Zacks Small-Cap Research

October 13, 2015

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Guardian 8 Holdings (GRDH-OTC Pink)

GRDH: Re-initiate coverage with a Buy rating.

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	09/12/2015
Current Price (10/12/15)	$0.04
Six- Month Target Price	**$0.07**

OUTLOOK

Guardian 8 Holdings is the developer and manufacturer of the G8 Pro V2, an enhanced non-lethal security device designed for use in the professional security industry. The adoption of ENLs is progressing, albeit slower than originally expected. In April, a corporate reorganization plan was implemented that restructured the company's debt obligations and reduced operating expenses. Guardian 8 continues to announce additional distribution agreements and to report successful resolutions of potentially violent incidents that were non-violently resolved by the deployment of the Pro V2. We re-initiate coverage with a Buy rating.

SUMMARY DATA

52-Week High	**$0.65**
52-Week Low	**$0.03**
One-Year Return (%)	**-93.10**
Beta	**1.15**
Average Daily Volume (shrs.)	**102,764**
Shares Outstanding (million)	**56**
Market Capitalization ($ mil.)	**$2**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**7**
Insider Ownership (%)	**33**
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 2015 Estimate	**N/M**
P/E using 2016 Estimate	**N/M**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Protection-Safety**

ZACKS ESTIMATES

Revenue
(in thousands of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	0 A	3 A	22 A	18 A	44 A
2014	5 A	14 A	20 A	32 A	72 A
2015	48 A	47 A	96 E	110 E	301 E
2016					525 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.02 A	-$0.02 A	-$0.03 A	-$0.04 A	-$0.11 A
2014	-$0.03 A	-$0.03 A	-$0.04 A	-$0.05 A	-$0.16 A
2015	-$0.04 A	-$0.03 A	-$0.04 E	-$0.04 E	-$0.15 E
2016					-$0.13 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. Subsequently, a modified version of the ProV2 was created for consumer use and introduced on July 1, 2015 as a "Limited Edition" ProV2, which is available at the online store on the company's website.
- 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.
- **Management is targeting five high-potential sectors**: hospital & health care facilities, security providers, public venues (such as sports, entertainment and hospitality), university campuses and government service providers.
- For the last three 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. By attending key trade shows, leads are generated within the management's targeted industries.
  - Guardian 8 continues to build awareness and promote adoption of the G8 Pro V2, the most recent being the 61st ASIS International conference in Anaheim (Sept. 28- Oct. 1, 2015) where the company garnered over 200 leads.
  - At the ASIS 60th Annual Seminar, Guardian 8 won the **2014 Campus Safety BEST Award** in the personal gear and equipment category from Campus Safety Magazine.
  - At the 57th Annual ASIS Seminar, Guardian 8 won the **2011 Accolades Award** for "Security's Best".
- The unique attributes of the G-8 Pro V2 are **protected by several patents** filed in the U.S.
- The company continues to receive reports regarding **documented security incidents** in which the Pro V2 device was used **successfully to de-escalation potentially violent situations**.
- During the remainder of 2015 and in 2016, Guardian 8 is expected to continue generating increasing revenues from the sale and deployment of Pro V2s.
- Whether triggered by violent incidents that act as catalysts or prompted by statistics supporting incident deterrence, we expect that the security industry will accept and extensively deploy the enhanced non-lethal Pro V2.
- Guardian 8 has been successful in obtaining capital through equity offerings, the exercise of warrants and the issuance of short-term notes and debentures.
- We re-initiate coverage with a Buy rating.

RECENT NEWS

Corporate Reorganization (April - June 2015)

In April 2015, Guardian 8 implemented a corporate reorganization plan designed to **restructure the company's debt obligations** and **reduce operating expenses** while focusing on generating short sales cycle domestic sales. Operating expenses were reduced through a 40% reduction in the workforce (headcount declined from 18 to 9), reducing annual costs by $675,000. COO Paul Hughes resigned, and the team of regional sales directors was restructured such that six of the eight sales territories are managed now from headquarters. The remaining nine essential employees were subject to a 20% reduction in pay, deferred pay or common shares as compensation. Going forward, direct sales efforts are being supplemented by two-step distribution process whereby a network of distributors is being utilized to provide product for value-added resellers (namely providers of security officers), which add incremental value to the Pro V2 system. The implementation of the new distribution model includes an increase in product pricing to preserve the existing gross margin.

Over 65% of the holders of the company's $7,000,000 in 8% Convertible Senior Secured Debentures approved the reorganization plan and an amendment to the debenture's covenant. The holders were entitled to a deferred cash interest payment on May 1st, which the company was unable to pay. On June 2nd, the First Amendment became effective. The **maturity date** of the debentures was **extended to July 31, 2016** from November 30, 2015, and the conversion share price was reduced from $0.50 to $0.075. As the convertible debentures had been originally issued with 7,000,000 5-year Class C warrants, the Class C warrant share price also was reduced from $0.60 to $0.10. Since the interest on this debt can be paid with shares, the $552,243 in interest owed for the six month period ending June 30, 2015 was paid with 3,381,060 shares of common stock.

