

LRAD Corp
Form 10-Q
May 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____ .

Commission File Number: 000-24248

LRAD CORPORATION

(Exact name of registrant as specified in its charter)

Delaware **87-0361799**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

16990 Goldentop Rd. Ste. A, San Diego,

92127

California
(Address of principal executive offices) (Zip Code)

(858) 676-1112

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of Common Stock, \$0.00001 par value, outstanding on May 1, 2015 was 33,120,260.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****LRAD Corporation****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2015 (Unaudited)	September 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,147,928	\$ 23,894,744
Short-term marketable securities	1,746,087	-
Accounts receivable, net	2,347,131	4,284,051
Inventories, net	4,561,878	3,895,736
Prepaid expenses and other	693,491	523,947
Total current assets	28,496,515	32,598,478
Long-term marketable securities	2,799,988	-
Property and equipment, net	413,907	360,084
Intangible assets, net	52,024	53,835
Prepaid expenses and other - noncurrent	672,680	766,423
Total assets	\$ 32,435,114	\$ 33,778,820
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,036,652	\$ 830,503
Accrued liabilities	1,494,912	4,087,976
Total current liabilities	2,531,564	4,918,479
Other liabilities - noncurrent	146,188	157,550
Total liabilities	2,677,752	5,076,029
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, \$0.00001 par value; 5,000,000 shares authorized; none issued and outstanding	-	-
	333	332

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Common stock, \$0.00001 par value; 50,000,000 shares authorized; 33,250,943 and 33,236,489 shares issued and outstanding

Treasury stock, at cost, 24,506 shares	(57,106)	-
Additional paid-in capital	88,363,558	88,049,125
Accumulated deficit	(58,550,521)	(59,346,666)
Accumulated other comprehensive income	1,098	-
Total stockholders' equity	29,757,362	28,702,791
Total liabilities and stockholders' equity	\$32,435,114	\$33,778,820

See accompanying notes

LRAD Corporation**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Revenues:				
Product sales	\$4,252,815	\$5,113,660	\$8,398,887	\$8,669,722
Contract and other	233,415	273,646	472,771	540,214
Total revenues	4,486,230	5,387,306	8,871,658	9,209,936
Cost of revenues	2,189,425	2,658,050	4,215,696	4,536,129
Gross profit	2,296,805	2,729,256	4,655,962	4,673,807
Operating expenses:				
Selling, general and administrative	1,466,197	1,630,965	2,868,219	3,055,509
Research and development	569,418	575,851	1,047,122	969,392
Total operating expenses	2,035,615	2,206,816	3,915,341	4,024,901
Income from operations	261,190	522,440	740,621	648,906
Other income	30,921	5,086	57,124	10,283
Income from operations before income taxes	292,111	527,526	797,745	659,189
Income tax expense	1,600	1,600	1,600	1,700
Net income	\$290,511	\$525,926	\$796,145	\$657,489
Net income per common share - basic and diluted	\$0.01	\$0.02	\$0.02	\$0.02
Weighted average common shares outstanding:				
Basic	33,253,719	33,133,915	33,244,929	33,080,702
Diluted	33,847,965	34,040,509	33,816,805	33,756,467

See accompanying notes

LRAD Corporation

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three months ended		Six months ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Net Income	\$290,511	\$525,926	\$796,145	\$657,489
Other comprehensive income, net of tax:				
Unrealized gains on marketable securities, net of \$0 tax	308	-	1,098	-
Other comprehensive income	308	-	1,098	-
Comprehensive income	\$290,819	\$525,926	\$797,243	\$657,489

See accompanying notes

LRAD Corporation**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	Six months ended	
	March 31,	
	2015	2014
Operating Activities:		
Net income	\$ 796,145	\$ 657,489
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	120,074	87,436
Provision for doubtful accounts	-	8,036
Warranty provision	40,674	83,518
Inventory obsolescence	22,908	(33,088)
Share-based compensation	308,854	341,422
Loss on sale or impairment of patents	-	6,980
Changes in operating assets and liabilities:		
Accounts receivable	1,936,920	2,190,096
Inventories	(689,050)	(873,904)
Prepaid expenses and other	(169,544)	377,698
Prepaid expenses and other - noncurrent	93,743	93,750
Accounts payable	206,149	(478,789)
Warranty settlements	(27,749)	(36,069)
Accrued and other liabilities	(2,617,351)	565,906
Net cash provided by operating activities	21,773	2,990,481
Investing Activities:		
Purchases of marketable securities	(4,544,977)	-
Capital expenditures	(170,999)	(203,876)
Patent costs paid	(1,087)	(3,645)
Net cash used in investing activities	(4,717,063)	(207,521)
Financing Activities:		
Repurchase of common stock	(158,740)	(248,957)
Proceeds from exercise of stock options	107,214	193,064
Net cash used in financing activities	(51,526)	(55,893)
Net (decrease) increase in cash	(4,746,816)	2,727,067
Cash and cash equivalents, beginning of period	23,894,744	15,805,195
Cash and cash equivalents, end of period	\$ 19,147,928	\$ 18,532,262

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Supplemental Disclosure of Cash Flow Information

Cash paid for taxes	\$-	\$100
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See accompanying notes

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LRAD Corporation

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. OPERATIONS

LRAD® Corporation, a Delaware corporation (the “Company”), is engaged in the design, development and commercialization of directed and omnidirectional sound technologies and products. The Company sells its proprietary sound reproduction technologies and products in markets around the world.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

General

The Company’s unaudited condensed consolidated financial statements included herein have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In our opinion, the accompanying statements reflect adjustments necessary to present fairly the financial position, results of operations, and cash flows for those periods indicated, and contain adequate disclosure to make the information presented not misleading. Adjustments included herein are of a normal, recurring nature unless otherwise disclosed in the footnotes. The condensed consolidated financial statements and notes thereto should be read in conjunction with the Company’s audited financial statements and notes thereto for the year ended September 30, 2014 included in the Company’s Annual Report on Form 10-K, as filed with the SEC on November 20, 2014. Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

Principles of Consolidation

The Company has a currently inactive wholly owned subsidiary, LRAD International Corporation, which the Company formed to conduct international marketing, sales and distribution activities. The condensed consolidated financial statements include the accounts of this subsidiary after elimination of intercompany transactions and accounts.

