LRAD Corp
Form 10-K
December 03, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2015

Commission File Number 0-24248

LRAD CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE **(State or other jurisdiction of Incorporation or organization)**	**87-0361799** **(I.R.S. Employer Identification No.)**
16990 Goldentop Road, **San Diego, California** **(Address of principal executive offices)**	**92127** **(Zip Code)**

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	**Name of exchange on which registered**

Common stock, $.00001 par value per share NASDAQ Capital Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 aggregate market value of the voting common stock held by nonaffiliates of the registrant as of March 31, 2015 (the last business day of the registrant's most recently completed second fiscal quarter) was $66,327,747 based upon the closing price of the shares on the NASDAQ Capital Market on that date. This calculation does not reflect a determination that such persons are affiliates for any other purpose.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

32,136,171 shares of common stock, par value $.00001 per share, as of November 25, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement filed with the Commission pursuant to Regulation 14A in connection with the registrant's 2016 Annual Meeting of Stockholders, to be filed subsequent to the date of this report, are incorporated by reference into Part III of this report. The definitive proxy statement will be filed with the Commission not later than 120 days after the conclusion of the registrant's fiscal year ended September 30, 2015.

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PART I

Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements relating to future events or the future performance of our company. 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. Such statements are predictions and actual events or results may differ materially. In evaluating such statements, you should specifically consider various factors identified in this report, including the matters set forth below in "Item 1A. Risk Factors" of this Annual Report on Form 10-K, which could cause actual results to differ materially from those indicated by such forward-looking statements.

For purposes of this Annual Report, the terms "we," "us," "our" and the "Company" refer to LRAD Corporation and its consolidated subsidiary.

Item 1. Business.

Overview

LRAD Corporation develops and delivers innovative directed acoustic products that beam, focus and control sound over relatively 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. In fiscal 2008, we completely redesigned our directional LRAD® products, introducing the LRAD-X® product line, with improved quality and functionality. In 2012, using the technology that we developed for our directional speakers, we designed and developed a new line of omnidirectional LRAD ONE VOICE™ speakers. Unlike our directional products, which have a narrow 15 to 30 degree beam of sound, the omnidirectional line offers products that project sound from 60 to 360 degrees to meet the needs of the global mass notification marketplace. We now offer a variety of directional and omnidirectional sound products which meet a broad range of requirements from communicating with and deterring threats over distances up to 600 meters with our hand-held LRAD 100X to distances up to 5,500 meters with our LRAD 2000X. Our Long Range Acoustic Device® or LRAD pioneered a new worldwide market for directional long-range acoustic hailing devices ("AHDs") which we now sell into over 70 countries. We have been at the forefront developing new acoustic innovations and we believe we have established a significant competitive advantage in our principal markets.

Technology and Products

Our LRAD represents a technological breakthrough that creates a directed acoustic beam using minimal power to communicate at operational ranges with authority and superior intelligibility even in high ambient noise environments. Our LRAD was initially developed for the U.S. Navy to fulfill a capability gap identified after the USS Cole attack in 2000 and has been deployed by the U.S. Army, Navy, Marine Corps and Coast Guard, as well as international military services and commercial maritime, commercial security, and public safety organizations around the globe since early 2003. In fiscal 2008, we completed the redesign and redevelopment of our LRAD products and introduced our current generation of products called LRAD-X, which feature improved voice intelligibility, output and durability. Our LRAD hailing, notification and warning systems feature a 15 to 30 degree acoustic beam and a broadcast range up to 5,500 meters. Our LRAD systems also feature a rugged construction that allows the product to meet the stringent environmental requirements of military applications. Our LRAD systems can emit powerful voice commands, prerecorded messages in multiple languages and deterrent tones to create large safety zones allowing operators to determine the intent, influence the behavior and gain compliance from approaching vessels, vehicles or personnel.

Our LRAD-X product line provides a complete range of systems from single user portable to permanently installed, remotely operated RX units. In recent years, we have added new models to meet specific customer requirements and to enable us to expand our technology into new markets. We have also added new features such as wireless capability, recordable microphones, integrated and remote electronics packages, and various amplifier configurations.

In 2012, utilizing our advanced speaker technology developed for our directed products, we designed and developed an omnidirectional speaker, the LRAD 360X. Unlike most of the mass notification systems currently on the market, which are primarily sirens, our products provide the same highly intelligible voice clarity as the rest of the LRAD product line. The LRAD 360X is designed to transmit highly intelligible voice communications and warnings over a 360-degree area, unlike the more directional LRAD products. Since the initial product launch, we have expanded our omnidirectional product line to include a broad offering of products to meet the needs of the mass notification market.

In 2014, we introduced the LRAD 450XL, which uses new, patent pending speaker technology and is the most powerful acoustic hailing device in the market today for its size and weight. In 2015, we introduced the latest addition to our LRAD directed product line, the LRAD 500RX, which is engineered and designed on our proprietary pan and tilt system and is a lighter, more compact version of our successful LRAD 1000RX. We continue to enhance our product design to improve the durability and performance of our units. Our LRAD products have been competitively selected over other commercially available systems by U.S. and several foreign militaries. Our LRAD-X product line currently includes the following:

LRAD Directional Products:

- **LRAD 2000X**—launched in 2012 to meet the requirements of larger security applications—is our largest and loudest AHD and broadcasts highly intelligible voice communication that can be clearly heard and understood over distances up to 5,500 meters. This unit is designed to be highly effective in perimeter and border security applications.

- **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 voice 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 450XL**—designed, developed and launched in 2014—is the loudest long range AHD for its size and weight. The LRAD 450XL uses an enhanced patent pending technology to provide powerful output in a smaller form factor with the same high level of clarity and intelligibility consistent with the LRAD product line. The LRAD 450XL was designed to provide an effective communication solution for small vessels, military and law enforcement vehicles, remote weapon stations and helicopters.

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

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

- **LRAD 1000RX**—selected by the U.S. Navy after a competitive bid as its AHD for Block 2 of the Shipboard Protection System— is our solution for remotely controlled security. The LRAD 1000RX enables system operators to detect and communicate with an intruder over long distances. It 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 1000RX can also be integrated with radar to provide automated intruder alerts. Because of its automated capabilities, the LRAD 1000RX is intended to reduce manpower requirements and false alarms while providing a highly effective, cost-efficient, remote response security solution.

- **LRAD 500RX**—engineered and designed on a proprietary pan and tilt system, the LRAD 500RX is a lighter, more compact version of the LRAD 1000RX.

LRAD Omnidirectional Products:

- **LRAD 360X**—launched in 2012—is designed to provide 360-degree coverage with features designed specifically for mass notification and emergency warning capabilities. The LRAD 360X is targeted for market applications including tsunami, hurricane, tornado and severe weather warnings, state and local government, campus and industrial facility public address and emergency notification, and military base mass notification and public address.