The amendment also provides for the ability of the company to issue an additional $5,000,000 of similar Convertible Senior Secured Debentures. Therefore, also on June 2nd, an additional **$625,000 was issued** providing net proceeds of $587,800 (sales commissions totaled $37,200). Later in June, two debenture holders converted a total of $230,000 of debentures into 3,066,667 shares of common stock and 230,000 warrants.

Second Quarter Results

On August 14, 2015, Guardian 8 Holdings reported financial results for the second quarter ending June 30, 2015. Guardian 8 generated revenues of $47,427 from the sales of G8 Pro V2 devices, warranties and training. The devices continue to be sold in small batches for modest new deployments, follow-on orders from existing customers and pilot evaluation programs. Gross profit increased 505% from $3,742 to $22,624 due to more efficient fulfillment services and as a result of a price increase.

Operating expenses declined 13.9% to $772,602 from $889,539 in the comparable quarter last year as a result of a decline in R&D costs and a reduction in consultant fees somewhat offset by an increase in marketing expenses. Interest expense increased 133% to $870,568 from $374,295 in the second quarter of 2014 due to interest payable to debenture holders and amortization of the discount on the debentures and of prepaid loan costs.

For the second quarter, Guardian 8 reported a net loss of $10.77 million (or $0.23 per diluted share), of which $9.15 million was related to the company's reorganization plan, namely a $6.12 million loss on extinguishment of debt and a $3.03 million loss in the change in fair value of derivative liability. Without these two non-cash items, Guardian 8 would have reported a net loss of $1.62 million (or $0.03 per diluted share).

Management continues to anticipate continued losses from operations until sufficient revenues from the sales of the Pro V2 cover operational expenditures and expects to fund operations through additional stock offerings and debt borrowings. During the first six months of 2015, the company financed operations primarily through issuing $625,000 of 8% Convertible Senior Secured Debentures (due of July 31, 2016), issuing $548,400 in common stock and receiving $28,750 through the exercise of warrants, all of which totaled $1,202,150.

The company is in an early stage of development, which includes establishing a new security market for ENLs. The pathway toward the adoption of the Pro V2 is an evolving and unpredictable process. Leads are being followed at educational campuses (universities), hospital & health care facilities, security providers and public venues (such as entertainment and sports). We expect that, at some point, a successful small-scale adoption of the Pro V2 will act as a catalyst to large-scale deployment. Until then, management continues to execute its business and marketing strategies.

Due to the company's ongoing need for cash, management has begun to explore merger and acquisition discussions with both private and public companies.

2015 Operational Accomplishments

In February 2015, Guardian 8 Holdings signed exclusive distribution agreements in **Ecuador** and **Uruguay** and a non-exclusive agreement in **Panama**. The distributors with exclusive agreements each purchased inventory of $25,000 and the non-exclusive distributor acquired $10,000 in inventory.

In April 2015, the company reported the **warranty attachment rose above 90%**. Each warranty adds $75 of incremental revenue per unit sold.

In May 2015, Guardian 8 shipped an initial order of 20 Pro V2 units to the **United Arab Emirates** (UAE) for a pilot program in a metropolitan police department. If it is determined that the de-escalation, documentation and defense capabilities of the Pro V2 are effective, a larger number of police will be outfitted with the device. BWG Trinity assisted Guardian 8 in this international deployment and attendant police officer training. Also, the Ministry of the Interior of the UAE is evaluating the Pro V2 units for deployment to private security personnel in the region, which would require import clearance. Developments in the UAE could stimulate additional deployments in the region where police and private security personnel lack tools to help de-escalate and document potentially violent situations.

In July 2015, **Universal Protection Service**, the 4th largest professional security provider in the U.S., adopted the Pro V2 as an alternative to security contracts as a non-lethal option in equipping security officers. Universal Protection Service has not only endorsed the Enhanced Non-Lethal product, but also included the Pro V2 in its use of force policy, which should increase awareness of the product.

Post-reorganization Financings

On July 31, 2015, the company sold $50,000 of Senior Secured Debentures along with 50,000 Class C warrants to an accredited investor which is related party to the CEO.

The **Second Amendment** to the Securities Purchase Agreement became effective August 11, 2015, under which up to $1,000,000 in unsecured debt may be issued and the time to offer additional Convertible Senior Secured Debentures was extended to September 30, 2015.

On August 13, 2015, Guardian 8 issued a $120,750 8% **Convertible Promissory Note** due August 17, 2016 to Vis Vires Group, Inc. Net proceeds were **$78,983** after an original issue discount of $16,750 and financing and legal fees of $30,017. After 180 days, the Note is convertible into Guardian 8 common stock at a 25% discount to the market price (75% of the average of the lowest three closing bid prices during the last ten trading days).