Reclassifications

Where necessary, the prior year's information has been reclassified to conform to the current year presentation.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. generally accepted accounting principles when it becomes effective. ASU 2014-09 is effective for the Company starting in the first quarter of fiscal 2018. Early adoption is not permitted. In April 2015, the FASB voted to propose a deferral of the effective date of the new standard by one year, but to permit companies to adopt one year earlier if they choose. The proposed standard may be adopted using a full retrospective or a modified retrospective (cumulative effect) method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation – Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period*. The guidance requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. The guidance will be effective for the Company in the fiscal quarter beginning January 1, 2016, and early adoption is permitted. The Company is currently evaluating the impact of this guidance, if any, on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern* (subtopic 205-40). The guidance requires disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The guidance will be effective for the Company in the fiscal quarter beginning January 1, 2017. The Company is currently evaluating the impact of this guidance, if any, on its consolidated financial statements.

4. FAIR VALUE MEASUREMENTS

Our financial instruments consist principally of cash equivalents, short and long-term marketable securities, accounts receivable and accounts payable. The fair value of a financial instrument is the amount that would be received in an asset sale or paid to transfer a liability in an orderly transaction between unaffiliated market participants. Assets and liabilities measured at fair value are categorized based on whether or not the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1: Inputs are based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

Level 2: Inputs include quoted prices for similar assets or liabilities in active markets and/or quoted prices for identical or similar assets or liabilities in markets that are not active near the measurement date.

Level 3: Inputs include management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument's valuation.

The fair value of our cash equivalents and marketable securities was determined based on Level 1 and Level 2 inputs. We do not have any marketable securities in the Level 3 category. We believe that the recorded values of all our other financial instruments approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

Instruments Measured at Fair Value

The following table presents our cash equivalents and marketable securities' costs, gross unrealized gains and losses, and fair value by major security type recorded as cash and cash equivalents or short-term or long-term marketable securities as of March 31, 2015. At September 30, 2014, we did not have any financial instruments that are required to be measured at fair value on a recurring basis.

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	Cost Basis	Unrealized Gains/(Losses)	Fair Value	Cash and Cash Equivalents	Short-term Securities	Long-term Securities
Level 1:						
Money Market Funds	\$31,618	\$ -	\$31,618	\$ 31,618	\$-	\$-
Level 2:						
Certificates of deposit	2,749,183	-	2,749,183	-	-	2,749,183
Municipal securities	2,070,868	1,529	2,072,397	526,147	1,495,445	50,805
Corporate bonds	251,073	(431)	250,642	-	250,642	-
Subtotal	5,071,124	1,098	5,072,222	526,147	1,746,087	2,799,988
Total	\$5,102,742	\$ 1,098	\$5,103,840	\$ 557,765	\$ 1,746,087	\$ 2,799,988

5. INVENTORIES

Inventories consisted of the following:

	March 31, 2015	September 30, 2014
Raw materials	\$4,130,283	\$3,462,869
Finished goods	707,927	634,246
Work in process	101,063	153,107
Inventories, gross	4,939,273	4,250,222
Reserve for obsolescence	(377,395)	(354,486)
Inventories, net	\$4,561,878	\$3,895,736

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	March 31, 2015	September 30, 2014
Machinery and equipment	\$935,298	\$903,798
Office furniture and equipment	853,997	720,548
Leasehold improvements	67,913	61,863
Property and equipment, gross	1,857,208	1,686,209
Accumulated depreciation	(1,443,301)	(1,326,125)
Property and equipment, net	\$413,907	\$360,084

	Six months ended March 31, 2015 2014	
Depreciation expense	\$117,176	\$84,413

7. ACCRUED LIABILITIES AND OTHER LIABILITIES—NONCURRENT

Accrued liabilities consisted of the following:

	March 31, 2015	September 30, 2014
Payroll and related	\$683,941	\$3,033,223
Accrued contract costs	394,068	197,034
Warranty reserve	310,258	288,480
Deferred revenue	103,005	567,639
Other	3,640	1,600
Total	\$1,494,912	\$4,087,976

Other liabilities - noncurrent consisted of the following:

Deferred rent	\$129,210	\$131,719
Extended warranty	16,978	25,831
Total	\$146,188	\$157,550

Payroll and related

Payroll and related consists primarily of accrued bonus and related taxes, vacation and outside commissions.

Accrued contract costs

We have contracted with a third party service provider to administer the required services under the terms of a repair and maintenance agreement with a foreign military. This payment is made in arrears each year.