- **LRAD 360Xm**—a smaller form factor of the LRAD 360X—provides the same highly intelligible voice clarity of the LRAD 360X over areas not requiring large-scale coverage. Designed for fixed or mobile installations in smaller areas such as courtyards, parking lots, parks and recreational facilities, the LRAD 360Xm is targeted for rapid deployment during military exercises, at industrial facilities and construction sites, and for activities such as festivals, parades and sporting events. In 2014, we developed a portable version of the LRAD 360Xm in a carrying case with a telescoping tripod that can be set-up in minutes and can provide immediate communication where needed.

- **LRAD 360XT**—a mobile mass notification solution on a ruggedized trailer equipped with a telescoping, folding mast to deploy an LRAD 360X to a maximum height of 30 feet which can provide emergency warnings and instructions where needed with area coverage up to an 850-meter radius.

- **LRAD DS-60**—a 60-degree mass notification speaker that can be mounted on various platforms to provide communication in areas requiring more directional coverage.

- **LRAD SB**—a vehicle mounted speaker system that can be secured to any armored, VIP or other government or corporate vehicle to create a 360 degree deterrent zone to safely and effectively warn and ward off threats.

- **SoundSaber®**—a 90-degree mass notification system with highly intelligible voice communication that is well suited for military base communications, air craft carrier hanger decks, and public address applications.

We continue to develop additional products to expand our omnidirectional product offering to meet the needs of the growing global mass notification market.

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Strategy

We believe we have been instrumental in developing a market and increasing demand for AHDs in a number of business segments and markets. We are building on our leadership position in the field of directed or focused sound for both short-range and long-range communication with high quality, clarity and intelligibility. Our overall strategy is to offer an increasing variety of directional and omnidirectional sound and other products for an increasing range of applications. In executing our strategy, we use direct sales to governments, military, large end-users, system integrators and defense-related companies, and we have built a worldwide distribution channel consisting of partners and resellers that have significant expertise and experience selling integrated communications solutions into our various target markets. Since our primary sales opportunities are with militaries and governments, we are subject to each customer’s unique budget cycle, which leads to extremely long selling cycles and uneven revenue flow, complicating our product planning.

We had a number of business opportunities in 2015 that were delayed due to worldwide economic conditions. In 2016, we plan to continue to pursue those opportunities, with the support of new marketing and business development personnel added in late fiscal 2015. Our plan is to grow revenue through increased direct sales to domestic and international militaries, and large commercial and defense-related companies, who desire to use our directed sound technology in their integrated product offerings. This includes a continued strong effort to pursue U.S. military opportunities where our products have proven beneficial in the past, but revenues have declined in recent years due to federal budget constraints. Our focus will be primarily on the government, military, law enforcement, homeland and international security, private and commercial security, maritime security and wildlife preservation and control markets. While we have been developing these markets for several years, we have only begun to realize the significant potential in these worldwide market opportunities.

We plan to continue expanding our presence and increase our market share in the global mass notification market. We entered the large mass notification market with the introduction of the LRAD 360X omnidirectional product. We have designed and developed a complimentary omnidirectional product line-up to increase our presence in this global market. While this is a more mature marketplace with established manufacturers and suppliers, we believe that our superior technology and product offerings give us an opportunity to penetrate and succeed in this large, expanding market. We also plan to continue our focus on expanding and strengthening domestic and international sales channels by adding key channel partners, distributors and dealers that focus on the mass notification market.

Our research and development strategy is to continue to develop innovative directed acoustic solutions (e.g., the LRAD 450XL and the LRAD 500RX) for introduction into our target markets, as well as to round out our omnidirectional product offering to include a more comprehensive, integrated solution. In fiscal 2008, we made significant improvements to the performance and quality of our existing directed sound products and introduced our line of LRAD-X products. The introduction of our redesigned and reengineered product line has allowed us to expand our business and maintain an industry leadership position. We have ongoing development efforts to further improve our products’ performance, quality and features. We also engage in ongoing value engineering to reduce the cost and simplify the manufacturing of our products. Our mass notification products represent a much more complex, integrated offering. We plan to continue investing engineering resources and capital to develop products and software to further expand our omnidirectional product line.

We intend to continue operating with financial discipline in order to create value for our shareholders. We are focused on growing our top line revenue which will translate into increased net profit growth by successfully entering into new markets and expanding our market share in the mass notification market.

Manufacturing and Suppliers

Manufacturing. We believe maintaining quality manufacturing capacity is essential to the performance of our products and the growth of our business. Our technologies are different from mass produced designs, and our manufacturing and assembly involves unique processes and materials. We contract with third party suppliers to produce various components and sub-assemblies. At our San Diego, California facility, we complete the final assembly, test and ship our products for both commercial and government systems. We have refined our internal processes to improve how we design, test and qualify product designs. We continue to implement rigorous manufacturing and quality processes to track production and field failures. We also perform third party testing and certification of our products to ensure that they meet rigorous military and commercial specifications. We have developed custom manufacturing equipment used to automate the production of key sub-assemblies reducing the labor component and permitting higher volume production. We implement design and component changes periodically to reduce our product costs and improve product reliability and manufacturability.

Suppliers. Our products have a large number of components and sub-assemblies produced by outside suppliers mostly located within 50 miles of our facility to take advantage of flexible turnaround, minimize inventories and to maximize the efficiency of our supply chain. We purchase a number of key components and sub-assemblies from foreign suppliers. Consequently, we are subject to the impact economic conditions can have on such suppliers and the fluctuations of foreign currency exchange rates which could impact our lead times and product cost. We have developed strong relationships with a number of our key suppliers. If these suppliers should experience quality problems or part shortages, our production schedules could be significantly delayed or our costs significantly increased.

Sales and Marketing

We market and sell products and services through our sales force based in California, Colorado, Florida, Minnesota, Texas and Wisconsin. Our corporate and administrative offices are located in San Diego, California.

We sell directly to governments, military, large end-users and defense-related companies. We use independent representatives on a commission basis to assist us in our direct sales efforts. We also use a channel distribution model in which we sell our products directly to independent resellers and system integrators around the world, who then sell our products (or our products integrated with other systems) to end-user customers. We are focusing our internal business development resources on building relationships with defense integrators and other large direct customers.

We have established a global reputation for providing high quality, innovative sound solutions that has made LRAD an internationally recognized product brand. We actively promote our brands on our products and we intend to continue increasing the use of our trademarks throughout our product distribution chain and believe growing brand awareness will assist in expanding our business.

Customer Concentration

For the fiscal year ended September 30, 2015, revenues from one customer accounted for 15% of revenues, with no other single customer accounting for more than 10% of revenues. For the fiscal year ended September 30, 2014, revenues from one customer accounted for 16% of revenues, with no other single customer accounting for more than 10% of revenues.

Our revenues to date have relied on a few major customers. The loss of any customer could have a materially adverse effect on our financial condition, results of operations and cash flows. Our goal is to diversify sound technology revenues in future periods.