Awareness Campaign

Management has undertaken a campaign to boost awareness of violent incidents and how the Pro V2 is the appropriate response to deter or de-escalate such incidents, including non-gun violence (assaults and fights) that occurred at a rate over 1,500 per day during 2014 according to the FBI's Crime in the United States report. Utilizing press releases, social media and trade show appearances, Guardian 8 is highlighting that the Pro V2 is the suitable and acceptable solution to violent and potentially violent situations. Recent examples include:

- In early September 2015, the **ABC affiliate in Phoenix** conducting a story on school violence over during multiple evening newscasts during which the Pro V2's value to hospitals, private security and other industries was emphasized.

- On October 3, 2015, **NBC affiliate for Spokane and Northern Idaho** broadcasted an Umpqua Shooting Update with Chris Luther, highlighting "A New Life Saving Device," Guardian 8's Pro V2.

In addition, **Lester Fultz**, Chief of Safety and Security of the Cleveland Public Schools and a nationally recognized authority on school security, has been quoted stating "The ProV2 has met, and exceeded, my expectations. I believe we have found a tool that meets two of our biggest concerns; the safety of students and that of our Officers. **The ProV2 acts as a visual deterrent** that has aided us in our ability to reduce the number and types of incidences allowing us to create safer teaching and learning environments for our students and staff, while reducing the number of injuries to our officers."

OVERVIEW

Headquartered in Scottsdale, Guardian 8 Holdings (GRDH: OTC Pink) is the developer and manufacturer of the **G8 Pro V2**, a **non-lethal security device the designed for use in the professional security industry.** The company's initial product, the Pro V2, is available through the company's website; also, units are currently being evaluated in trial programs by potential corporate customers. For over two years, 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. Management still plans to sell a personal defense model targeting the consumer market for use by private individuals.

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**.

Guardian 8 continues to receive recognition through awards from security organizations, such as **Security's BEST award** at the ASIS conference in September 2011 and the **Campus Safety BEST Award** from Campus Safety Magazine in the Personal Gear & Equipment category in September 2014.

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's layered defense ENL devise is very well suited for deployment in public venues, especially in locations where stun devices and firearms are prohibited by law.

Since Guardian 8's inception, operations have been financed through the issuance of stock, convertible & non-convertible term notes and bank lines of credit. Until the sales of its products and training services can satisfy the company's cash requirements, management expects to raise the necessary funds through stock offerings, note issuances and bank financings.

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 September 2011 and the **Campus Safety BEST Award** from Campus Safety Magazine in the Personal Gear & Equipment category at the ASIS conference in September 2014.

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 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 was in development for two years prior to the first production run 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 at least over 1,200 prospects. Initial sales of Pro V2 test and evaluation units began in the second half of 2013. Over 100 pilot accounts have taken the initial step of purchasing Pro V2 devices for evaluation, and several security firms have deployed the Pro V2 resulting in documented security incidents in which the Pro V2 device successfully de-escalated potentially violent situations.

As the initial units are deployed by early-adopters, awareness should build. The G-8 Pro V2's relatively low price point at $567.90 per starter bundle 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.

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

Domestic Distribution Relationships

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).

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, King Asset Protection Services LLC, a Phoenix-based provider of security guards for high-end homes and executive protection, bought 15 Pro V2s, which were deployed to the 15 security guards he employs.

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.

In June 2014, **Platinum Event Services** of Dallas added the G8 Pro V2 device to its portfolio of security offerings. Platinum Event Services offers a comprehensive menu of security services for events, conventions and property security. Platinum has provided security services for professional NFL sports organizations, NASCAR, concerts, state fairs etc. The Pro V2 ENL security devices allows Platinum to deepen its portfolio of offerings by providing an option between unarmed security officers only equipped with night sticks and security officers carrying firearms, which involves more expense and higher risk of liability. In addition, the incident reporting and communication capabilities of the Pro V2 not only provide documentation of an event, but also enhance the deterrent aspect of the effort to de-escalate situations. In early September, an article appeared in Security Director News, in which the deployment of the Pro V2 to security guards is detailed, along with a couple of confrontations where suspicious activity was successfully curtailed.

On August 27, 2014, Guardian 8 Corporation announced that the Pro V2 will be utilized by security officers of **Anderson Security Agency** at a new District Photo facility that is preparing to open in Phoenix. The one-year contract with District Photo is for a facility with 85 employees. The audio/video incident recording features, along with the non-lethal aspect of the Pro V2, were key differentiating features that led to the winning of the account by Anderson. District Photo is a photo finishing company that serves retail chains like Wal-Mart and Costco.

