

LRAD Corp  
Form 10-Q  
August 06, 2013

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

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**(Mark one)**

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

**For the quarterly period ended June 30, 2013**

**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**

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**LRAD CORPORATION**

**(Exact name of registrant as specified in its charter)**

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

**16990 Goldentop Rd. Ste. A, San Diego,**  
**California** **92127**  
**(Address of principal executive offices) (Zip Code)**

**(858) 676-1112**  
**(Registrant's telephone number, including area code)**

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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 July 30, 2013 was 32,499,199.



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

	<b>June 30,</b> 2013  (Unaudited)	<b>September 30,</b>  2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,057,571	\$ 13,859,505
Accounts receivable, less allowance of \$3,972 and \$4,372 for doubtful accounts	1,166,598	5,517,894
Inventories, net	5,245,315	3,112,489
Prepaid expenses and other	466,497	441,823
Total current assets	21,935,981	22,931,711
Property and equipment, net	258,197	212,863
Intangible assets, net	138,583	158,457
Prepaid expenses and other - noncurrent	961,391	1,102,016
Total assets	\$23,294,152	\$24,405,047
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$909,048	\$995,719
Accrued liabilities	524,851	623,742
Total current liabilities	1,433,899	1,619,461
Other liabilities - noncurrent	419,362	363,817
Total liabilities	1,853,261	1,983,278
Commitments and contingencies (Note 8)		
Stockholders' equity:	-	-

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Preferred stock, \$0.00001 par value; 5,000,000 shares authorized; none issued and outstanding		
Common stock, \$0.00001 par value; 50,000,000 shares authorized; 32,499,199 and 32,374,499 shares issued and outstanding, respectively	325	324
Additional paid-in capital	87,045,296	86,358,011
Accumulated deficit	(65,604,730)	(63,936,566)
Total stockholders' equity	21,440,891	22,421,769
Total liabilities and stockholders' equity	\$23,294,152	\$24,405,047

See accompanying notes

**LRAD Corporation****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	June 30, 2013	<b>2012</b>	June 30, 2013	<b>2012</b>
Revenues:				
Product sales	\$1,905,518	\$2,936,179	\$7,555,330	\$8,821,963
Contract and other	252,126	224,732	772,231	351,024
Total revenues	2,157,644	3,160,911	8,327,561	9,172,987
Cost of revenues	1,242,190	1,586,018	4,564,215	4,532,497
Gross profit	915,454	1,574,893	3,763,346	4,640,490
Operating expenses:				
Selling, general and administrative	1,607,237	1,120,358	4,149,971	3,370,211
Research and development	423,434	414,457	1,302,102	1,225,165
Total operating expenses	2,030,671	1,534,815	5,452,073	4,595,376
(Loss) income from operations	(1,115,217 )	40,078	(1,688,727 )	45,114
Other income	6,807	6,780	22,163	26,502
(Loss) income from operations before income taxes	(1,108,410 )	46,858	(1,666,564 )	71,616
Income tax (benefit) expense	-	(153,518 )	1,600	(150,818 )
Net (loss) income	\$(1,108,410 )	200,376	\$(1,668,164 )	222,434
Net (loss) income per common share - basic and diluted	\$(0.03 )	\$0.01	\$(0.05 )	\$0.01
Weighted average common shares outstanding:				
Basic	32,428,095	32,374,499	32,407,475	32,374,499
Diluted	32,428,095	33,492,944	32,407,475	33,168,978

See accompanying notes



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

(Unaudited)

	<b>Nine months ended</b>	
	<b>June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating Activities:</b>		
Net (loss) income	\$(1,668,164 )	\$222,434
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	106,485	66,945
Provision for doubtful accounts	(400 )	-
Warranty provision	(834 )	(31,885 )
Inventory obsolescence	(219,419 )	112,189
Share-based compensation	582,058	476,779
Loss on sale or impairment of patents	5,138	18,205
Changes in operating assets and liabilities:		
Accounts receivable	4,351,696	2,994,406
Inventories	(1,913,407 )	(487,687 )
Prepaid expenses and other	(24,674 )	(72,830 )
Prepaid expenses and other - noncurrent	140,625	69,859
Accounts payable	(86,671 )	(447,196 )
Warranty settlements	(11,585 )	(19,199 )
Accrued and other liabilities	(30,927 )	(2,255,563 )
Net cash provided by operating activities	1,229,921	646,457
<b>Investing Activities:</b>		
Purchase of equipment	(134,349 )	(154,139 )
Patent costs paid	(2,734 )	(2,365 )
Net cash used in investing activities	(137,083 )	(156,504 )
<b>Financing Activities:</b>		
Proceeds from exercise of stock options	105,228	-
Net cash provided by financing activities	105,228	-
Net increase in cash and cash equivalents	1,198,066	489,953
Cash and cash equivalents, beginning of period	13,859,505	13,870,762
<b>Cash and cash equivalents, end of period</b>	<b>\$ 15,057,571</b>	<b>\$ 14,360,715</b>



**Supplemental Disclosure of Cash Flow Information**

Cash (refunded) paid for taxes

\$(38,724 ) \$60,015

See accompanying notes

## **LRAD Corporation**

### **Notes to Interim Condensed Consolidated Financial Statements (unaudited)**

#### **1. OPERATIONS**

LRAD Corporation, a Delaware corporation (the “Company”), is engaged in the design, development and commercialization of directed sound technologies and products. The principal markets for the Company’s proprietary sound reproduction technologies and products are in North and South America, Europe, the Middle East and Asia.