Backlog

Our order backlog for products that are deliverable in the next 12 months was approximately $4,451,016 at September 30, 2015, compared to $5,543,000 at September 30, 2014. The amount of backlog at any point in time is dependent upon scheduled delivery dates to our customers and product lead times. Our backlog orders are supported by firm purchase orders.

Warranties

We generally warrant our products to be free from defects in materials and workmanship for a period up to one year from the date of purchase. The warranty is generally a limited warranty, and in some instances imposes certain shipping costs on the customer. We generally provide direct warranty service, but at times we may establish warranty service through third parties. Our international warranties are generally similar to the warranties we offer in the U.S.

We also provide repair and maintenance agreements and extended warranty contracts at market rates, with terms ranging from one year to several years, as an additional source of revenue and to provide increased customer satisfaction.

Competition

Our technologies and products compete with those of other companies. The commercial and government audio industry markets are fragmented and include numerous manufacturers with audio products that vary widely in price, quality and distribution channels. Many of our present and potential future competitors have, or may have, substantially greater resources to devote to product development. We believe we compete primarily on the originality of our products, the uniqueness of our technology and designs, our responsiveness to customers and our ability to meet their needs and, most importantly, the quality, ruggedness and superior performance of our products which have been developed by incorporating feedback from our customers and our desire to provide the highest quality product to our markets.

Our LRAD products are the leading acoustic hailing and warning products in the market today for military and commercial applications. The broad category of government audio industry speakers includes competitors such as IML Sound Commander, Ultra Electronics USSI and others. We do not believe these competitors have achieved significant global market penetration in the government or commercial directed hailing markets to date. We believe our LRAD product line has demonstrated acceptance and has performed extremely well in harsh environments and can continue to compete on the basis of technical features, performance, ease of use, quality and cost. As we continue to grow this market, future competitors with greater resources may enter with new technologies and capabilities, which could impact our competitiveness.

With the introduction of the omnidirectional LRAD products, we entered the more mature and established mass notification market, which has a number of large competitors including Federal Signal Corporation, Whelen Engineering Company Inc., Siemens AG and others. In addition to powerful warning tones and sirens, the omnidirectional LRAD products provide the same vocal clarity, intelligibility and quality over long distances as our directed LRAD products. We believe the highly intelligible voice of our omnidirectional products gives us a competitive advantage against these larger organizations. We believe the domestic and international markets for mass notification systems are substantial and growing.

Seasonality

Government business tends to be seasonal due to government procurement and budget cycles, with the quarter ending September 30, which coincides with the United States government budget year, usually producing relatively higher sales, and the quarter ending December 31, usually producing relatively lower sales. International budget years vary by country. Since our sales are primarily to governments, governmental departments or agencies, our selling cycles tend to be long and difficult to forecast. We have not experienced any significant seasonality trends to date, but we may experience increased seasonality in the future.

Government Regulation

We are subject to a variety of government laws and regulations that apply to companies engaged in international operations, including, among others, the Foreign Corrupt Practices Act, U.S. Department of Commerce export controls, local government regulations and procurement policies and practices (including regulations relating to import-export control, investments, exchange controls and repatriation of earnings). We maintain controls and procedures to comply with laws and regulations associated with our international operations. If we are unable to remain compliant with such laws and regulations, our business may be adversely affected.

Our products are being produced to comply with standard product safety requirements for sale in the United States and similar requirements for sale in Europe and Canada. We expect to meet the electrical and other regulatory requirements for electronic systems or components we sell throughout the world.

Financial Information about Segments and Geographic Areas

Financial information regarding our segments and the geographic areas in which we operate is contained in Note 15, Major Customers, Suppliers, Segment and Related Information, to our consolidated financial statements.

Intellectual Property Rights and Proprietary Information

We operate in an industry where innovation, investment in new ideas and protection of resulting intellectual property rights are important drivers of success. We rely on a variety of intellectual property protections for our products and technologies, including patent, trademark and trade secret laws and contractual obligations, and we pursue a policy of vigorously enforcing such rights.

In addition to such factors as innovation, technological expertise and experienced personnel, we believe that a strong product offering that is continually upgraded and enhanced will keep us competitive, and we will seek patent protection on important technological improvements that we make. We have an ongoing policy of filing patent applications to seek protection for novel features of our products and technologies. Prior to the filing and granting of patents, our policy is to disclose key features to patent counsel and maintain these features as trade secrets prior to product introduction. Patent applications may not result in issued patents covering all-important claims and could be denied in their entirety. We also file for trade name and trademark protection when appropriate. We are the owner of federally registered trademarks including LRAD®, LONG RANGE ACOUSTIC DEVICE®, LRAD-X®, LRAD-RX®, SOUNDSABER® and have filed for registration of ONE VOICE™, many of which have earned worldwide brand recognition.

Our policy is to enter into nondisclosure agreements with each employee and consultant or third party to whom any of our proprietary information is disclosed. These agreements prohibit the disclosure of confidential information to others, both during and subsequent to employment or the duration of the working relationship. These agreements may not prevent disclosure of confidential information or provide adequate remedies for any breach.

Research and Development

The sound reproduction market is subject to rapid changes in technology and design with frequent improvements and new product introductions. We believe our future success will depend on our ability to enhance and improve existing technologies and to introduce new technologies and products on a competitive basis that meet the needs of our customers. Accordingly, we are continuing to engage in significant research and new product development activities.

For the fiscal years ended September 30, 2015 and 2014, we spent approximately $2.0 million and $2.5 million, respectively, on company-sponsored research and development. Future levels of research and development expenditures will vary depending on the timing of further new product development and the availability of funds to carry on additional research and development on currently owned technologies or in other areas.

Executive Officers

The current executive officers of LRAD Corporation and their ages and business experience are set forth below.

Thomas R. Brown, age 65, has been a director since March 2006 and was appointed as President and Chief Executive Officer in August 2006. Mr. Brown served as President of BrownThompson Executive Search, a financial executive search firm, from April 2005 to August 2006. Mr. Brown was employed by Sony Electronics, Inc. from February 1988 to September 2004. From April 2001 to September 2004, Mr. Brown was Executive Vice President and Deputy President of the Engineering and Manufacturing Division of Sony Electronics, Inc., where he was responsible for supply chain operations including Information Technology, Procurement, Customer Service, North American Manufacturing Operations and Finance. From April 2000 to September 2004, Mr. Brown was concurrently the Executive Vice President and President of the Information Technology Division of Sony Electronics, where he was responsible for establishing the North American personal computer manufacturing division. Mr. Brown is a member of the board of directors of Mad Catz Interactive, Inc., a provider of innovative interactive entertainment products. Mr. Brown holds a B.A. in Economics from Rutgers University.