On September 9, 2014, **Securatex**, a Chicago-based private security provider, announced the deployment of Guardian 8's Pro V2 at a retail shopping mall in North Milwaukee. Securatex won the contract at the mall (which contains 80 tenants and a state government office) on the strength of promising to deploy the Pro V2 with its incident recording capabilities. Securatex provides private security services to retail, education, industrial, corporate and healthcare locations throughout the Midwest.

In early 2015, **Weiser Security Services** has included the Pro V2 in the "New Technology" section of many of their bid responses.

In July 2015, **Universal Protection Service** adopted the Pro V2 as an alternative to security contracts as a non-lethal option in equipping security officers. Universal Protection Service employs over 50,000 uniformed security officers and professionals and operates in 49 states and is the 4th largest professional security provider for commercial properties in the U.S. Also, the Pro V2 has been included in Universal's use of force policy, thereby endorsing the use of the product by its customers. Steve Jones, CEO of

Universal Protection, stated that the Pro V2 is “a highly recommended option to arming officers with firearms or stun devices" to help mitigate risk and reduce potential litigation.

Domestic Deployments

In mid-April 2014, Guardian 8 announced that a **globally recognized family theme park** placed an initial order for G8 Pro V2 units, along with certification training for the theme park’s security personnel. The deployment was a direct result of the alliance CALSAGA. Though the theme park operator was unnamed for reasons of confidentiality, the adoption trend of the Guardian 8’s Enhanced Non-Lethal device, the G8 Pro V2, is clearly emerging.

In the educational campus safety market (schools and universities), **Temple University** (Philadelphia) took delivery of Pro V2 devices in late November 2014, followed by an additional order in February 2015.

In response to increased violent incidents by patients at health-related facilities, **Covenant Health**, a hospital system in Texas, took delivery of multiple Pro V2s in January 2015. It was Guardian 8’s largest single order at the time.

In March 2015, the **Laredo Independent School District** in Texas took delivery of Pro V2s for 20 school resource officers. Soon thereafter, Guardian 8 supplied Pro V2 units and training to the **Cleveland Metro School District** and **Spokane Public Schools**. Thus far, **the ProV2 has acted as a visual deterrent** that with no students attempting to challenge anyone with the device.

In April 2015, **Newton-Wellesley Hospital** began utilizing the Pro V2 for its security staff.

In October 2015, **Longview Independent School District** and **Dallas County Schools** deployed the Guardian 8’s Pro V2 as part of a national pilot program in order to assess the unit’s effectiveness towards enhancing school safety.

International Distribution Agreements

Guardian 8 received early interest from **international distributors**. A distribution agreement was signed with a company in South Korea in late 2012 with evaluation units being shipped in July 2013. Subsequent distribution agreements were entered into with companies in the Latin American countries of **Argentina**, **Colombia**, **Costa Rica** and **Colombia**.

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.

In February 2015, Guardian 8 Holdings signed exclusive distribution agreements in **Ecuador** and **Uruguay** and a non-exclusive agreement in **Panama**. The distributors with exclusive agreements each purchased inventory of $25,000 and the non-exclusive distributor acquired $10,000 in inventory.

International Deployments

In May 2015, Guardian 8 shipped an initial order of 20 Pro V2 units to the **United Arab Emirates** (UAE) for a pilot program in a metropolitan police department. If it is determined that the de-escalation, documentation and defense capabilities of the Pro V2 are effective, a larger number of police will be outfitted with the device. BWG Trinity assisted Guardian 8 in this international deployment and attendant police officer training. Also, the Ministry of the Interior of the UAE is evaluating the Pro V2 units for deployment to private security personnel in the region, which would require import clearance. Developments in the UAE could stimulate additional deployments in the region where police and private security personnel lack tools to help de-escalate and document potentially violent situations.