Warranty Reserve

Changes in the warranty reserve and extended warranty were as follows:

	Three month ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Beginning balance	\$325,107	\$215,758	\$314,311	\$212,759
Warranty provision	21,476	69,157	40,674	83,518
Warranty settlements	(19,347)	(24,707)	(27,749)	(36,069)
Ending balance	\$327,236	\$260,208	\$327,236	\$260,208

	March 31, 2015	September 30, 2014	March 31, 2015	September 30, 2014
Short-term warranty reserve	\$310,258	\$288,480	\$310,258	\$288,480
Long-term warranty reserve	16,978	25,831	16,978	25,831
Total warranty reserve	\$327,236	\$314,311	\$327,236	\$314,311

Deferred Revenue

Deferred revenue consists primarily of prepayments from customers in advance of product shipment.

8. INCOME TAXES

At March 31, 2015, the Company had federal net operating losses (“NOLs”) and related state NOLs. In accordance with FASB Accounting Standards Codification Topic 740, “Accounting for Income Taxes” (“ASC 740”), the Company recorded a full valuation allowance as it is more likely than not that some or all of the deferred tax assets will not be realized in the future.

The Company did not record a tax provision for California during the six months ended March 31, 2015 as the Company expects its annual effective tax rate to be zero. In addition to the Company’s federal NOLs, it also made an

election under Section 172(b)(1)(H) of the Internal Revenue Code of 1986, as amended per the American Recovery and Reinvestment Tax Act of 2009, to carry back its fiscal year ended September 30, 2008 applicable NOL for a period of 3 years, and carry forward the loss for up to 20 years, which offsets the Alternative Minimum Tax in the current tax year. In addition, the state of California has reinstated the NOL carryover deduction for taxable years beginning on or after January 1, 2012, which are expected to offset most state taxes during the 2015 fiscal year.

ASC 740 requires the Company to recognize in its consolidated financial statements uncertainties in tax positions taken that may not be sustained upon examination by the taxing authorities. If interest or penalties are assessed, the Company would recognize these charges as income tax expense. The Company has not recorded any income tax expense or benefit for uncertain tax positions.

9. COMMITMENTS AND CONTINGENCIES

Litigation

The Company may at times be involved in litigation in the ordinary course of business. The Company will, from time to time, when appropriate in management's estimation, record adequate reserves in the Company's consolidated financial statements for pending litigation. Currently, there are no pending material legal proceedings to which the Company is a party or to which any of its property is subject.

Bonus Plan

The Company has an incentive bonus plan for fiscal year 2015 designed to motivate its employees to achieve the Company's financial objectives. All of the Company's employees are entitled to participate in the incentive plan. Target Bonus Amounts ("Target") vary based on a percentage of the employee's base salary which range from 10% to 50% of base salary and a bonus payment may be made at three levels, including at 50% of Target, at 100% of Target and at 200% of Target, depending upon the achievement by the Company of specified earnings per share goals. Included in such calculation is the cost of the incentive plan. For purposes of the earnings per share calculation, the number of shares outstanding will be held constant as of October 1, 2014. During the three months ended March 31, 2015 and 2014, the Company accrued \$152,819 and \$338,151, respectively, for bonuses and related payroll tax expenses in connection with the bonus plans. During the six months ended March 31, 2015 and 2014, the Company accrued \$323,098 and \$338,151, respectively, in connection with the bonus plans.

10. SHARE-BASED COMPENSATION

Stock Option Plans

At March 31, 2015, the Company had two equity incentive plans. The 2005 Equity Incentive Plan (“2005 Equity Plan”) was terminated with respect to new grants in March 2015, but remains in effect for grants issued prior to that time. The 2015 Equity Incentive Plan (“2015 Equity Plan”) was approved by the Company’s Board of Directors on January 19, 2015 and by the Company’s stockholders on March 18, 2015. The 2015 Equity Plan authorizes for issuance as stock options, restricted stock, stock appreciation rights, restricted stock units and performance awards, an aggregate of 5,000,000 new shares of common stock to employees, directors, advisors or consultants. At March 31, 2015, there were options outstanding covering 2,992,535 and 80,000 shares of common stock under the 2005 Equity Plan and 2015 Equity Plan, respectively.

Stock Option Activity

The following table summarizes information about stock option activity during the six months ended March 31, 2015:

	Number of Shares	Weighted Average Exercise Price
Outstanding October 1, 2014	2,530,535	\$ 2.09
Granted	664,500	\$ 2.77
Forfeited/expired	(38,833)	\$ 2.48
Exercised	(83,667)	\$ 2.39
Outstanding March 31, 2015	3,072,535	\$ 2.25
Exercisable March 31, 2015	2,430,233	\$ 2.23

Options outstanding are exercisable at prices ranging from \$0.93 to \$3.17 and expire over the period from 2015 to 2023 with an average life of 5.8 years. The aggregate intrinsic value of options outstanding and exercisable at March 31, 2015 was \$1,101,327 and \$926,323, respectively.