Katherine H. McDermott, age 55, was appointed as Controller/Chief Accounting Officer in June 2007 and was promoted to Chief Financial Officer in September 2007. Ms. McDermott served as the Chief Financial Officer for National Pen Company from 2005 to 2006 and the vice president of finance for Lantronix, Inc., a publicly traded technology company, from 2000 to 2005. Ms. McDermott held a variety of senior financial positions with Bausch & Lomb from 1988 to 1999 and began her career holding a number of financial positions with a component division of General Motors from 1982 to 1988. Ms. McDermott holds a B.A. in Business Administration from St. Bonaventure University and an MBA from the William E. Simon School of Business Administration at the University of Rochester.

Executive officers serve at the discretion of the board of directors.

Employees

At September 30, 2015, we employed a total of 44 people. Of such employees, 11 were in research and development, 14 were in production, quality assurance and materials control, 7 were in general and administrative and 12 were in sales and marketing. We contract technical and production personnel from time to time on an as needed basis and use outside consultants for various services. In addition, we have an extensive worldwide network of independent representatives and resellers who actively market and sell our product. We have not experienced any work stoppages and are not a party to a collective bargaining agreement, and we consider our relations with our employees to be favorable.

Available Information

Our shares of common stock trade on the NASDAQ Capital Market under the symbol “LRAD.” Our address is 16990 Goldentop Road, Ste. A, San Diego, California, 92127, our telephone number is 858-676-1112, and our website is located at www.lradx.com. We make available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, reports filed by our directors, executive officers and certain significant shareholders pursuant to Section 16 of the Securities Exchange Act and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934 as soon as reasonably practical after the reports are electronically filed with or furnished to the Securities and Exchange Commission (“SEC”). The information on our website is not incorporated by reference into this report nor is it part of this report.

Item 1A. Risk Factors.

An investment in our company involves a high degree of risk. In addition to the other information included in this report, you should carefully consider the following risk factors in evaluating an investment in our company. You should consider these matters in conjunction with the other information included or incorporated by reference in this report. Our results of operations or financial condition could be seriously harmed, and the trading price of our common stock may decline due to any of these or other risks.

General economic conditions may adversely affect our business, operating results and financial condition

Our operations and performance depend significantly on worldwide economic conditions and their impact on levels of capital investment and government spending. Global economic and political uncertainties and foreign currency rate fluctuations could adversely influence demand for our products leading to reduced levels of investments, reductions in government spending and budgets and changes in spending priorities and behavior. We could also be adversely affected by the negative impact on economic growth resulting from federal income tax increases and continued U.S. government spending restrictions that have been occurring during recent years.

We may need additional capital for growth.

We may need additional capital to support our growth. While we expect to generate these funds from operations, we may not be able to do so. Principal factors that could affect the availability of our internally generated funds include:

- failure of sales to government, military and commercial markets to meet planned projections;
- government spending levels impacting sales of our products;
- political uncertainty;
- foreign currency fluctuations;
- working capital requirements to support business growth;
- our ability to control spending;
- introduction of new competing technologies;
- product mix and effect on margins; and
- acceptance of our existing and future products in existing and new markets.

Should we require additional funds, general market conditions or the then-current market price of our common stock may not support capital raising transactions and any such financing may require advance approval of our stockholders under the rules of the NASDAQ Stock Market. Our ability to obtain financing may be further constrained by prevailing economic conditions. We may be required to reduce costs, including the scaling back of research and development into new products, which could have a negative impact on our ability to compete and to innovate. If we raise additional funds by selling additional shares of our capital stock or securities convertible into or exercisable for common stock (assuming we are able to obtain additional financing), the ownership interest of our stockholders will be diluted, which could have a material negative impact on the market value of our common stock.

One customer accounted for a total of 15% of our total revenues for fiscal year 2015. We expect to continue to be dependent on a limited number of customers.

One customer accounted for 15% of total revenues for fiscal year 2015, and one customer accounted for 16% of total revenues for fiscal year 2014. Historically, our revenues have been dependent upon a limited number of customers. We do not have long-term purchase commitments with these or other significant customers, and our customers have the right to cease doing business with us at any time. Military contracts that we have been awarded have terms of indefinite delivery/indefinite quantity during the term of the contract, so there are no guaranteed purchases on these contracts. No assurance can be given that these or other customers will continue to do business with us or that they will maintain their historical levels of business. If our relationship with any material customer were to cease, then our revenues would decline and negatively impact our results of operations. Any such decline could result in us increasing our accumulated deficit and a need to raise additional capital to fund our operations. If our expectations regarding future sales are inaccurate, we may be unable to reduce costs in a timely manner to adjust for sales shortfalls.

Disruption and fluctuations in financial and currency markets could have a negative effect on our business.

Financial markets in the United States, Europe and Asia have experienced extreme volatility and uncertainty in recent years. Governments have taken unprecedented actions intended to address these market conditions. It is difficult to assess the extent to which these conditions have impacted our business, and the affect this has had on certain of our customers and suppliers. These economic developments affect businesses such as ours in a number of ways. The tightening of credit in financial markets adversely affects the ability of commercial customers to finance purchases and operations and could result in a decrease in orders and spending for our products as well as create supplier disruptions. Reductions in tax revenues, rating downgrades and other economic developments could also reduce future government spending on our products. There can be no assurance that there will not be a further volatility and uncertainty in financial markets, which can then lead to challenges in the operation of our business. We are unable to predict the likely effects that negative economic conditions will have on our business and financial condition.

We purchase a number of key components and sub-assemblies from foreign suppliers. Consequently, we are subject to the impact economic conditions can have on such suppliers and fluctuations in foreign currency exchange rates. Increases in our cost of purchasing these items could negatively impact our financial results if we are not able to pass these increased costs on to our customers.

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We have current government contracts and our future growth is dependent, in large part, on continued sales to U.S. and international governments and businesses that sell to governments.

In fiscal 2015, direct and indirect sales to the U.S. government accounted for approximately 20% of our total net sales, compared to 16% of our total net sales in fiscal 2014 and 33% in fiscal 2013. Sales to international governments and police agencies have increased in recent years, including a large $17.6 million product and multi-year maintenance order, of which $12.1 million in product was delivered in March 2011, and a $4.0 million product shipment to a government in the Middle East in April 2014. Changes in defense spending could have an adverse effect on our current and future revenues. Sales of our products to U.S. government agencies and organizations are subject to the overall U.S. government budget and congressional appropriation decisions and processes which are driven by numerous factors, including geo-political events and macroeconomic conditions, and are beyond our control. Recently mandated cuts in U.S. Department of Defense spending, including sequestration spending cuts, and the additional spending restrictions which began at the end of calendar 2013, could affect future U.S. Department of Defense military initiatives and homeland security spending. Even awards granted, such as our $12.2 million contract from the U.S. Navy awarded in June 2013, may not have orders issued against it due to spending constraints. Similar issues apply to sales to international governments. We have no assurance that military interest in communication devices to minimize unnecessary force will continue or will provide future growth opportunities for our business.