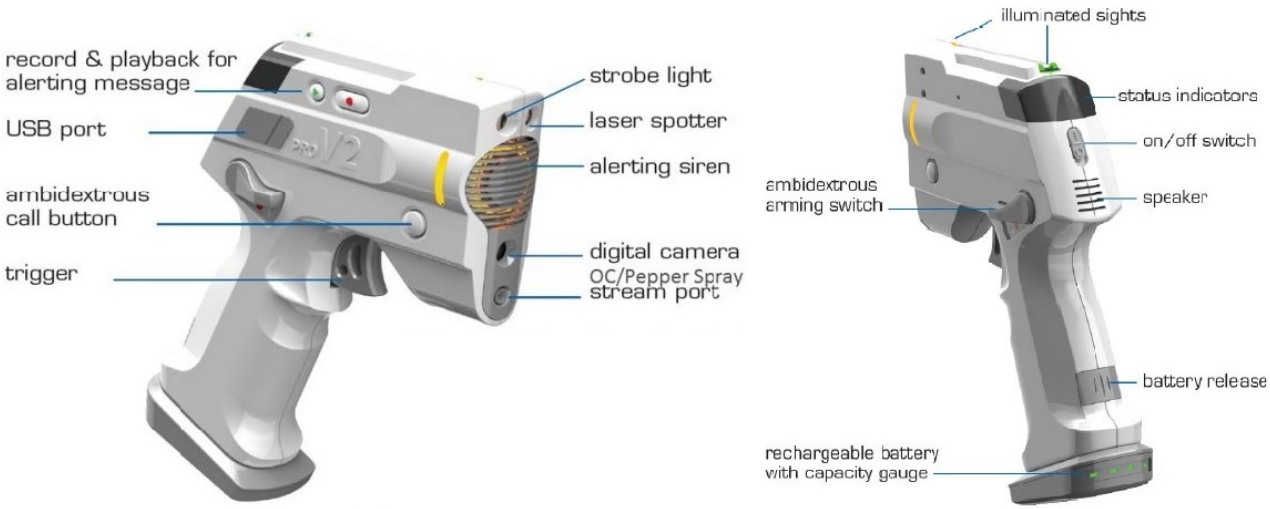
Consumer Model

On July 1, 2015, a modified version of the ProV2 was introduced for consumer use. Dubbed the “Limited Edition” Pro V2, the unit’s starter bundle is offered for $388.95 on the company's web store. The initial target market is defined as homeowners, real estate agents, cab/bus drivers, college students, teachers, convenience store clerks, retail operators, gas station operators, housewives and daycare center operators. Retail sales through other venues, such as amazon.com and the Home Shopping Network, are being investigated.



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.

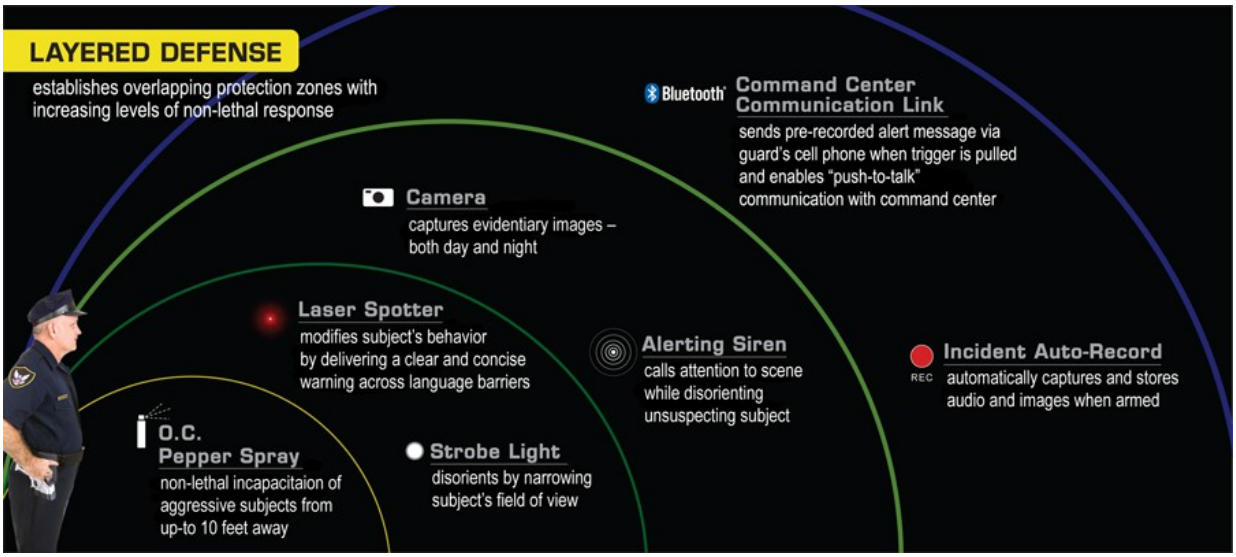


The G-8 Pro V2 not only is an effective intimidation device that potentially may avert incidents from occurring, but also provides guards with several solutions for communicating with authorities/supervisors and for documenting the engagement, along with four non-lethal defensive countermeasures.

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.

Documented Incidents

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.

Platinum Event Services (d/b/a Platinum Security and Consulting), a security staffing & event services company, deployed Guardian 8's Pro V2 ENL devices at the **2014 Guinness International Champions Cup** held at the Cotton Bowl in Dallas on **July 29, 2014**. An incident with two people walking around cars and acting suspiciously was video and audio recorded with Pro V2s. After having been given a verbal command to vacate, the gentlemen rapidly obeyed. Subsequent to the incident, the two males attempted to file a complaint of harassment and excessive use of force. However, as soon as they truly realized the incident was recorded and archived, the complaint was withdrawn. Not only was a potential crime averted, but also the liabilities of potential lawsuit costs were certainly diminished by quickly avoiding a false claim of excessive use of force.