Share-Based Compensation

The Company recorded share-based compensation expense and classified it in the condensed consolidated statements of income as follows:

	Three months ended		Six months ended	
	March 31,		March 31,	
	2015	2014	2015	2014
Cost of revenue	\$6,851	\$4,409	\$11,671	\$6,467
Selling, general and administrative	125,224	163,385	230,446	294,561
Research and development	45,332	23,814	66,737	40,394
Total	\$177,407	\$191,608	\$308,854	\$341,422

The employee stock options granted in the six months ended March 31, 2015 and 2014 had a weighted-average estimated fair value of \$1.13 per share and \$0.85 per share, respectively, using the Black-Scholes option pricing model with the following weighted-average assumptions (annualized percentages):

	Six months ended			
	March 31,			
	2015		2014	
Volatility	51.0% -	62.0%	54.0% -	76.0%
Risk-free interest rate	1.0% -	1.6%	0.6% -	2.0%
Forfeiture rate	10.0%		10.0%	
Dividend yield	0.0%		0.0%	
Expected life in years	3.2 -	4.6	3.2	6.5

The Company has never paid cash dividends and has no present intention to pay cash dividends. Expected volatility is based on the historical volatility of the Company's common stock over the period commensurate with the expected life of the options. The risk-free interest rate is based on rates published by the Federal Reserve Board. The expected life is based on observed and expected time to post-vesting exercise. The expected forfeiture rate is based on past experience and employee retention data. Forfeitures are estimated at the time of the grant and revised in subsequent periods if actual forfeitures differ from those estimates or if the Company updates its estimated forfeiture rate. Such amounts will be recorded as a cumulative adjustment in the period in which the estimate is changed.

Since the Company has an NOL carryforward as of March 31, 2015, no excess tax benefit for the tax deductions related to share-based awards was recognized for the six months ended March 31, 2015 and 2014. As of March 31, 2015, there was approximately \$800,000 of total unrecognized compensation cost related to non-vested share-based employee compensation arrangements. The cost is expected to be recognized over a weighted-average period of 1.6 years.

11. STOCKHOLDERS' EQUITY

Summary

The following table summarizes changes in the components of stockholders' equity during the six months ended March 31, 2015:

	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balances, September 30, 2014	33,236,489	\$ 332	\$-	\$88,049,125	\$(59,346,666)	\$ -	\$ 28,702,791
Share-based compensation expense	-	-	-	308,854	-	-	308,854
Issuance of common stock upon exercise of stock options , net	83,667	1	-	107,213	-	-	107,214
Repurchase of common stock	(44,707)	-	-	(101,634)	-	-	(101,634)
Treasury shares	(24,506)	-	\$(57,106)	-	-	-	(57,106)
Other comprehensive income	-	-	-	-	-	1,098	1,098
Net income	-	-	-	-	796,145	-	796,145
Balances, March 31, 2015	33,250,943	\$ 333	\$(57,106)	\$88,363,558	\$(58,550,521)	\$ 1,098	\$ 29,757,362

Stock Purchase Warrants

At March 31, 2015, the Company had 1,627,945 shares purchasable under outstanding warrants at an exercise price of \$2.67 which are exercisable through February 4, 2016.

Share Buyback Program

In July 2013, the Board of Directors approved a share buyback program under which the Company may repurchase up to \$3 million of its outstanding common shares. In November 2013, the Board of Directors authorized the repurchase of an additional \$1 million of the Company's outstanding common shares. In November 2014, the expiration of the buyback program was extended from December 31, 2014 to December 31, 2015. During the six months ended March 31, 2015, 69,213 shares were repurchased.

12. INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended March 31,		Six months ended March 31,	
	2015	2014	2015	2014
Numerator:				
Income available to common stockholders	\$290,511	\$525,926	\$796,145	\$657,489
Denominator:				
Weighted average common shares outstanding	33,253,719	33,133,915	33,244,929	33,080,702
Assumed exercise of dilutive options and warrants	594,246	906,594	571,876	675,765
Weighted average dilutive shares outstanding	33,847,965	34,040,509	33,816,805	33,756,467
Basic income per common share	\$0.01	\$0.02	\$0.02	\$0.02
Diluted income per common share	\$0.01	\$0.02	\$0.02	\$0.02
Potentially dilutive securities outstanding at period end excluded from the diluted computation as the inclusion would have been antidilutive:				
Options	1,418,250	1,146,000	1,318,250	1,236,000
Warrants	1,627,945	1,627,945	1,627,945	1,627,945
Total	3,046,195	2,773,945	2,946,195	2,863,945

13. MAJOR CUSTOMERS

For the three months ended March 31, 2015, revenues from three customers accounted for 21%, 17% and 15% of total revenues, respectively, and for the six months ended March 31, 2015, revenues from three customers accounted for 19%, 17% and 16% of total revenues, respectively, with no other single customer accounting for more than 10% of revenues. At March 31, 2015, accounts receivable from three customers accounted for 34%, 19% and 11% of total accounts receivable, respectively, with no other single customer accounting for more than 10% of the accounts receivable balance.

For the three months ended March 31, 2014, revenues from one customer accounted for 25% of total revenues, and for the six months ended March 31, 2014, revenues from one customer accounted for 14% of revenues, with no other single customer accounting for more than 10% of revenues. At March 31, 2014, accounts receivable from three

customers accounted for 29%, 17%, and 16% of total accounts receivable, respectively, with no other single customer accounting for more than 10% of the accounts receivable balance.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis set forth below should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the related notes included under Item 1 of this Quarterly Report on Form 10-Q, together with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended September 30, 2014.

Forward Looking Statements

This report contains certain statements of a forward-looking nature relating to future events or future performance. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions or variations of such words are intended to identify forward-looking statements, but are not the only means of identifying forward-looking statements. Prospective investors are cautioned that such statements are only predictions and actual events or results may differ materially. In evaluating such statements, prospective investors should specifically consider various factors identified in this report and any matters set forth under Part I, Item 1A (Risk Factors) of our Annual Report on Form 10-K, which could cause actual results to differ materially from those indicated by such forward-looking statements.