#### **2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

##### General

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-Q and applicable sections of Regulation S-X. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although, in the opinion of management, the interim financial statements reflect all adjustments necessary, and disclosures included therein are adequate, in order to make the financial statements not misleading. The condensed consolidated balance sheet as of September 30, 2012 was derived from the Company’s most recent audited financial statements. Operating results for the three and nine month periods are not necessarily indicative of the results that may be expected for the year. The interim condensed 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, 2012 included in the Company’s Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (“SEC”) on December 4, 2012.

##### Principles of Consolidation

The Company has a currently inactive wholly owned subsidiary, American Technology Holdings, Inc., 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.

Fair Value Measurements

At June 30, 2013, there was no difference between the carrying value and fair market value of the Company's cash equivalents.

Reclassifications

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

**3. INVENTORIES**

Inventories consisted of the following:

	June 30, 2013	<b>September 30, 2012</b>
Raw materials	\$4,213,671	\$2,693,753
Finished goods	953,670	818,082
Work in process	319,760	61,859
	5,487,101	3,573,694
Reserve for obsolescence	(241,786 )	(461,205 )
	<b>\$5,245,315</b>	<b>\$3,112,489</b>



**4. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	<b>June 30,</b>	<b>September</b>
	<b>2013</b>	<b>30,</b>
		<b>2012</b>
Machinery and equipment	\$601,187	\$525,020
Office furniture and equipment	771,889	716,625
Leasehold improvements	55,298	55,298
	1,428,374	1,296,943
Accumulated depreciation	(1,170,177)	(1,084,080)
	\$258,197	\$212,863

**Nine months ended**

	June 30,	
	<b>2013</b>	<b>2012</b>
Depreciation expense	\$89,015	\$44,563

**5. INTANGIBLE ASSETS**

Patents consisted of the following:

	<b>June 30,</b>	<b>September</b>
	<b>2013</b>	<b>30,</b>
		<b>2012</b>
Cost	\$350,582	\$358,925

Accumulated amortization	(211,999)	(200,468 )
	\$138,583	\$158,457

**Nine  
months  
ended**

**June  
30,  
2013**

2012

Amortization expense

\$17,470 \$22,382

Loss on sale or impairment of patents

- 18,205

Each quarter, the Company reviews the ongoing value of its capitalized patent costs and reduces the value if any of its patents are no longer consistent with its business strategy, as noted in the above table.

**6. ACCRUED LIABILITIES AND OTHER LIABILITIES—NONCURRENT**

Accrued liabilities consisted of the following:

	June 30, <b>2013</b>	September 30, <b>2012</b>
Accrued expenses	\$117,788	\$197,032
Payroll and related	239,471	272,212
Warranty reserve	162,268	154,069
Customer deposits	5,324	10
Deferred revenue	-	419
Total	\$524,851	\$623,742

Other liabilities - noncurrent consisted of the following:

Deferred revenue - noncurrent	\$270,559	\$270,140
Deferred rent	119,177	43,433
Extended warranty	29,626	50,244
Total	\$419,362	\$363,817

*Deferred Revenue*

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Deferred revenue at June 30, 2013 and September 30, 2012 included \$270,559, collected from a license agreement in advance of recognized revenue.

*Warranty Reserve*

Changes in the warranty reserve during the three and nine months ended June 30, 2013 and 2012 were as follows:

	<b>Three month ended</b>		<b>Nine months ended</b>	
	<b>June 30, 2013</b>	<b>2012</b>	<b>June 30, 2013</b>	<b>2012</b>
Beginning balance	\$205,005	\$217,240	\$204,313	\$272,261
Warranty provision	(7,302 )	8,122	(834 )	(31,885 )
Warranty settlements	(5,809 )	(4,185 )	(11,585 )	(19,199 )
Ending balance	\$191,894	\$221,177	\$191,894	\$221,177
Short-term warranty reserve	\$162,268	169,907	\$162,268	\$169,907
Long-term warranty reserve	29,626	51,270	29,626	51,270
	\$191,894	\$221,177	\$191,894	\$221,177

**7. INCOME TAXES**

At June 30, 2013, the Company had federal net operating losses (“NOLs”) and related state NOLs. In accordance with Financial Accounting Standards Board Accounting Standards Codification (“ASC”) 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 during the nine months ended June 30, 2013 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 (“Section 172”), 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 any state taxes during the 2013 fiscal year.

ASC 740 requires the Company to recognize in its 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.