In mid-2015 at a **healthcare facility in Ohio**, an intoxicated visitor of a patient in the ER began behaving in a disorderly manner. The visitor was behaving in a disorderly manner and began screaming at a nurse as he approached her. A security officer responded to the incident began to physically remove the visitor from the facility; however, a struggle ensued. The officer disengaged from the visitor, created distance

and drew his Pro V2. After the laser spotter was deployed and the audio/video recording capability was engaged, the visitor ceased his aggressive behavior and obeyed the officer's verbal commands to leave the premises. **The Pro V2 de-escalated a potentially violent situation.**

In September 2015, security officers (employed by Platinum Event Services and assigned to guard the now-closed **Prime Prep Academy in Dallas**) thwarted a burglary attempt when a perpetrator intentionally crashed a vehicle through a locked gate on the property. Pro V2s were used to document the scene, and then the strobe and siren functions were activated to detain the driver of the vehicle. Immediately thereafter, the Pro V2's two-way communication feature was utilized to request assistance through their supervisor, and the subject was taken into custody when the police arrived.

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 8-hour instructor training sessions are offered at a cost of $249 per person, and consumer user training via webinar is available for $49.

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 was 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)
- April 23, 2014 Globally recognized family theme park placed initial order for G8 Pro V2
- June 17, 2014 Platinum Event Services added the Pro V2 device to its security portfolio
- August 27, 2014 Anderson Security Agency to use Pro V2 at a new District Photo facility
- September 9, 2014 Securatex deploys Pro V2 at retail shopping mall in North Milwaukee
- September 18, 2014 Guardian 8 hires Director of International Sales
- September 29, 2014 Receives 2014 Campus Safety BEST Award (Campus Safety Magazine)
- November 3, 2014 Guardian 8 hires Vice President of Sales
- January 2015 Surpass 100 pilot accounts for Pro V2 evaluation
- February 2015 Distribution agreements signed for Ecuador, Uruguay and Panama
- April-June 2015 Corporate Reorganization
- May 2015 Initial order of 20 Pro V2 units shipped to the United Arab Emirates
- July 1, 2015 Launch modified version of ProV2 for consumer use
- July 2015 Universal Protection Service adds Pro V2 to its security portfolio

[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.

RISKS

- Guardian 8 has funded the company's operations through the issuance of common shares and debentures. In order to appease debt holders (who were entitled to a deferred cash interest payment on May 1, 2015 which the company was unable to pay), Guardian 8 undertook a reorganization plan, amending the debenture's covenant. As a result, the maturity date of the debentures was extended to July 31, 2016 and the conversion share price of the Class A, B and C warrants was adjusted down to $0.075. The effect of the restructuring requires a very robust adoption of the company's product, the Pro V2, in order to overcome the dilution of the 18,532,500 warrants with an exercise price of $0.075. An additional 4,953,423 warrants are outstanding at higher exercise prices.

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.

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 12.5.** 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 first quarter of 2015, our price target is based on a price-to-sales ratio valuation using estimated revenues. Based on a P/S ratio of 12.5 on projected 2015 of $301,558, **our price target is $0.07.** Based on a P/S ratio of 12.5 on projected 2016 sales of $525,000, the target would increase to $0.09 per share, which includes the dilutive effect of the Class A, B and C warrants (18,532,500 warrants in aggregate) whose exercise price was adjusted down to $0.075 in June 2015.

