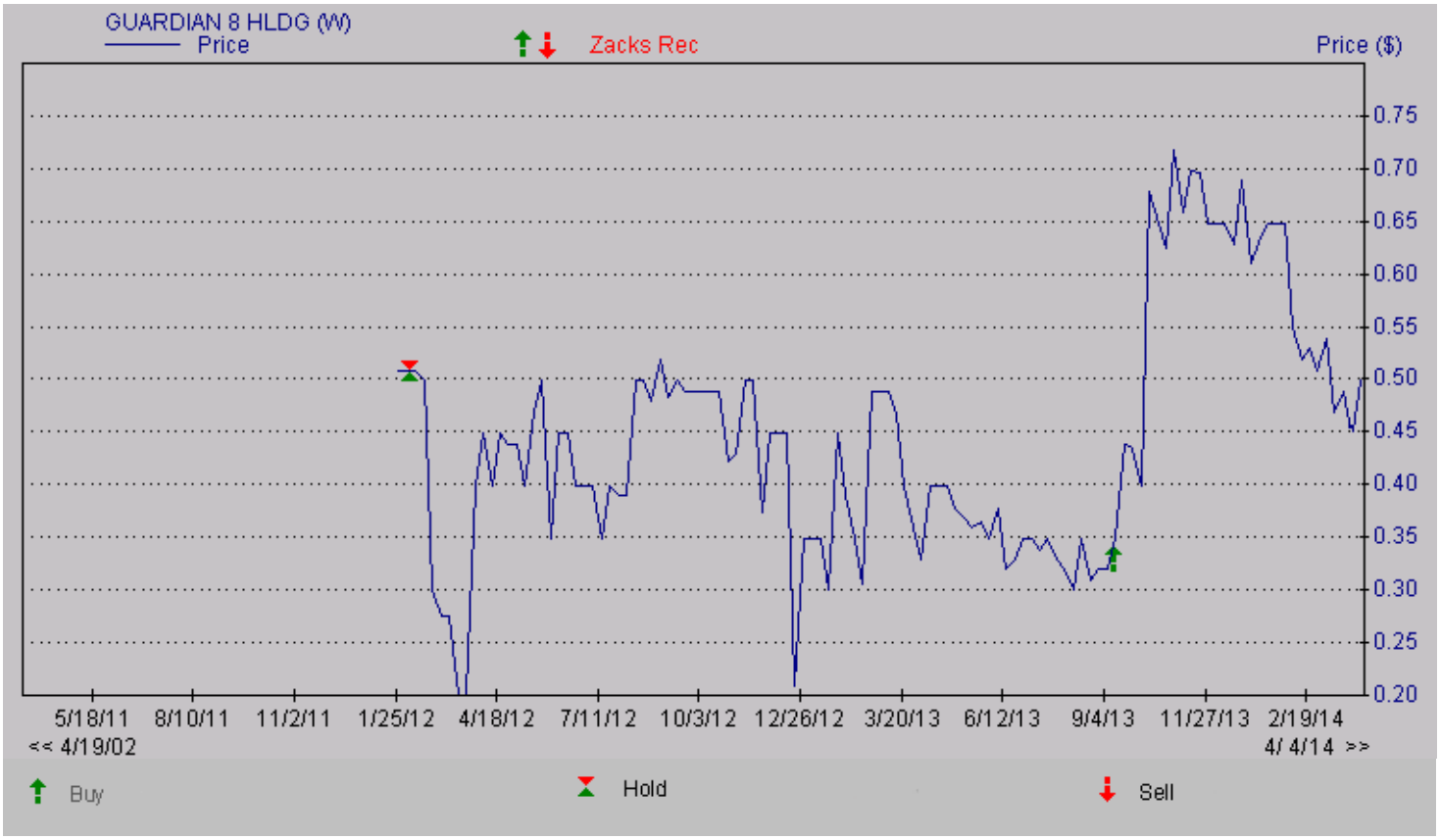
GUARDIAN 8 HOLDINGS	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
ASSETS					
Cash and cash equivalents	15	290,829	195,894	41,855	305,649
Accounts receivable (net)	-	-	-	-	3,767
Prepaid loan costs	-	-	-	-	143,302
Prepaid expenses	0	10,000	64,141	83,508	195,810
Deposits on inventory	0	0	0	0	138,262
Inventory					
Finished Goods	0	0	0	0	41,022
Finished goods on Consignment	0	0	0	0	4,216
Total current assets	**15**	**300,829**	**260,035**	**125,363**	**832,028**
Property and equipment, net	0	0	0	90,297	220,652
Website, net	0	0	20,830	13,019	5,207
Patents, net	10,084	9,568	9,052	7,883	16,310
TOTAL ASSETS	**10,099**	**310,397**	**289,917**	**236,562**	**1,074,197**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable and accrued expenses	75,669	37,410	34,840	82,037	218,266
Deferred revenue	-	-	-	-	1,388
Accrued payroll expense	-	-	-	-	23,737
Accrued interest (related party)	-	-	2,810	2,038	39,133
Accrued interest (unrelated)					3,025
Insurance Payable	-	-	-	-	-
Notes payable (related party)	275,000	0	275,675	200,000	1,023,933
Notes payable (unrelated)	-	-	-	-	100,000
Total current liabilities	**350,669**	**37,410**	**313,325**	**284,075**	**1,409,482**
Stockholders' Equity					
Preferred stock	0	0	0	0	0
Common stock	21,250	26,802	27,412	30,874	37,273
Common stock owed but not issued	0	0	0	1,226	2,856
Paid in Capital	172,500	1,364,448	1,560,123	3,299,780	6,629,143
Deficit accumulated during development stage	(534,320)	(1,118,263)	(1,610,943)	(3,379,393)	(7,004,557)
Total shareholder's equity	**(340,570)**	**272,987**	**(23,408)**	**(47,513)**	**(335,285)**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**10,099**	**310,397**	**289,917**	**236,562**	**1,074,197**
Shares outstanding	26,802,318	26,802,318	27,412,318	30,874,508	37,274,292