## 8. COMMITMENTS AND CONTINGENCIES

### *Bank and Other Cash Equivalent Deposits in Excess of FDIC Insurance Limits*

The Company maintains cash and cash equivalent accounts with Federal Deposit Insurance Corporation (“FDIC”) insured financial institutions. Under provisions of the Dodd Frank Wall Street Reform and Consumer Protection Act (“Dodd Frank Act”), unlimited FDIC insurance was provided for all funds in non-interest bearing transaction accounts through December 31, 2012. Beginning on January 1, 2013, the FDIC covers all deposit accounts up to \$250,000 per depositor for each insured bank. The Company’s exposure for amounts in excess of FDIC insured limits at June 30, 2013 was approximately \$14,800,000. The Company has not experienced any losses in such accounts.

### *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 financial statements for pending litigation. On July 24, 2012, the Company was served with a complaint filed in the Delaware Court of Chancery by Iroquois Master Fund Ltd. (“Iroquois”), a shareholder of the Company, against the Company’s board of directors (the “Board”), its Chief Executive Officer and Chief Financial Officer (the “Delaware Litigation”). The action is a purported derivative action which alleges breach of fiduciary duty and other claims against the individual defendants based on the issuance of stock options to them, which the plaintiff alleges were granted in violation of the terms of the Company’s 2005 Equity Incentive Plan. The Company was also named in the action as a nominal defendant against which no recovery is sought. The plaintiff seeks rescission or repricing of the stock options at issue and other damages, purportedly on behalf of the Company. The defendants filed a motion to dismiss the complaint. Rather than oppose the motion, the plaintiff filed an amended complaint on November 19, 2012. Defendants filed a motion to dismiss the amended derivative complaint on December 17, 2012. The Company and the individual defendants seek dismissal of the complaint on the grounds that the plaintiff has failed to comply with Delaware law in filing the complaint. The individual defendants seek dismissal on the additional grounds that the Complaint fails to state a legal claim against them. A hearing on the defendants’ motion to dismiss the amended derivative complaint was held March 4, 2013.

The Company received a notice and a Schedule 13D was filed by Iroquois with the SEC on January 17, 2013 announcing Iroquois' intention to nominate a slate of five directors to stand for election at the Company's 2013 Annual Meeting of Stockholders (the "annual meeting"). The Company's Nominating and Corporate Governance Committee reviewed and considered the nominations as well as qualified individuals who were submitted by other stockholders to serve on the Board. On May 21, 2013, the Company entered into an agreement (the "Settlement Agreement") with Iroquois to settle the potential proxy contest pertaining to the election of directors to the Board at the annual meeting. The Company agreed, among other things, to nominate three new nominees to the Board and to pay to Iroquois its legal and advisory fees in connection with its nomination of director candidates, in the amount of \$301,496, which was paid in the quarter ended June 30, 2013. Also as part of the settlement, the Company and Iroquois agreed to execute a Stipulation of Settlement seeking to settle the Delaware Litigation brought by Iroquois in July 2012. As part of the settlement, Thomas R. Brown, President and Chief Executive Officer of the Company, has agreed to increase the exercise price of the option granted to Mr. Brown in May 2012 to \$3.00 per share. A hearing is scheduled for September 10, 2013 to request approval of the Stipulation of Settlement by the Delaware Court. If the Delaware Court approves the Stipulation, Iroquois' Counsel shall apply to the Delaware Court for an award of attorneys' fees and expenses of no more than \$340,000.

At this time, the Company estimates that it is reasonably possible that it could incur a loss, after reimbursement of insurance, of \$19,271 for Iroquois' attorneys' fees and has accrued this expenses in the quarter ended June 30, 2013. This amount is an estimate which is subject to change based on the final insurance reimbursement and the ruling by the Delaware Court.

#### *Bonus Plan*

The Company has an incentive bonus plan for fiscal year 2013 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 also be held constant as of October 1, 2012. During the nine months ended June 30, 2013 and 2012, the Company did not record any bonus expense in connection with the respective 2013 or 2012 plans.

**9. SHARE-BASED COMPENSATION***Stock Option Plans*

At June 30, 2013, the Company had one equity incentive plan, the 2005 Equity Incentive Plan (“2005 Equity Plan”). The 2005 Equity Plan, as amended, authorizes for issuance as stock options, stock appreciation rights, or stock awards an aggregate of 3,250,000 new shares of common stock to employees, directors or consultants. The total plan reserve includes these new shares and shares reserved under prior plans, allowing for the issuance of up to 4,999,564 shares. At June 30, 2013, there were options outstanding covering 2,870,639 shares of common stock under the 2005 Equity Plan and an additional 1,437,977 shares of common stock available for grant.