We must expand our customer base in order to grow our business.

To grow our business, in addition to continuing to obtain additional orders from our existing customers, we must develop relationships with new customers and obtain and fulfill orders from new customers. We cannot guarantee that we will be able to increase our customer base. Further, even if we do obtain new customers, we cannot guarantee that those customers will purchase from us enough quantities of our product or at product prices that will enable us to recover our costs in acquiring those customers and fulfilling those orders. Whether we will be able to sell more of our products will depend on a number of factors, including:

- our ability to design and manufacture reliable products that have the features that are required by our customers;
- the global economy;
- our ability to expand relationships with existing customers and to develop relationships with new customers that will lead to additional orders for our products;
- our ability to develop and expand new markets for directed sound products; and

- our ability to develop international product distribution directly or through strategic partners.

The growth of our LRAD product revenues is dependent on continued acceptance of our products by government, military and developing force protection and emergency response agencies. If these agencies do not purchase our LRAD products, our revenues will be adversely affected.

Although our LRAD products are designed for use by both government and commercial customers, the government market represents a significant revenue opportunity for our products. Revenues from government agencies, including military, force protection and emergency response agencies, fluctuate each year depending on available funding and demand from our government customers. While acceptance of our products has been increasing, there are many more prospective customers within this market that could provide future growth for us, as well as international government markets which often follow the lead of the U.S. Furthermore, the force protection and emergency response market is itself an emerging market that is changing rapidly. If our LRAD products are not widely accepted by the government, military and the developing force protection and emergency response markets, we may not be able to identify other markets, and we may fail to achieve our sales projections.

Perceptions that long-range hailing devices are unsafe or may be used in an abusive manner may hurt sales of our LRAD products, which could cause our revenues to decline.

Potential customers for our LRAD products, including government, military and force protection and emergency response agencies, may be influenced by claims or perceptions that long-range hailing devices are unsafe or may be used in an abusive manner. These claims or perceptions, while unsubstantiated, could reduce our product sales.

A significant portion of our revenue is derived from our core product category.

We are dependent on our core directional product category to generate our revenues. While we have expanded our product offering to include omnidirectional products, no assurance can be given that our core directional products will continue to have market acceptance or that they will maintain their historical levels of sales. The loss or reduction of sales of this product category could have a material adverse effect on our business, results of operations, financial condition and liquidity.

We may not be successful in penetrating the mass notification market.

In 2012, we launched our first omnidirectional speaker, and have subsequently expanded our offering of omnidirectional products intended to increase LRAD sales in the mass notification market. The mass notification market is substantial in size and is projecting growth over the next five years to help provide public safety and communication during natural disasters and emergency situations. There are a number of large, credible companies already established in this market. We believe the clear, intelligible voice capability of our LRAD products, and our unique design and durability make our product offerings very competitive in this market. We have added selling resources to focus on this market and we have invested and plan to invest additional resources in tooling and software development to become successful in this market. However, we are a smaller company entering a market with established competitors that have greater resources and presence in this global market.

Our margins could be impacted as we expand into the mass notification market.

Our sales strategy for fiscal 2016 and beyond is to increase our market share of the growing mass notification market with our omnidirectional products. A number of large companies compete in this market and dominate the market share. We believe we have a strong product that can successfully compete against these larger players, but we expect to confront pricing pressures, given this highly competitive environment, which may negatively impact our overall margins.

We may incur significant and unpredictable warranty costs.

Our products are substantially different from proven, mass produced sound transducer designs and are often employed in harsh environments. We may incur substantial and unpredictable warranty costs from post-production product or component failures. We generally warrant our products to be free from defects in materials and workmanship for a period up to one year from the date of purchase. We also sell extended repair and maintenance contracts with terms ranging from one to several years, which provide repair and maintenance services after expiration of the original limited warranty. At September 30, 2015, we had a warranty reserve of $315,618. While our warranty experience with our LRAD product line has been very favorable, as we build more complexity into the product, and as we expand our supplier base, issues could arise that could affect future warranty costs, which could adversely affect our financial position, results of operations and business prospects.

We could incur additional charges for excess and obsolete inventory.

While we strive to effectively manage our inventory, rapidly changing technology, and uneven customer demand may result in short product cycles and the value of our inventory may be adversely affected by changes in technology that affect our ability to sell the products in our inventory. If we do not effectively forecast and manage our inventory, we may need to write off inventory as excess or obsolete, which in turn can adversely affect cost of sales and gross profit.

We have previously experienced, and may in the future experience, reductions in sales of older generation products as customers delay or defer purchases in anticipation of new product introductions. We currently have established reserves for slow moving or obsolete inventory of $420,178. The reserves we have established for potential losses due to obsolete inventory may, however, prove to be inadequate and may give rise to additional charges for obsolete or excess inventory.

We do not have the ability to accurately predict future operating results. Our quarterly and annual revenues are likely to fluctuate significantly due to many factors, most of which are beyond our control and could result in our failure to achieve our revenue expectations.

We expect our proprietary directed acoustic products and technologies will be the source of substantially all our revenues for at least the near future. Revenues from these products and technologies are expected to vary significantly due to a number of factors, many of which are beyond our control. Any one or more of the factors listed below or other factors could cause us to fail to achieve our revenue expectations. These factors include:

- our ability to develop and supply sound reproduction components to customers, distributors or original equipment manufacturers (“OEMs”) or to license our technologies;
- market acceptance of and changes in demand for our products or products of our customers;
- gains or losses of significant customers, distributors or strategic relationships;
- unpredictable volume and timing of customer orders;
- delays in funding approval by U.S. and foreign government and military customers;
- the availability, pricing and timeliness of delivery of components for our products and OEM products;

- fluctuations in the availability of manufacturing capacity or manufacturing yields and related manufacturing costs;
- the timing of new technological advances, product announcements or introductions by us, by OEMs or licensees and by our competitors;
- production delays by customers, distributors, OEMs, or by us or our suppliers;
- increased competition in this market;
- the conditions of other industries, such as military and commercial industries, into which our technologies may be sold;
- general electronics industry conditions, including changes in demand and associated effects on inventory and inventory practices;
- general economic conditions that could affect the timing of customer orders and capital spending and result in order cancellations or rescheduling; and
- general political conditions in this country and in various other parts of the world that could affect spending for the products that we offer.

Some or all of these factors could adversely affect demand for our products or technologies, and therefore adversely affect our future operating results.

Most of our operating expenses are relatively fixed in the short term. We may be unable to rapidly adjust spending to compensate for any unexpected sales shortfalls, which could harm our quarterly operating results. We do not have the ability to predict future operating results with any certainty.

Many potential competitors who have greater resources and experience than we do may develop products and technologies that make ours obsolete or inferior.