GUARDIAN 8 HOLDINGS

Income Statement	Year 2012 12/31/2012	1Q 2013 3/31/2013	2Q 2013 6/30/2013	3Q 2013 9/30/2013	4Q 2013 12/31/2013	Year 2013 12/31/2013
Revenues	**0**	0	3,124	22,527	17,968	**43,619**
Cost of sales	0	0	976	5,720	34,406	41,102
Gross profit	0	0	2,148	16,807	(16,438)	2,517
Operating expenses						
Depreciation and amortization	9,897	2,825	14,574	16,443	16,027	49,869
General and administrative expenses	1,477,930	568,639	676,606	860,148	1,398,366	3,503,759
Total operating expenses	1,487,827	571,464	691,180	876,591	1,414,393	3,553,628
Loss from operations	**(1,487,827)**	(571,464)	(689,032)	(859,784)	(1,430,831)	**(3,551,111)**
Other income (expense):						
Interest (expense)	(280,623)	(8,400)	(13,463)	(18,195)	(33,995)	(74,053)
Loss before income tax	(1,768,450)	(579,864)	(702,495)	(877,979)	(1,464,826)	(3,625,164)
Provision for income tax expense	0	0	0	0	0	0
Net (loss)	**(1,768,450)**	(579,864)	(702,495)	(877,979)	(1,464,826)	**(3,625,164)**
Net loss per share (basic and diluted)	**($0.06)**	($0.02)	($0.02)	($0.03)	($0.04)	**($0.11)**
Wgtd. avg. shares outstanding	28,482,977	32,026,224	33,585,431	34,857,006	35,595,000	34,015,898

Income Statement	Year 2013 12/31/2013	1Q E 2014 3/31/2014	2Q E 2014 6/30/2014	3Q E 2014 9/30/2014	4Q E 2014 12/31/2014	Year Est. 2014 12/31/2014
Revenues	**43,619**	279,000	530,100	1,088,100	1,703,295	**3,600,495**
Cost of sales	41,102	111,600	185,535	304,668	476,923	1,078,726
Gross profit	2,517	167,400	344,565	783,432	1,226,372	2,521,769
Operating expenses						
Depreciation and amortization	49,869	18,078	20,392	23,003	25,947	87,421
General and administrative expenses	3,503,759	893,377	911,245	980,469	1,000,079	3,785,170
Total operating expenses	3,553,628	911,455	931,637	1,003,472	1,026,026	3,872,591
Loss from operations	**(3,551,111)**	(744,055)	(587,072)	(220,040)	200,346	**(1,350,821)**
Other income (expense):						
Interest (expense)	(74,053)	(34,000)	(34,000)	(34,000)	(34,000)	(136,000)
Loss before income tax	(3,625,164)	(778,055)	(621,072)	(254,040)	166,346	(1,486,821)
Provision for income tax expense	0	0	0	0	0	0
Net (loss)	**(3,625,164)**	(778,055)	(621,072)	(254,040)	166,346	**(1,486,821)**
Net loss per share (basic and diluted)	**($0.11)**	($0.02)	($0.02)	($0.01)	$0.00	**($0.04)**
Wgtd. avg. shares outstanding	34,015,898	38,395,000	40,314,750	42,330,488	44,447,012	41,371,812

HISTORICAL ZACKS RECOMMENDATIONS



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