*Stock Option Activity*

The following table summarizes information about stock option activity during the nine months ended June 30, 2013:

	<b>Number</b>	<b>Weighted</b>
	<b>of Shares</b>	<b>Average</b>
		<b>Exercise</b>
		<b>Price</b>
Outstanding October 1, 2012	3,463,339	\$ 1.31
Granted	4,000	\$ 0.94
Forfeited/expired	(472,000 )	\$ 1.72
Exercised	(124,700 )	\$ 0.84
Outstanding June 30, 2013	2,870,639	\$ 1.26
Exercisable June 30, 2013	2,387,960	\$ 1.23

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Options outstanding are exercisable at prices ranging from \$0.46 to \$3.13 and expire over the period from 2013 to 2023 with an average life of 5.0 years. The aggregate intrinsic value of options outstanding and exercisable at June 30, 2013 was \$444,108 and \$443,256, respectively.

*Share-Based Compensation*

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

	Three months ended		Nine months ended	
	June 30, 2013	2012	June 30, 2013	2012
Cost of revenue	\$1,180	\$6,070	\$6,385	\$19,195
Selling, general and administrative	178,777	174,873	539,652	411,075
Research and development	11,798	18,366	36,021	46,509
Total	\$191,755	\$199,309	\$582,058	\$476,779

The employee stock options granted in the nine months ended June 30, 2013 and 2012 had a weighted-average estimated fair value of \$0.64 per share and \$0.88 per share, respectively, using the Black-Scholes option pricing model with the following weighted-average assumptions (annualized percentages):

	Nine months ended June 30,					
	2013		2012			
Volatility	77.0%	-	81.0%	81.0%	-	82.0%
Risk-free interest rate	0.93%	-	1.08%	0.76%	-	1.10%
Forfeiture rate	10.0%		10.0%			

Dividend yield	0.0%	0.0%
Expected life in years	6.4	5.4 - 6.4

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 June 30, 2013, no excess tax benefit for the tax deductions related to share-based awards was recognized for the nine months ended June 30, 2013 and 2012. As of June 30, 2013, there was approximately \$500,000 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 1.1 years.

**10. STOCKHOLDERS' EQUITY***Summary*

The following table summarizes changes in the components of stockholders' equity during the nine months ended June 30, 2013:

	<b>Common Stock Shares</b>	<b>Amount</b>	<b>Additional Paid-in Capital</b>	<b>Accumulated Deficit</b>	<b>Total Stockholders' Equity</b>
Balances, September 30, 2012	32,374,499	\$ 324	\$86,358,011	\$(63,936,566 )	\$ 22,421,769
Issuance of common stock upon exercise of stock options	124,700	1	105,227	-	105,228
Share-based compensation expense	-	-	582,058	-	582,058
Net loss	-	-	-	(1,668,164 )	(1,668,164 )
Balances, June 30, 2013	32,499,199	\$ 325	\$87,045,296	\$(65,604,730 )	\$ 21,440,891

*Stock Purchase Warrants*

At June 30, 2013, 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.

**11. (LOSS) INCOME PER SHARE**

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

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Basic</b>				
(Loss) income available to common stockholders	\$(1,108,410 )	\$200,376	\$(1,668,164 )	\$222,434
Weighted average common shares outstanding	32,499,199	32,374,499	32,499,199	32,374,499
Basic (loss) income per common share	\$(0.03 )	\$0.01	\$(0.05 )	\$0.01

**Diluted**

(Loss) income available to common stockholders	\$(1,108,410 )	\$200,376	\$(1,668,164 )	\$222,434
Weighted average common shares outstanding	32,499,199	32,374,499	32,499,199	32,374,499
Assumed exercise of dilutive options and warrants	0	1,118,445	0	794,479
Weighted average dilutive shares outstanding	32,499,199	33,492,944	32,499,199	33,168,978
Diluted (loss) income per common share	\$(0.03 )	\$0.01	\$(0.05 )	\$0.01

Potentially dilutive securities outstanding at period end excluded from the diluted computation as the inclusion would have been antidilutive:

Options	2,870,639	901,700	2,870,639	891,700
Warrants	1,627,945	1,627,945	1,627,945	1,627,945
Total	4,498,584	2,529,645	4,498,584	2,519,645

**12. MAJOR CUSTOMERS**

For the three months ended June 30, 2013, revenues from one customer accounted for 20% of revenues, and for the nine months ended June 30, 2013, revenues from two customers accounted for 19% and 11% of revenues, respectively, with no other single customer accounting for more than 10% of revenues. At June 30, 2013, accounts receivable from six customers accounted for 18%, 17%, 12%, 11%, 11% 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 June 30, 2012, revenues from one customer accounted for 39% of revenues, and for the nine months ended June 30, 2012, revenues from three customers accounted for 18%, 11% and 10% of revenues, with no other single customer accounting for more than 10% of revenues. At June 30, 2012, accounts receivable from four customers accounted for 19%, 14%, 13% and 11% of total accounts receivable, respectively, with no other single customer accounting for more than 10% of the accounts receivable balance.

**13. SUBSEQUENT EVENTS**

In July 2013, the Company's Board of Directors approved a share buyback program under which the Company may repurchase up to \$3 million of its outstanding common shares from time to time on the open market and in privately negotiated transactions, depending on market conditions, share price and other factors. This buyback program will be effective through December 31, 2013.