Technological competition from larger, more established electronic and loudspeaker manufacturers is expected to increase. Most of the companies with which we expect to compete have substantially greater capital resources, research and development staffs, marketing and distribution programs and facilities, and many of them have substantially greater experience in the production and marketing of products. In addition, one or more of our competitors may have developed or may succeed in developing technologies and products that are more effective than any of ours, rendering our technology and products obsolete or noncompetitive.

Adverse resolution of disputes, litigation and claims may harm our business, operating results or financial condition.

We settled a derivative lawsuit in 2013 and may become a party to other litigation, disputes and claims in the normal course of our business. Litigation is by its nature uncertain and unpredictable and there can be no assurance that the ultimate resolution of such claims will not exceed the amounts accrued for such claims, if any. Litigation can be expensive, lengthy, and disruptive to normal business operations. An unfavorable resolution of a legal matter could have a material adverse effect on our business, operating results, or financial condition.

Our competitive position will be seriously damaged if we cannot protect intellectual property rights and trade secrets in our technology.

We rely on a combination of contracts, trademarks and trade secret laws to establish and protect our proprietary rights in our technology. However, we may not be able to prevent misappropriation of our intellectual property, and our competitors may be able to independently develop competing technologies, or the agreements we enter into may not be enforceable. A competitor may independently develop or patent technologies that are substantially equivalent to, or superior to, our technology. If this happens, our competitive position could be significantly harmed.

We may face personal injury and other liability claims that harm our reputation and adversely affect our operating results and financial condition.

While our products have been engineered to reduce the risk of damage to human hearing or human health, we could be exposed to claims of hearing damage if the product is not properly operated. A person injured in connection with the use of our products may bring legal action against us to recover damages on the basis of theories including personal injury, negligent design, dangerous product or inadequate warning. We may also be subject to lawsuits involving allegations of misuse of our products. Our product liability insurance coverage may be insufficient to pay all such claims. Product liability insurance may also become too costly for us or may become unavailable for us in the future. We may not have sufficient resources to satisfy any product liability claims not covered by insurance which would materially and adversely affect our operating results and financial condition. Significant litigation could also result in negative publicity and a diversion of management’s attention and resources.

Our international operations could be harmed by factors including political instability, natural disasters, fluctuations in currency exchange rates, and changes in regulations that govern international transactions.

We sell our products worldwide. In fiscal 2015 and 2014, revenues outside of the U.S. accounted for approximately 75% and 78% of net revenues, respectively. The risks inherent in international trade may reduce our international sales and harm our business and the businesses of our customers and our suppliers. These risks include:

- changes in tariff regulations;
- political instability, war, terrorism and other political risks;
- foreign currency exchange rate fluctuations;
- establishing and maintaining relationships with local distributors and dealers;
- lengthy shipping times and accounts receivable payment cycles;
- import and export control and licensing requirements;
- compliance with a variety of U.S. laws, including the Foreign Corrupt Practices Act, by us or key subcontractors;
- compliance with a variety of foreign laws and regulations, including unexpected changes in taxation and regulatory requirements;
- greater difficulty in safeguarding intellectual property than in the U.S.; and
- difficulty in staffing and managing geographically diverse operations.

These and other risks may preclude or curtail international sales or increase the relative price of our products compared to those manufactured in other countries, reducing the demand for our products. Failure to comply with U.S. and foreign governmental laws and regulations applicable to international business, such as the Foreign Corrupt Practices Act or U.S. export control regulations, could have an adverse impact on our business with the U.S. and foreign governments.

Current environmental laws, or laws enacted in the future, may harm our business.

Our operations are subject to environmental regulation in areas in which we conduct business. Our product design and procurement operations must comply with new and future requirements relating to the materials composition of our products, including restrictions on lead, cadmium and other substances. We do not expect that the impact of these environmental laws and other similar legislation adopted in the U.S. and other countries will have a substantial unfavorable impact on our business. However, the costs and timing of costs under environmental laws are difficult to predict.

Errors or defects contained in our products, failure to comply with applicable safety standards or a product recall could result in delayed shipments or rejection of our products, damage to our reputation and expose us to regulatory or other legal action.

Any defects or errors in the operation of our products may result in delays in their introduction. In addition, errors or defects may be uncovered after commercial shipments have begun, which could result in the rejection of our products by our customers, damage to our reputation, lost sales, diverted development resources and increased customer service and support costs and warranty claims, any of which could harm our business. Third parties could sustain injuries from our products, and we may be subject to claims or lawsuits resulting from such injuries. There is a risk that these claims or liabilities may exceed, or fall outside the scope of, our insurance coverage. We may also be unable to obtain adequate liability insurance in the future. Because we are a small company, a product recall would be particularly harmful to us because we have limited financial and administrative resources to effectively manage a product recall and it would detract management's attention from implementing our core business strategies. A significant product defect or product recall could materially and adversely affect our brand image, causing a decline in our sales, and could reduce or deplete our financial resources.

Costs associated with our multi-year maintenance contract with a foreign military customer could be higher than expected.

We are obligated under a seven-year repair and maintenance agreement with a foreign military customer to service $12.1 million of product sold in the quarter ended March 31, 2011. We have contracted with a third party service provider to administer the required services under the terms of the maintenance agreement. The revenue from the maintenance agreement with our customer is fixed and paid annually upon completion of each year of service for the seven-year period through 2019. It is possible that the cost to repair and maintain the products and the cost to contract with our third party service provider could exceed the revenue generated by the maintenance agreement.

We rely on outside manufacturers and suppliers to provide a large number of components and sub-assemblies incorporated in our products.

Our products have a large number of components and sub-assemblies produced by outside suppliers. In addition, for certain of these items, we qualify only a single source, which can magnify the risk of shortages and decrease our ability to negotiate with our suppliers on the basis of price. If shortages occur, or if we experience quality problems with suppliers, then our production schedules could be significantly delayed or costs significantly increased, which would have a material adverse effect on our business, liquidity, results of operation and financial position.

Although we assemble our products internally, we have some sub-assemblies and components produced by third party manufacturers. We may be required to outsource manufacturing if sales of our products increase significantly. We may be unable to obtain acceptable manufacturing sources on a timely basis. In addition, from time to time we may change manufacturers and any new manufacturer engaged by us may not perform as expected. An extended interruption in the supply of our products could result in a substantial loss of sales. Furthermore, any actual or perceived degradation of product quality as a result of our reliance on third party manufacturers may have an adverse effect on sales or result in increased warranty costs, product returns and buybacks. Failure to maintain quality manufacturing could reduce future revenues, adversely affecting our financial condition and results of operations.

We derive revenue from government contracts and subcontracts, which are often non-standard, may involve competitive bidding, may be subject to cancellation with or without penalty and may produce volatility in earnings and revenue.