Overview

Our Company develops and delivers highly intelligible, directed Long Range Acoustic Devices® ("LRAD®") that beam, focus and control sound over short and long distances. By placing sound only where needed, we not only enhance many typical speaker applications, but we offer novel sound applications that conventional speakers cannot achieve.

Our LRAD-X® product line offers a variety of directed sound products, which use focused acoustic output in a narrow beam to clearly transmit critical information, instructions and warnings over long distances. The LRAD-X product line features clear voice intelligibility and meets the military's stringent environmental requirements in a number of packages and form factors, from our hand held LRAD 100X to our LRAD 2000X unit which communicates up to 5,500 meters. Through the use of powerful voice commands, prerecorded messages in multiple languages, and deterrent tones, our LRAD-X products are designed to create large safety zones while determining the intent and influencing the behavior of an intruder. We continue to expand our LRAD-X product line to provide a complete range of systems and accessories to meet a broad range of diverse applications including fixed and mobile military deployments, maritime security, critical infrastructure and perimeter security, commercial security, border and port security, law enforcement and emergency responder communications, asset protection and wildlife preservation and control. Our LRAD-X products have been competitively selected over other commercially available systems by the United States military and by several international militaries.

In 2012, we built on the success of our LRAD-X directional technology to launch our first omnidirectional product, the LRAD 360X. Unlike the existing siren based systems in the market, the LRAD 360X is designed with the same characteristics as our directed products - highly intelligible, powerful voice commands and the ability to communicate and alert over long distances. Since the LRAD 360X product launch, we have developed the ONE VOICE™ omnidirectional product line, which includes our mass communication products, a mobile, fully-integrated, trailer-mounted mass communication system, and other enhancements to provide a more fully integrated solution for municipalities, military bases, airports, college/business campuses, etc. We expect that the ONE VOICE product line will allow us to expand our business opportunities into the large and growing worldwide emergency warning and mass notification market. Through increased focus and investment in worldwide sales and marketing activities, our LRAD-X and ONE VOICE products have pioneered a new worldwide market, selling into over 70 countries, for directional and omnidirectional long-range acoustic hailing devices (“AHDs”).

Revenues in the quarter ended March 31, 2015, were \$4.5 million, a decrease from \$5.4 million in the quarter ended March 31, 2014. The decrease in revenues was primarily due to the timing of customer orders. Based on the timing of budget cycles and contract awards in our global markets, there are often delays that result in uneven revenue quarters. Our revenues in the second fiscal quarter from our LRAD-X products continued to be strong in international markets with several orders for Asian naval ships, coast guard boats, military vehicles, wildlife protection and police, public safety and security applications. We had a number of follow-on orders for our mass notification products for cities and towns in Asia during the quarter as well. We also continue to pursue other U.S. military opportunities as well as possible funding in the 2016 U.S. Department of Defense appropriations bill. On a quarter over quarter basis, our revenues are expected to remain uneven. Gross profit decreased as a result of the lower revenues compared to the same quarter in the prior year. Operating expenses decreased by 8% from \$2.2 million to \$2.0 million in the quarter ended March 31, 2015. Net income decreased by \$235,000, or \$.01 per diluted share, compared to the same quarter in the prior year.

Overall Business Outlook

Our product line continues to gain notoriety and acceptance worldwide through media exposure and word of mouth as a result of positive responses and increased acceptance of our products by our customers. We believe we have a solid technology and product foundation with our LRAD-X directed product line, which we have expanded over the years to service new markets and customers for greater business growth, and our newer line of omnidirectional products, which are targeted to meet the needs of the large, growing mass notification market. We believe that we have strong market opportunities within the worldwide government and military sector, as well as increased commercial applications as a result of continued global threats to governments, commerce and law enforcement, and in wildlife preservation and control applications. We intend to continue to expand our selling efforts internationally, especially in the Middle East and South America where we believe there is greater opportunity for the sale of our products. We also plan to continue to expand our presence in the mass notification market with our omnidirectional product line. Our selling network has expanded through the addition of business development employees as well as the improvement and increase of relationships with key integrators and sales representatives within the United States and in a number of worldwide locations. However, we may continue to face challenges in fiscal 2015 due to continuing economic and geopolitical conditions in some international regions. We anticipate continued uncertainty with U.S. Military spending due to ongoing defense budget delays and spending reductions. We continue to pursue large business opportunities, but it is difficult to anticipate how long it will take to close these opportunities, or if they will ever ultimately come to

fruition. It is also difficult to determine whether our omnidirectional product will be accepted as a viable solution in the mass notification market, which includes a number of large, well-known competitors.

Critical Accounting Policies

We have identified a number of accounting policies as critical to our business operations and the understanding of our results of operations. These are described in our consolidated financial statements located in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended September 30, 2014. The impact and any associated risks related to these policies on our business operations is discussed below and throughout Management's Discussion and Analysis of Financial Condition and Results of Operations when such policies affect our reported and expected financial results.

The methods, estimates and judgments we use in applying our accounting policies, in conformity with generally accepted accounting principles in the U.S., have a significant impact on the results we report in our financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. The estimates affect the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Comparison of Results of Operations for the Three Months Ended March 31, 2015 and 2014

Revenues

The following table sets forth for the periods indicated certain items of our condensed consolidated statements of income expressed in dollars and as a percentage of net revenues. The financial information and the discussion below should be read in conjunction with the condensed consolidated financial statements and notes contained in this report.