## 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 interim 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, 2012.

### 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

LRAD Corporation develops and delivers highly intelligible, directed acoustic products 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. We offer a variety of directional sound products, which meet a broad range of requirements from communicating with and deterring threats over distances up to 300 meters with our hand-held LRAD 100X to distances in excess of 3,500 meters with our LRAD 2000X. Since 1996, we have been at the forefront developing new acoustic innovations to project, focus, shape and control sound and we believe we have established a significant competitive advantage in our principal markets. Through increased focus and investment in worldwide sales and marketing activities our Long Range Acoustic Device® or LRAD® pioneered a new worldwide market for directional long-range acoustic hailing devices ("AHDs").

In the quarter ended June 30, 2013, revenues were \$2,157,644 compared to \$3,160,911 in the quarter ended June 30, 2012. In spite of continued budget uncertainty, U.S. Defense spending improved in the quarter as we were awarded a \$12.2 million multi-year contract from the U.S. Navy. Shipments under the new U.S. Navy contract commence in the quarter ended September 30, 2013 with additional shipments anticipated in future quarters. Delays in the receipt of other expected orders in our pipeline resulted in a decrease in quarterly revenues as compared to the quarter ended June 30, 2012. We believe these expected orders are forthcoming, but the timing of requirements, approval processes

and funding make them difficult to forecast. We continue to pursue international opportunities, as well as new markets as a result of our recently released LRAD 360X and LRAD 2000X products. Gross margin, which was negatively impacted by the reduced quarterly revenue, was 42% of net revenues, compared to 50% of net revenues for the quarter ended June 30, 2012. On a quarter over quarter basis, our revenues are expected to remain uneven.

Our LRAD-X product line uses directionality and focused acoustic output to clearly transmit critical information, instructions and warnings in excess of 3,500 meters. The LRAD-X product line features clear voice intelligibility and is available in a number of packages and form factors that meet the military's stringent environmental requirements. Through the use of powerful voice commands and deterrent tones, large safety zones can be created while determining the intent and influencing the behavior of potential security threats. Our LRAD-X product line provides a complete range of systems from single user portable to permanently installed, remotely operated. Our LRAD products have been competitively selected over other commercially available systems by U.S. and several foreign militaries. Our LRAD-X product line includes the following:

- **LRAD 2000X**—launched in fiscal 2012 to meet the requirements of larger security applications—is our largest and loudest acoustic hailing system and broadcasts highly intelligible voice communication that can be clearly heard and understood over distances in excess of 3,500 meters.

- **LRAD 1000X**—selected by the U.S. Navy as its AHD for Block 0 of the Shipboard Protection System—can be manually operated to provide long distance hailing and warning with highly intelligible communication. This unit is available in both fully integrated and remotely operated electronics.

- **LRAD 500X**—selected by the U.S. Navy and U.S. Army as their AHD for small vessels and vehicles—is lightweight and can be easily transported to provide security personnel long-range communications and a highly effective hailing and warning capability where needed.

- **LRAD 300X** is a lightweight mid-range AHD developed for small vessels and manned and unmanned vehicles and aircraft. This unit is available in both fully integrated and remotely-operated electronics.

- **LRAD 100X** is a self-contained, battery-powered, portable system designed for use in a variety of mass notification, law enforcement and commercial security applications. This unit is ideally suited for short-range perimeter security and communications.

**LRAD-RX** is our prescription for remotely controlled security. It enables system operators to detect and communicate with an intruder over long distances. Selected by the U.S. Navy after a competitive bid as its AHD for Block 2 of the Shipboard Protection System, the LRAD-RX features an LRAD 1000X emitter head, integrated camera, high-intensity searchlight and our proprietary, robust, and Internet protocol-addressable full pan and tilt drive system for precise aiming and tracking. The LRAD-RX can also be integrated with radar to provide automated intruder alerts. Because of its automated capabilities, the LRAD-RX reduces manpower requirements and false alarms while providing an intelligent, cost-effective security solution.

**LRAD 360X**—launched in fiscal 2012—is designed with 360-degree directionality to provide features needed for mass notification and emergency warning capabilities. The LRAD 360X is targeted for market applications including campus, border and perimeter security, tsunami, hurricane and tornado warnings, bird safety and control, and asset protection.

## **Overall Business Outlook**

We are experiencing positive response and increased acceptance of our products. We believe we have a solid technology and product foundation with our LRAD-X product line, and we have expanded our product line seeking to service new markets for greater business growth. 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. Our selling network has expanded to include a number of key integrators and sales representatives within the United States and in a number of worldwide locations. However, we may continue to face challenges through the balance of fiscal 2013 due to extreme international economic and geopolitical conditions in certain countries. A weak recovery of financial markets and continued lack of confidence in major economies could impact the operation of our business. We anticipate continued uncertainty with U.S. Military spending due to delays in the passage of the FY14 Federal Budget and details of the Overseas Contingency Operations (OCO) budget. We continue to pursue large business opportunities, but it is difficult to forecast how long it will take to close these opportunities, or if they will ultimately result in product sales.