BALANCE SHEET &PROJECTED INCOME STATEMENT

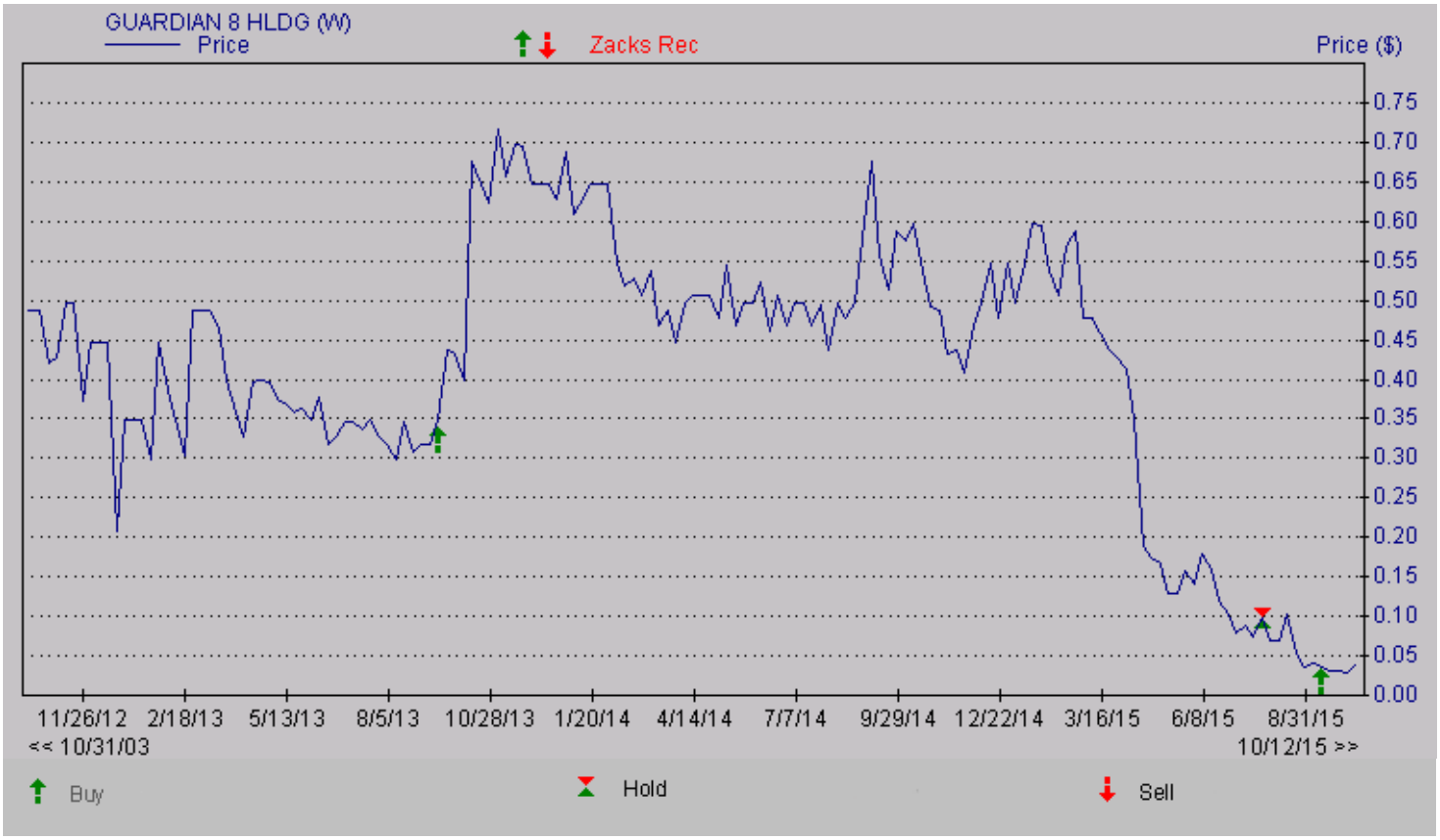
GUARDIAN 8 HOLDINGS	12/ 31/ 2009	12/ 31/ 2010	12/ 31/ 2011	12/ 31/ 2012	12/ 31/ 2013	12/ 31/ 2014	6/ 30/ 2015
ASSETS							
Cash and cash equivalents	15	290,829	195,894	41,855	305,649	491,988	163,670
Accounts receivable, net	-	-	-	-	3,767	12,626	12,530
Other receivable	-	-	-	-	-	-	-
Prepaid loan costs	-	-	-	-	143,302	487,271	295,105
Prepaid expenses	0	10,000	64,141	83,508	195,810	50,809	45,385
Deposits on inventory	0	0	0	0	138,262	0	-
Inventory							
Finished Goods	0	0	0	0	41,022	1,459,306	1,379,178
Finished Goods in transit	-	-	-	-	-	-	-
Finished goods on Consignment	0	0	0	0	4,216	-	-
Total current assets	**15**	**300,829**	**260,035**	**125,363**	**832,028**	**2,502,000**	**1,895,868**
Property and equipment, net	0	0	0	90,297	220,652	255,260	229,983
Website, net	0	0	20,830	13,019	5,207	0	0
Patents, net	10,084	9,568	9,052	7,883	16,310	29,422	28,522
Prepaid loan costs, net	-	-	-	-	-	-	-
Rent and uility deposits	-	-	-	-	-	11,180	11,180
TOTAL ASSETS	**10,099**	**310,397**	**289,917**	**236,562**	**1,074,197**	**2,797,862**	**2,165,553**
LIABILITIES AND STOCKHOLDERS' EQUITY							
Accounts payable and accrued expenses	75,669	37,410	34,840	82,037	218,266	235,555	421,705
Deferred revenue	-	-	-	-	1,388	4,513	11,481
Accrued payroll expense	-	-	-	-	23,737	-	-
Accrued interest (related party)	-	-	2,810	2,038	39,133	14,071	3,382
Accrued interest (unrelated)	-	-	-	-	3,025	311,603	50,051
Insurance Payable	-	-	-	-	-		-
Convertible Notes payable (related party)	275,000	0	275,675	200,000	1,023,933	246,548	274,840
Convertible Notes payable (unrelated)	-	-	-	-	100,000	5,457,943	4,067,023
Derivative Liability	-	-	-	-	-	-	3,032,501
Total current liabilities	**350,669**	**37,410**	**313,325**	**284,075**	**1,409,482**	**6,270,233**	**7,860,983**
Conv. senior secured debentures, net of discount	-	-	-	-	-	-	0
Stockholders' Equity							
Preferred stock	0	0	0	0	0	0	0
Common stock	21,250	26,802	27,412	30,874	37,273	41,416	56,382
Common stock owed but not issued	0	0	0	1,226	2,856	1,128	897
Paid in Capital	172,500	1,364,448	1,560,123	3,299,780	6,629,143	9,997,061	20,274,334
Deficit accumulated during development stage	(534,320)	(1,118,263)	(1,610,943)	(3,379,393)	(7,004,557)	(13,511,976)	(26,027,043)
Total shareholder's equity	**(340,570)**	**272,987**	**(23,408)**	**(47,513)**	**(335,285)**	**(3,472,371)**	**(5,695,430)**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY							
	10,099	**310,397**	**289,917**	**236,562**	**1,074,197**	**2,797,862**	**2,165,553**
Shares outstanding	26,802,318	26,802,318	27,412,318	30,874,508	37,274,292	41,416,113	56,381,367