	Three months ended March 31, 2015		March 31, 2014		Increase/(Decrease)	
	Amount	% of Total Revenue	Amount	% of Total Revenue		
Revenues:						
Product sales	\$4,252,815	94.8	% \$5,113,660	94.9	% \$(860,845)	(16.8%)
Contract and other	233,415	5.2	% 273,646	5.1	% (40,231)	(14.7%)
	4,486,230	100.0	% 5,387,306	100.0	% (901,076)	(16.7%)
Cost of revenues	2,189,425	48.8	% 2,658,050	49.3	% (468,625)	(17.6%)
Gross profit	2,296,805	51.2	% 2,729,256	50.7	% (432,451)	(15.8%)

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Operating Expenses:

Selling, general and administrative	1,466,197	32.7	%	1,630,965	30.3	%	(164,768)	(10.1%)
Research and development	569,418	12.7	%	575,851	10.7	%	(6,433)	(1.1%)
	2,035,615	45.4	%	2,206,816	41.0	%	(171,201)	(7.8%)
Income from operations	261,190	5.8	%	522,440	9.7	%	(261,250)	(50.0%)
Other Income	30,921	0.7	%	5,086	0.1	%	25,835	508.0 %
Income from operations before income taxes	292,111	6.5	%	527,526	9.8	%	(235,415)	(44.6%)
Income tax expense	1,600	0.0	%	1,600	0.0	%	-	0.0 %
Net income	\$290,511	6.5	%	\$525,926	9.8	%	\$(235,415)	(44.8%)

Revenues decreased in the current quarter compared to the prior year due to the timing of orders. The receipt of orders will often be uneven due to the timing of approvals or budgets. We continued with strong international sales in the quarter, primarily for foreign navies, coast guard boats, police, and military vehicles. We derived 15% of our revenue from mass notification markets, primarily in Asia. We expect continued uneven quarterly revenues in future periods, but expect the second half of the year to be much stronger than the first half. At March 31, 2015, we had aggregate deferred revenue of \$103,005 for prepayments from customers in advance of product shipment.

Gross Profit

The decrease in gross profit in the quarter was primarily due to the decrease in revenue, partially offset by favorable margins due to product mix.

Our products have varying gross margins, so product sales mix will materially affect gross profits. In addition, our margins vary based on the sales channels through which our products are sold in a given period. We continue to implement product updates and changes, including raw material and component changes that may impact product costs. With such product updates and changes we have limited warranty cost experience and estimated future warranty costs can impact our gross margins. We do not believe that historical gross profit margins should be relied upon as an indicator of future gross profit margins.

Selling, General and Administrative Expenses

Selling, general and administrative expenses included decreases of \$117,223 for bonus accrual, \$54,312 for travel expense, \$38,161 for non-cash share-based compensation expense, and \$12,695 of other decreases, partially offset by an increase of \$38,725 for third party commissions and \$18,898 for marketing expense for trade shows.

We incurred non-cash share-based compensation expenses allocated to selling, general and administrative expenses in the three months ended March 31, 2015 and 2014 of \$125,224 and \$163,385, respectively.

We may expend additional resources on the marketing and selling of our products in future periods as we identify ways to optimize potential opportunities. Commission expenses will fluctuate based on the nature of our sales.

Research and Development Expenses

Research and development expenses decreased compared to the prior year primarily due to \$58,727 for bonus accrual and \$2,583 of other decreases, offset by an increase of \$21,518 for non-cash share-based compensation expense, \$17,886 for development costs and \$15,473 for increased salaries.

Included in research and development expenses for the three months ended March 31, 2015 and 2014 was \$45,332 and \$23,814 of non-cash share-based compensation costs, respectively.

Research and development costs vary period to period due to the timing of projects, the availability of funds for research and development and the timing and extent of the use of outside consulting, design and development firms. We continually improve our product offerings and we have further expanded the product line in 2015 and 2014 with new products, customizations and enhancements. Based on current plans, we expect research and development costs to continue in the current fiscal year on a basis comparable to the prior year.

Net Income

The decrease in net income was primarily due to the decrease in revenues, partially offset by a decrease in operating expenses.

Comparison of Results of Operations for the Six Months Ended March 31, 2015 and 2014

Revenues

The following table sets forth for the periods indicated certain items of our condensed consolidated statements of income expressed in dollars and as a percentage of net revenues. The financial information and the discussion below should be read in conjunction with the condensed consolidated financial statements and notes contained in this report.

	Six month ended March 31, 2015			March 31, 2014		Increase/(Decrease)		
	Amount	% of Total Revenues		Amount	% of Total Revenues			
Revenues:								
Product sales	\$8,398,887	94.7	%	\$8,669,722	94.1	%	\$(270,835)	(3.1%)
Contract and other	472,771	5.3	%	540,214	5.9	%	(67,443)	(12.5%)
Total revenues	8,871,658	100.0	%	9,209,936	100.0	%	(338,278)	(3.7%)
Cost of revenues	4,215,696	47.5	%	4,536,129	49.3	%	(320,433)	(7.1%)
Gross profit	4,655,962	52.5	%	4,673,807	50.7	%	(17,845)	(0.4%)
Operating expenses:								
Selling, general and administrative	2,868,219	32.3	%	3,055,509	33.2	%	(187,290)	(6.1%)
Research and development	1,047,122	11.8	%	969,392	10.5	%	77,730	8.0 %
Total operating expenses	3,915,341	44.1	%	4,024,901	43.7	%	(109,560)	(2.7%)
Income from operations	740,621	8.4	%	648,906	7.0	%	91,715	14.1 %
Other income	57,124	0.6	%	10,283	0.1	%	46,841	455.5 %
Income from continuing operations before income taxes	797,745	9.0	%	659,189	7.1	%	138,556	21.0 %
Income tax expense	1,600	0.0	%	1,700	0.0	%	(100)	(5.9%)
Net income	\$796,145	9.0	%	\$657,489	7.1	%	\$138,656	21.1 %