## **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, 2012. 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 June 30, 2013 and 2012****Revenues**

The following table sets forth for the periods indicated certain items of our condensed consolidated statements of operations 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.

	<b>Three months ended June 30, 2013</b>		<b>June 30, 2012</b>		<b>Increase/(Decrease)</b>	
	<b>Amount</b>	<b>% of Net Revenue</b>	<b>Amount</b>	<b>% of Net Revenue</b>	<b>Amount</b>	<b>%</b>
Revenues:						
Product sales	\$1,905,518	88.3%	\$2,936,179	92.9%	\$(1,030,661)	(35.1% )
Contract and other	252,126	11.7%	224,732	7.1%	27,394	12.2%
	2,157,644	100.0%	3,160,911	100.0%	(1,003,267)	(31.7% )
Cost of revenues	1,242,190	57.6%	1,586,018	50.2%	(343,828 )	(21.7% )
Gross profit	915,454	42.4%	1,574,893	49.8%	(659,439 )	(41.9% )
Operating Expenses:						
Selling, general and administrative	1,607,237	74.5%	1,120,358	35.4%	486,879	43.5%
Research and development	423,434	19.6%	414,457	13.1%	8,977	2.2%
	2,030,671	94.1%	1,534,815	48.5%	495,856	32.3%
(Loss) income from operations	(1,115,217)	(51.7% )	40,078	1.3%	(1,155,295)	(2882.6%)
Other Income	6,807	0.3%	6,780	0.2%	27	0.4%
(Loss) income from operations before income taxes	(1,108,410)	(51.4% )	46,858	1.5%	(1,155,268)	(2465.5%)
Income tax benefit	-	0.0%	(153,518 )	(4.9% )	153,518	100.0%
Net (loss) income	\$(1,108,410)	(51.4% )	\$200,376	6.4%	\$(1,308,786)	(653.2% )

The decrease in revenues was primarily due to delays in the receipt and delivery of orders in the quarter ended June 30, 2013 compared to the prior year. Uncertainty on defense spending continued through the current quarter as a result of sequestration and the delayed passage of the FY13 continuing resolution. Due to the budgetary cycles of our

customer base and the lack of established markets for our proprietary products, we expect continued uneven quarterly revenues in future periods.

At June 30, 2013, we had aggregate deferred revenue of \$270,559 collected from a license agreement in advance of recognized revenue. This revenue component is subject to significant variability based on the timing, amount and recognition of new arrangements or payment terms.

### ***Gross Profit***

The decrease in gross profit in the quarter was primarily due to decreased revenue and some unfavorable product mix, partially offset by favorable manufacturing overhead spending.

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 \$394,632 increase in legal and other professional fees related to the current lawsuit, which the parties are seeking to settle with the Delaware Court, and responding to the threatened proxy contest, which was settled in the quarter ended June 30, 2013. Additional increases included \$91,221 for salaries as a result of hiring additional business development personnel and \$38,894 for costs related to the proxy and annual meeting which was held in an earlier quarter of the prior year, offset by \$30,363 savings for moving expenses due to moving the Company's office in the prior year and \$7,505 of other reductions.

We incurred non-cash share-based compensation expenses allocated to selling, general and administrative expenses in the three months ended June 30, 2013 and 2012 of \$178,777 and \$174,873, 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. In addition, we expect some additional legal expenses to continue in the third fiscal quarter due to the recent lawsuit and proxy matters. This may result in increased selling, general and administrative expenses in the future.



### ***Research and Development Expenses***

Research and development expenses reflected a small spending increase, primarily due to increased rent allocation in the new building.

Included in research and development expenses for the three months ended June 30, 2013 and 2012 was \$11,798 and \$18,366 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-up in 2013 and 2012 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.

### ***Loss from Operations***

The increase in the loss from operations was primarily attributable to the decrease in revenues and gross margin and an increase in legal and professional fees.

### ***Net Loss***

The increase in net loss was primarily due to the decrease in revenues and gross margin and an increase in legal and professional fees. We did not recognize any income tax expense in the current year, compared to a benefit of \$153,518 in the quarter ended June 30, 2012.



**Comparison of Results of Operations for the Nine Months Ended June 30, 2013 and 2012****Revenues**

The following table sets forth for the periods indicated certain items of our condensed consolidated statements of operations 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.