GUARDIAN 8 HOLDINGS

Income Statement	Year 2013	1Q 2014	2Q 2014	3Q 2014	4Q 2014	Year 2014
	12/31/2013	3/31/2014	6/30/2014	9/30/2014	12/31/2014	12/31/2014
Revenues	**43,619**	5,045	13,967	20,334	32,479	**71,825**
Cost of sales	41,102	3,879	10,225	13,397	27,032	54,533
Gross profit	2,517	1,166	3,742	6,937	5,447	17,292
Operating expenses						
Depreciation and amortization	49,869	19,962	23,181	24,858	19,296	87,297
General and administrative expenses	3,503,759	992,239	870,097	1,184,489	1,516,001	4,562,826
Total operating expenses	3,553,628	1,012,201	893,278	1,209,347	1,535,297	4,650,123
Loss from operations	**(3,551,111)**	(1,011,035)	(889,536)	(1,202,410)	(1,529,850)	**(4,632,831)**
Other income (expense):						
Interest income	0	0	737	1,262	441	2,440
Interest (expense)	(74,053)	(193,650)	(374,295)	(572,155)	(736,928)	(1,877,028)
Loss before income tax	(3,625,164)	(1,204,685)	(1,263,094)	(1,773,303)	(2,266,337)	(6,507,419)
Provision for income tax expense	0	0	0	0	0	0
Net (loss)	**(3,625,164)**	(1,204,685)	(1,263,094)	(1,773,303)	(2,266,337)	**(6,507,419)**
Net loss per share (basic and diluted)	**($0.11)**	($0.03)	($0.03)	($0.04)	($0.05)	**($0.16)**
Wgtd. avg. shares outstanding	34,015,898	40,375,964	40,865,616	41,172,560	42,543,972	40,993,036

Income Statement	Year 2014	1Q 2015	2Q 2015	3Q E 2015	4Q E 2015	Year Est. 2015
	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015	12/31/2015
Revenues	**71,825**	47,881	47,427	96,250	110,000	**301,558**
Cost of sales	54,533	29,431	24,803	49,088	52,800	156,122
Gross profit	17,292	18,450	22,624	47,163	57,200	145,437
Operating expenses						
Depreciation and amortization	87,297	21,300	23,100	44,849	51,255	140,504
General and administrative expenses	4,562,826	1,146,888	748,962	814,941	831,240	3,542,031
Total operating expenses	4,650,123	1,168,188	772,062	859,790	882,496	3,682,535
Loss from operations	**(4,632,831)**	(1,149,738)	(749,438)	(812,627)	(825,296)	**(3,537,099)**
Other income (expense):						
Interest (expense)	(1,874,588)	(594,677)	(870,568)	(885,368)	(900,419)	(3,251,032)
Loss on extinguishment of debt			(6,118,145)			
Change in fair value of derivative liability			(3,032,501)			
Loss before income tax	(6,507,419)	(1,744,415)	(10,770,652)	(1,697,995)	(1,725,714)	(15,938,776)
Provision for income tax expense		0	0	0	0	0
Net (loss)	**(6,507,419)**	(1,744,415)	(10,770,652)	(1,697,995)	(1,725,714)	**(15,938,776)**
Net loss per share (basic and diluted)	**($0.16)**	($0.04)	($0.23)	($0.04)	($0.04)	**($0.34)**
Wgtd. avg. shares outstanding	40,993,036	43,001,156	47,862,401	47,862,401	47,862,401	46,647,090

HISTORICAL ZACKS RECOMMENDATIONS



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