The decrease in revenues is primarily due to the timing of the receipt of orders compared to the prior year, where we had a strong first half, primarily in international markets. The receipt of orders will often be uneven due to the timing of approvals or budgets. We continued with strong international sales in the current year to date, primarily for foreign navies, coast guard boats, police, and military vehicles. We shipped approximately \$1.7 million of product in two orders to the same Asian customer for military police. We derived 15% of our revenue from mass notification markets, primarily in Asia. Uncertainty on U.S. defense spending continued through the current period. At March 31, 2015, we had aggregate deferred revenue of \$103,005 for prepayments from customers in advance of product shipment.

Gross Profit

The decrease in gross profit in the period was primarily due to decreased revenue, partially offset by favorable margins based on the product mix compared to the prior year.

Our products have varying gross margins, so product sales mix will materially affect gross profits. In addition, our margins vary based on the sales channels through which our products are sold in a given period. We continue to implement product updates and changes, including raw material and component changes that may impact product costs. With such product updates and changes we have limited warranty cost experience and estimated future warranty costs can impact our gross margins. We do not believe that historical gross profit margins should be relied upon as an indicator of future gross profit margins.

Selling, General and Administrative Expenses

Selling, general and administrative expenses reflected a decrease of \$70,321 for travel expense, \$64,115 for non-cash share-based compensation expense, \$29,948 for consulting fees and salaries, \$20,520 for recruiting fees, \$15,320 for accrued bonus and \$13,569 of other decreases. These expenses were partially offset by an increase of \$26,503 for outside commission expense.

We incurred non-cash share-based compensation expenses allocated to selling, general and administrative expenses in the six months ended March 31, 2015 and 2014 of \$230,446 and \$294,561, respectively.

We may expend additional resources on the marketing and selling of our products in future periods as we identify ways to optimize potential opportunities. Commission expenses will fluctuate based on the nature of our sales.

Research and Development Expenses

Research and development expenses increased compared to the prior year primarily due to \$28,915 for increased salaries, \$26,343 for non-cash share-based compensation, \$24,518 for increased development costs and \$9,587 of other increases. These expenses were partially offset by a reduction of \$11,633 for accrued bonus.

Included in research and development expenses for the six months ended March 31, 2015 and 2014 was \$66,737 and \$40,394 of non-cash share-based compensation costs, respectively.

Research and development costs vary period to period due to the timing of projects, the availability of funds for research and development and the timing and extent of the use of outside consulting, design and development firms. We continually improve our product offerings and we have further expanded the product line in 2015 and 2014 with new products, customizations and enhancements. Based on current plans, we expect research and development costs to continue in the current fiscal year on a basis comparable to the prior year.

Net Income

The increase in net income, in spite of a reduction in revenues, was due to increased gross margin as a percentage of revenues, reduced operating expenses and an increase in interest income.

Liquidity and Capital Resources

Cash at March 31, 2015 was \$19,147,928, compared to \$23,894,744 at September 30, 2014. During the six months ended March 31, 2015, the Company invested \$4,544,977 in short and long-term marketable securities. In addition, cash was used to reduce accrued and other liabilities resulting primarily from 2014 bonus payments during the first fiscal quarter. This cash reduction was partially offset by our strong operating performance during the six month period and a reduction in accounts receivable from strong year-end shipments in September 2014. Other than cash and expected future cash flows from operating activities in subsequent periods, we have no unused sources of liquidity at this time.

Principal factors that could affect our liquidity include:

- ability to meet sales projections;
- government spending levels;
- introduction of competing technologies;

- product mix and effect on margins;
- ability to reduce current inventory levels;
- product acceptance in new markets; and
- value of shares repurchased.

Principal factors that could affect our ability to obtain cash from external sources include:

- volatility in the capital markets; and
- market price and trading volume of our common stock.

Based on our current cash position, and assuming currently planned expenditures and level of operations, we believe we have sufficient capital to fund operations for the next twelve months. However, we operate in a rapidly evolving and unpredictable business environment that may change the timing or amount of expected future cash receipts and expenditures. Accordingly, there can be no assurance that we may not be required to raise additional funds through the sale of equity or debt securities or from credit facilities. Additional capital, if needed, may not be available on satisfactory terms, or at all.

Cash Flows

Our cash flows from operating, investing and financing activities, as reflected in the consolidated statements of cash flows, are summarized in the table below:

	Six months ended	
	March 31,	
	2015	2014
Cash provided by (used in):		
Operating activities	21,773	2,990,481
Investing activities	(4,717,063)	(207,521)
Financing activities	(51,526)	(55,893)