	<b>Nine months ended June 30, 2013</b>		<b>June 30, 2012</b>		<b>Increase/(Decrease)</b>	
	<b>Amount</b>	<b>% of Net Revenue</b>	<b>Amount</b>	<b>% of Net Revenue</b>	<b>Amount</b>	<b>%</b>
Revenues:						
Product sales	\$7,555,330	90.7%	\$8,821,963	96.2%	\$(1,266,633)	(14.4% )
Contract and other	772,231	9.3%	351,024	3.8%	421,207	120.0%
Total revenues	8,327,561	100.0%	9,172,987	100.0%	(845,426 )	(9.2% )
Cost of revenues	4,564,215	54.8%	4,532,497	49.4%	31,718	0.7%
Gross profit	3,763,346	45.2%	4,640,490	50.6%	(877,144 )	(18.9% )
Operating expenses:						
Selling, general and administrative	4,149,971	49.8%	3,370,211	36.7%	779,760	23.1%
Research and development	1,302,102	15.7%	1,225,165	13.4%	76,937	6.3%
Total operating expenses	5,452,073	65.5%	4,595,376	50.1%	856,697	18.6%
(Loss) income from operations	(1,688,727)	(20.3% )	45,114	0.5%	(1,733,841)	(3843.2%)
Other Income	22,163	0.3%	26,502	0.3%	(4,339 )	(16.4% )
(Loss) income from continuing operations before income taxes	(1,666,564)	(20.0% )	71,616	0.8%	(1,738,180)	(2427.1%)
Income tax expense (benefit)	1,600	0.0%	(150,818 )	(1.6% )	152,418	101.1%
Net (loss) income	\$(1,668,164)	(20.0% )	\$222,434	2.4%	\$(1,890,598)	(850.0% )

Revenues decreased by 9.2% compared to the same period in the prior year, primarily due to uncertainty on defense spending through much of the year as a result of sequestration and the delayed passage of the FY13 continuing resolution. Contract and other revenue for the nine months ended June 30, 2013 includes \$591,094 for an annual maintenance agreement for units sold to a foreign military in fiscal 2011, compared to \$197,031 for only one quarter in the prior year. Due to the budgetary cycles of our customer base and the lack of established markets for our proprietary products, we expect continued uneven quarterly revenues in future periods.

At June 30, 2013, we had aggregate deferred revenue of \$270,559 collected from a license agreement in advance of recognized revenue. This revenue component is subject to significant variability based on the timing, amount and recognition of new arrangements or payment terms.

### ***Gross Profit***

The decrease in gross profit year to date was primarily due to lower revenues, unfavorable product mix and an increase in contracted annual maintenance costs when compared to the costs for the first year warranty period in the prior year, related to a large foreign military sale in March 2011.

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 \$994,946 increase in legal and other professional fees related to the current lawsuit, which the parties are seeking to settle with the Delaware Court, and responding to the threatened proxy contest, which was settled in the quarter ended June 30, 2013, \$128,577 increase in non-cash share-based compensation and \$93,688 increase in salaries and consulting expenses, partially offset by a \$103,654 decrease in commission expense to our contracted sales representatives, \$57,940 decrease in travel expense and \$53,858 of other spending reductions.

We incurred non-cash share-based compensation expenses allocated to selling, general and administrative expenses in the nine months ended June 30, 2013 and 2012 of \$539,652 and \$411,075, 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. In addition, we expect legal expenses related to the lawsuit and proxy matters to continue into the third fiscal quarter. This may result in increased selling, general and administrative expenses in the future.

### ***Research and Development Expenses***

Research and development expenses reflected a \$43,496 increase in rent due to increased square footage in our new office facility and a \$40,302 increase in product development costs, offset by \$6,861 of spending reductions.

Included in research and development expenses for the nine months ended June 30, 2013 and 2012 was \$36,021 and \$46,509 of non-cash share-based compensation costs, respectively.

In the nine months ended June 30, 2013 and 2012, we reviewed the ongoing value of our capitalized intangible assets. As a result of this review, we reduced the value of these patents by \$0 and \$18,205 for the nine months ended June 30, 2013 and 2012, 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 further expanded the product line-up in 2013 and 2012 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.

### ***(Loss) Income from Operations***

The decrease in income from operations was primarily attributable to the decrease in revenues and gross profit and an increase in legal and professional fees.

***Net (Loss) Income***

The decrease in net income was primarily the result of the decrease in revenues and gross profit, and an increase in legal and professional fees.

***Liquidity and Capital Resources***

Cash and cash equivalents at June 30, 2013 was \$15,057,571, compared to \$13,859,505 at September 30, 2012. The change in cash and cash equivalents was primarily the result of a reduction in accounts receivable from strong year-end shipments in September 30, 2012, partially offset by an increase in inventory based on forecasted requirements. Other than cash and cash equivalents and expected future cash flows from operating activities in subsequent periods, we have no other unused sources of liquidity at this time. The Company has approved a share buyback program that could result in the use of up to \$3 million to repurchase outstanding common shares through December 31, 2013.

At June 30, 2013 and September 30, 2012, our working capital was \$20,502,082 and \$21,312,250, respectively.