Our sales to government customers have involved, and are expected in the future to involve, providing products and services under contracts or subcontracts with U.S. federal, state, local and foreign government agencies. Obtaining contracts and subcontracts from government agencies is challenging, and contracts often include provisions that are not standard in private commercial transactions. For example, government contracts may:

- include provisions that allow the government agency to terminate the contract without penalty under some circumstances;
- be subject to purchasing decisions of agencies that are subject to political influence;
- contain onerous procurement procedures; and
- be subject to cancellation if government funding becomes unavailable.

Securing government contracts can be a protracted process involving competitive bidding. In many cases, unsuccessful bidders may challenge contract awards, which can lead to increased costs, delays and possible loss of the contract for the winning bidder.

Our success is dependent on the performance of our executive team, and the cooperation, performance and retention of our executive officers and key employees.

Our business and operations are substantially dependent on the performance of our current executive team including our President and Chief Executive Officer and our Chief Financial Officer. We do not maintain "key person" life insurance on any of our executive officers. The loss of one or several key employees could seriously harm our business. We cannot assure that employees will not leave and subsequently compete against us.

We are also dependent on our ability to retain and motivate high quality personnel, especially sales and skilled engineering personnel. Competition for such personnel is intense, and we may not be able to attract, assimilate or retain other highly qualified managerial, sales and technical personnel in the future. The inability to attract and retain the necessary managerial, sales and technical personnel could cause our business, operating results or financial condition to suffer.

We may not successfully address the problems encountered in connection with any potential future acquisitions.

We expect to continue considering opportunities to acquire or make investments in other technologies, products and businesses that could enhance our capabilities, complement our current products or expand the breadth of our markets or customer base. We have little experience in acquiring other businesses and technologies. Potential and completed acquisitions and strategic investments involve numerous risks and if we fail to properly evaluate and execute acquisitions and strategic investments, our management team may be distracted from our day-to-day operations, our business may be disrupted and our operating results may suffer. In addition, if we finance acquisitions by issuing equity or convertible debt securities, our stock value could be diluted.

Our disclosure controls and procedures may not prevent or detect all acts of fraud.

Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act is accumulated and communicated to management and is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our management expects that our disclosure controls and procedures and internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within our company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by an unauthorized override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and we cannot assure that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Failure to maintain an effective system of internal control over financial reporting could harm stockholder and business confidence in our financial reporting, our ability to obtain financing and other aspects of our business.

Maintaining an effective system of internal control over financial reporting is necessary for us to provide reliable financial reports. Section 404 of the Sarbanes-Oxley Act of 2002 and the related rules and regulations promulgated by the SEC require us to include in our Form 10-K a report by management regarding the effectiveness of our internal control over financial reporting. The report includes, among other things, an assessment of the effectiveness of our internal control over financial reporting as of the end of the respective fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. While our management has concluded that our internal control over financial reporting was effective as of September 30, 2015, it is possible that material weaknesses will be identified in the future. In addition, components of our internal control over financial reporting may require improvement from time to time. If management is unable to assert that our internal control over financial reporting is effective in any future period, investors may lose confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on the Company’s stock price.

Our common stock could be delisted from the Nasdaq Stock Market.

Nasdaq’s continued listing standards for our common stock require, among other things, that (i) we maintain a closing bid price for our common stock of at least $1.00, and (ii) we maintain: (A) stockholders’ equity of $2.5 million; (B) market value of listed securities of $35 million; or (C) net income from continuing operations of $500,000 in the most recently completed fiscal year or in two of the last three most recently completed fiscal years. We received a notice from Nasdaq that we had failed to meet the listing standards by failing to maintain a bid price of $1.00 late in our 2010 fiscal year and again in May 2013. Future failures to satisfy any continued listing requirements could lead to the receipt of a deficiency notice from Nasdaq and ultimately to a delisting from trading of our common stock. If our common stock were delisted from Nasdaq, among other things, this could result in a number of negative implications, including reduced liquidity in our common stock as a result of the loss of market efficiencies associated with Nasdaq and the loss of federal preemption of state securities laws as well as the potential loss of confidence by suppliers, customers and employees, the loss of analyst coverage and institutional investor interest, fewer business development opportunities, greater difficulty in obtaining financing and breaches of certain contractual obligations.

Sales of common stock issuable on the exercise of outstanding options and warrants, may depress the price of our common stock.

As of September 30, 2015, we had outstanding options granted to our employees and directors to purchase 2,852,419 shares of our common stock, and had outstanding warrants issued to investors to purchase 1,627,945 shares of our common stock. At September 30, 2015, the exercise prices for the options and common stock warrants ranged from $0.93 to $3.17 per share. The issuance of shares of common stock upon the exercise of outstanding options or warrants could cause substantial dilution to holders of our common stock, and the sale of those shares in the market could cause the market price of our common stock to decline. The potential dilution from these shares could negatively affect the terms on which we could obtain equity financing.

We may issue preferred stock in the future, and the terms of the preferred stock may reduce the value of your common stock.

We are authorized to issue up to 5,000,000 shares of preferred stock in one or more series. Our board of directors may determine the terms of future preferred stock offerings without further action by our stockholders. If we issue additional preferred stock, it could affect the rights or reduce the value of our common stock. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party. These terms may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights, and sinking fund provisions.

Our stock price is volatile and may continue to be volatile in the future.

The market price of our common stock has fluctuated significantly to date. In the future, the market price of our common stock could be subject to significant fluctuations due to general market conditions and in response to quarter-to-quarter variations in:

- our anticipated or actual operating results;

- developments concerning our sound reproduction technologies;
- technological innovations or setbacks by us or our competitors;
- announcements of merger or acquisition transactions;
- changes in personnel within our company; and
- other events or factors and general economic and market conditions.

The stock market in recent years has experienced extreme price and volume fluctuations that have affected the market price of many technology companies, and that have often been unrelated or disproportionate to the operating performance of companies.

Changes in laws or regulations or the manner of their interpretation or enforcement could adversely impact our financial performance and restrict our ability to operate our business or execute our strategies.

New laws, regulations and standards, or changes in existing laws or regulations or the manner of their interpretation or enforcement, could increase our cost of doing business and restrict our ability to operate our business or execute our strategies. This includes, among other things, compliance costs and enforcement under the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd Frank Act”), XBRL interactive SEC filings, new SEC regulations and NASDAQ Stock Market rules. For example, under Section 1502 of the Dodd-Frank Act, the SEC has adopted additional disclosure requirements related to the source of certain “conflict minerals” for issuers for which such “conflict minerals” are necessary to the functionality or production of a product manufactured, or contracted to be manufactured, by that issuer. The metals covered by the rules include tin, tantalum, tungsten and gold, commonly referred to as “3TG.” Our suppliers may use some or all of these materials in their production processes. The rules require us to conduct a reasonable country of origin inquiry to determine if we know or have reason to believe any of the minerals used in the production process may have originated from the Democratic Republic of the Congo or an adjoining country. If we are not able to determine the minerals did not originate from a covered country or conclude that there is no reason to believe that the minerals used in the production process may have originated in a covered country, we would be required to perform supply chain due diligence on members of our supply chain. Global supply chains can have multiple layers, thus the costs of complying with these new requirements could be substantial. These new requirements may also reduce the number of suppliers who provide conflict free metals, and may affect our ability to obtain products in sufficient quantities or at competitive prices. Compliance costs and the unavailability of raw materials could have a material adverse effect on our results of operations.