Operating Activities

Net income of \$796,145 for the six months ended March 31, 2015 was adjusted for \$492,510 of non-cash items that include share-based compensation expense, depreciation and amortization, warranty provision and inventory obsolescence. Cash generated from operating activities reflected a decrease in accounts receivable of \$1,936,920 due to collections from a high year-end balance, an increase in accounts payable of \$206,149, and a decrease in prepaid expenses and other – noncurrent of \$93,743. Cash used in operating activities included a decrease in accrued and other liabilities of \$2,617,351, primarily for the payment of bonuses earned in fiscal 2014 and a reduction of prepayments from customers, increased inventories of \$689,050 based on our current sales forecast, increased prepaid expenses and other of \$169,544 and \$27,749 for warranty settlements. Net income of \$657,489 for the six months ended March 31, 2014 was adjusted for \$494,304 of non-cash items that include share-based compensation expense, depreciation and amortization, warranty provision, provision for doubtful accounts and inventory obsolescence. Cash generated from operating activities reflected a decrease in accounts receivable of \$2,190,096 due to collections from a high year-end balance, an increase in accrued and other liabilities of \$565,906, primarily related to a bonus accrual and a decrease in prepaid expenses and other and prepaid expenses and other – noncurrent of \$471,448, primarily for the receipt of a reimbursement from our insurance company related to a prior lawsuit. Cash used in operating activities included increased inventories of \$873,904 based on our current sales forecast, accounts payable of \$478,789 for payment of year-end inventory requirements, and \$36,069 used for warranty settlements.

We had accounts receivable of \$2,347,131 at March 31, 2015, compared to \$4,284,051 at September 30, 2014. The level of trade accounts receivable at March 31, 2015 represented approximately 47 days of revenues compared to 53 days of revenues at September 30, 2014. Terms with individual customers vary greatly. We typically require thirty-day terms from our customers if credit is approved. Our receivables can vary dramatically due to overall sales volume, quarterly variations in sales, timing of shipments to and receipts from large customers, payment terms, and the timing of contract payments.

At March 31, 2015 and September 30, 2014, our working capital was \$25,964,951 and \$27,679,999, respectively. The reduction in working capital was the result of purchasing \$4,544,977 of long-term marketable securities.

Investing Activities

In the six months ended March 31, 2015, we purchased short and long-term marketable securities of \$4,544,977. We also use cash in investing activities primarily for the purchase of tooling, computer equipment and software, and investment in new or existing patents. Cash used in investing activities for equipment and patents was \$172,086 and \$207,521 for the six months ended March 31, 2015 and 2014, respectively. We anticipate some additional expenditure for equipment and patents during the balance of fiscal year 2015.

Financing Activities

In the six months ended March 31, 2015 and 2014, we received \$107,214 and \$193,064, respectively, from the exercise of stock options. The Board of Directors approved a share buyback program under which the Company may repurchase up to \$4 million of its outstanding common shares, which expires on December 31, 2015. In the six months ended March 31, 2015 and 2014, we paid \$158,740 and \$248,957 for the repurchase of common stock.

Recent Accounting Pronouncements

New pronouncements issued for future implementation are discussed in Note 3, Recent Accounting Pronouncements, to our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Risk

The Company's interest income is sensitive to fluctuations in the general level of U.S. interest rates. Changes in U.S. interest rates affect the interest earned on the Company's cash. The Company's exposure to market risk for changes in interest rates is minimal as a result of maintaining cash in savings accounts. The Company currently does not have any debt that could be subject to interest fluctuation or market risk.

Foreign Currency Risk

We consider our direct exposure to foreign exchange rate fluctuations to be minimal. Currently, all sales to customers and all arrangements with third-party manufacturers, with one exception, provide for pricing and payment in U.S. dollars, and, therefore, are not subject to exchange rate fluctuations. Increases in the value of the U.S. dollar relative to other currencies could make our products more expensive, which could negatively impact our ability to compete. Conversely, decreases in the value of the U.S. dollar relative to other currencies could result in our suppliers raising their prices to continue doing business with us. Fluctuations in currency exchange rates could affect our business in the future.

Item 4. Controls and Procedures.

We are required to maintain disclosure controls and procedures designed to ensure that material information related to us, including our consolidated subsidiaries, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of our disclosure controls and procedures as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2015.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our fiscal quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures and the remediation of any deficiencies, which may be identified during this process.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We may at times be involved in litigation in the ordinary course of business. We will also, from time to time, when appropriate in management's estimation, record adequate reserves in our consolidated financial statements for pending litigation. Currently, there are no pending material legal proceedings to which the Company is a party or to which any of its property is subject.

Item 1A. Risk Factors.

As a Smaller Reporting Company as defined by Rule 12b-2 of the Exchange Act and in item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In July 2013, the Board of Directors approved a share buyback program under which the Company may repurchase up to \$3 million of its outstanding common shares. In November 2013, the Board of Directors authorized the repurchase of an additional \$1 million of the Company's outstanding common shares. In November 2014, the expiration of the buyback program was extended from December 31, 2014 to December 31, 2015. Shares repurchased under the plan have been, or will be, retired. At March 31, 2015, we held 24,506 treasury shares.

The following table discloses the stock repurchases during the quarter ended March 31, 2015:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced programs	Maximum dollar value of shares that may yet be purchased under the program
January 1, 2015 - January 31, 2015	----	----	----	\$ 3,483,648
February 1, 2015 - February 28, 2015	----	----	----	\$ 3,483,648
March 1, 2015 - March 31, 2015	69,213	\$2.29	69,213	\$ 3,324,908
Total	69,213		69,213	

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1	Certification of Thomas R. Brown, Principal Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Katherine H. McDermott, Principal Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by Thomas R. Brown, Principal Executive Officer and Katherine H. McDermott, Principal Financial Officer.*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

* Filed concurrently herewith.

SIGNATURES

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

LRAD CORPORATION

Date: May 7, 2015 By: /s/ KATHERINE H. MCDERMOTT
Katherine H. McDermott, Chief Financial Officer
(Principal Financial Officer)