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*

#### *Operating Activities*

Our net cash provided by operating activities was \$1,229,921 for the nine months ended June 30, 2013, compared to \$646,457 for the nine month ended June 30, 2012. Net cash provided by operating activities for the nine months ended June 30, 2013 resulted primarily from a reduction in accounts receivable of \$4,351,696 from a high year-end balance, partially offset by a net loss offset by expenses not requiring the use of cash of \$1,195,136 and increased inventory based on the current forecast of \$1,913,407. Net cash provided by operating activities during the nine months ended June 30, 2012 resulted from \$864,667 net income increased by expenses not requiring the use of cash and \$2,994,406 from reduced accounts receivable from a higher year-end balance, partially offset by \$2,255,563 for reduced accrued and other liabilities resulting from bonus payments for 2011 which were paid in the nine months ended June 30, 2012, \$487,688 for increased inventory and \$447,196 for decreased accounts payable.

At June 30, 2013, we had net accounts receivable of \$1,166,598, compared to \$5,517,894 in accounts receivable at September 30, 2012. The level of trade accounts receivable for the quarter ended June 30, 2013 represented approximately 49 days of revenue, compared to 90 days of revenue for the quarter ended September 30, 2012. Our receivables can vary significantly due to overall sales volumes and due to quarterly variations in sales and timing of shipments to and receipts from large customers and the timing of contract payments.

#### *Investing Activities*

We 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 \$137,083 and \$156,504 for the nine months ended June 30, 2013 and 2012, respectively. We anticipate some additional expenditure for equipment and patents during the balance of fiscal year 2013.

### *Financing Activities*

In the nine months ended June 30, 2013, we received \$105,228 from the exercise of stock options. We did not receive any proceeds from financing activities in the nine months ended June 30, 2012.

### **Recent Accounting Pronouncements**

There were no adopted or pending recent accounting pronouncements that are expected to have a material impact on our condensed consolidated financial statements for the nine months ended June 30, 2013.

### **Item 3. Qualitative and Quantitative 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 and cash equivalents. The Company's exposure to market risk for changes in interest rates is minimal as a result of maintaining cash in savings accounts and short term money market 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 June 30, 2013.

## **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during our fiscal quarter ended June 30, 2013, 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 financial statements for pending litigation. On July 24, 2012, the Company was served with a complaint filed in the Delaware Court of Chancery by Iroquois Master Fund Ltd., a shareholder of the Company ("Iroquois"), against the Company's board of directors (the "Board"), its Chief Executive Officer and Chief Financial Officer (the "Delaware Litigation"). The action is a purported derivative action, which alleges breach of fiduciary duty and other claims against the individual defendants based on the issuance of stock options to them, which the plaintiff alleges were granted in violation of the terms of the Company's 2005 Equity Incentive Plan. The Company was also named in the action as a nominal defendant against which no recovery is sought. The plaintiff seeks rescission or repricing of the stock options at issue and other damages, purportedly on

behalf of the Company. The defendants filed a motion to dismiss the complaint. Rather than oppose the motion, the plaintiff filed an amended complaint on November 19, 2012. Defendants filed a motion to dismiss the amended derivative complaint on December 17, 2012. The Company and the individual defendants seek dismissal of the complaint on the grounds that the plaintiff has failed to comply with Delaware law in filing the complaint. The individual defendants seek dismissal on the additional grounds that the Complaint fails to state a legal claim against them. A hearing on the defendants' motion to dismiss the amended derivative complaint was held March 4, 2013.

The Company received a notice and a Schedule 13D was filed by Iroquois with the SEC on January 17, 2013 announcing Iroquois' intention to nominate a slate of five directors to stand for election at the Company's 2013 Annual Meeting of Stockholders (the "annual meeting"). The Company's Nominating and Corporate Governance Committee reviewed and considered the nominations as well as qualified individuals who were submitted by other stockholders to serve on the Board. On May 21, 2013, the Company entered into an agreement (the "Settlement Agreement") with Iroquois to settle the potential proxy contest pertaining to the election of directors to the Board at the annual meeting. The Company agreed, among other things, to nominate three new nominees to the Board and to pay to Iroquois its legal and advisory fees in connection with its nomination of director candidates, in the amount of \$301,496, which was paid in the quarter ended June 30, 2013. Also as part of the settlement, the Company and Iroquois agreed to execute a Stipulation of Settlement seeking to settle the Delaware Litigation brought by Iroquois in July 2012. As part of the settlement, Thomas R. Brown, President and Chief Executive Officer of the Company, has agreed to increase the exercise price of the option granted to Mr. Brown in May 2012 to \$3.00 per share. A hearing is scheduled for September 10, 2013 to request approval of the Stipulation of Settlement by the Delaware Court. If the Delaware Court approves the Stipulation, Iroquois' Counsel shall apply to the Delaware Court for an award of attorneys' fees and expenses of no more than \$340,000.

#### **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.**

None.

#### **Item 3. Defaults Upon Senior Securities.**

None.



**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

- 10.1 Investors Settlement Agreement, dated May 21, 2013, by and among LRAD Corporation and the investors listed therein. Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 22, 2013.
- 10.2 Form of Indemnification Agreement. Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on June 27, 2013.
- 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.

Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration

\*\* statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

**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: August 6, 2013 By: /s/ KATHERINE H. MCDERMOTT  
**Katherine H. McDermott, Chief Financial Officer**  
**(Principal Financial Officer)**