We continually evaluate and monitor developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs. These new or changed laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties

Our executive offices, sales, research and development and production facilities are located at 16990 Goldentop Road, Ste. A, San Diego, California. The lease of 31,360 square feet commenced July 1, 2012 and expires June 30, 2018. The aggregate monthly payments, with abatements, averaged $16,306 per month in the first year, and $25,088, $26,656, $28,224, $29,792 and $31,360 per month for the second through sixth years of the lease, plus other certain costs and charges as specified in the lease agreement, including the Company’s proportionate share of the building operating expenses and real estate taxes.

Item 3. 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.

Item 4. Mine Safety Disclosure

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is traded and quoted on the NASDAQ Capital Market under the symbol "LRAD." The market for our common stock has often been sporadic and limited.

The following table sets forth the high and low reported sales prices for our common stock for the fiscal years ended September 30, 2014 and 2015:

	Sales Prices	
	High	**Low**
Fiscal Year Ending September 30, 2014		
First Quarter	$2.16	$1.31
Second Quarter	$2.24	$1.74
Third Quarter	$2.12	$1.77
Fourth Quarter	$3.88	$1.84
Fiscal Year Ending September 30, 2015		
First Quarter	$3.27	$2.30
Second Quarter	$3.01	$2.06
Third Quarter	$2.63	$1.97
Fourth Quarter	$2.22	$1.37

The above quotations reflect inter-dealer prices, without retail markup, markdown or commission and may not represent actual transactions.

Holders

We had 32,136,171 shares issued and outstanding by 961 holders of record of our common stock at November 25, 2015.

Dividends

We have never paid a cash dividend on our common stock or preferred stock. On December 2, 2015, our Board of Directors declared a quarterly dividend of $0.01 per share. The dividend will be paid on January 29, 2016 to shareholders of record at the close of business on January 15, 2016.

Equity Compensation Plan Information

The information required by this item is incorporated by reference to the information set forth in Item 12 of this Annual Report on Form 10-K.

Recent Sales of Unregistered Securities

No securities were sold within the past three years that were not registered under the Securities Act and not previously reported.

Issuer Purchases of Equity Securities

In July 2013, our 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, and extended the expiration of the program from December 31, 2013 to December 31, 2014. In November 2014, the expiration of the buyback program was further extended to December 31, 2015. During the year ended September 30, 2015, the Company purchased 734,070 shares at an average price paid per share of $2.13 for a total cost of $1,564,666. During the year ended September 30, 2014, the Company purchased 277,157 shares at an average price paid per share of $1.86 for a total cost of $516,352. At September 30, 2015, all repurchased shares were retired.

In December 2015, our Board of Directors approved a new share buyback program beginning January 1, 2016 under which the Company may repurchase up to $4 million of its outstanding common shares through December 31, 2016. This program will replace the current program that will expire on December 31, 2015.

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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
July 1, 2015 - July 31, 2015	107,561	$ 1.92	107,561	$2,311,865
August 1, 2015 - August 31, 2015	128,638	$ 1.73	128,638	$2,088,731
September 1, 2015 - September 30, 2015	93,376	$ 1.82	93,376	$1,918,983
Total	329,575		329,575	

Item 6. Selected Financial Data

Information requested by this Item is not included as we are electing scaled disclosure requirements available to Smaller Reporting Companies.

Item 7. 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 information presented in other sections of this Annual Report on Form 10-K, including "Item 1. Business," "Item 1A. Risk Factors," and "Item 8. Financial Statements and Supplementary Data." This discussion contains forward-looking statements which are based on our current expectations and industry experience, as well as our perception of historical trends, current market conditions, current economic data, expected future developments and other factors that we believe are appropriate under the circumstances. These statements involve risks and uncertainties that could cause actual results to differ materially from those suggested in the forward-looking statements.

Overview

LRAD Corporation develops and delivers innovative directed acoustic products that beam, focus and control sound over relatively 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. In fiscal 2008, we completely redesigned our directional LRAD® products, introducing the LRAD-X® product line, with improved quality and functionality. In 2012, using the technology that we developed for our directional speakers, we designed and developed a new line of omnidirectional LRAD ONE VOICE speakers. Unlike our directional products, which have a narrow 15 to 30 degree beam of sound, the omnidirectional line offers products that project sound from 60 to 360 degrees to meet the needs of the global mass notification marketplace. We now offer a variety of directional and omnidirectional sound products, which meet a broad range of requirements from communicating with and deterring threats over distances up to 600 meters with our hand-held LRAD 100X to distances up to 5,500 meters with our LRAD 2000X. Our Long Range Acoustic Device® or LRAD pioneered a new worldwide market for directional long-range acoustic hailing devices ("AHDs") which we now sell into over 70 countries. We have been at the forefront developing new acoustic innovations and we believe we have established a significant competitive advantage in our principal markets.

Recent Developments

In the fiscal year ended September 30, 2015, we accomplished the following:

- Achieved sixth consecutive year of profitability, in spite of difficult global market conditions and ongoing United States defense budget uncertainty and sequestration, which has reduced U.S. military/government spending. U.S. government spending accounted for 59% of our net revenues in fiscal 2012 compared to 20% in fiscal 2015.

- Achieved income from operations before income taxes of 8% of net revenues. Working capital decreased by 7.5% in 2015, compared to 2014, but increased by 3.5% after adding back long-term marketable security investments.

- Enhanced our existing directional product offerings and continued to expand our omnidirectional product line making significant investments in software development and third party certifications of our product performance. We are targeting strong growth with our product offerings in the expanding worldwide mass notification market.

- Expanded our marketing and business development teams from a total of 10 to 12 employees at September 30, 2015, including new management personnel, as well as one additional full-time international business consultant, with a second international consultant being added shortly following the fiscal yearend.

- Continued to evaluate and develop our distribution channels by signing on new third party sales representatives and resellers. In the past year, we have increased our sales efforts in Africa and Central and Southeast Asia.

- Continued to develop our international business which represented 75% of total fiscal 2015 net revenues.

- Continued to grow our omnidirectional business, which increased 83% over fiscal 2014 and represented 17% of our fiscal 2015 net revenues.

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- Managed our balance sheet and controlled expenses while investing in new product development, markets and personnel.

- Repurchased 734,070 shares of our stock under our share repurchase program announced in 2013, bringing the total number of shares repurchased under the program to 1,011,227.

- Announced the introduction of the LRAD 450XL, the world's loudest AHD for its size and weight, which uses enhanced patent pending technology. In June 2015, Government Security News recognized the LRAD 450XL as the "Best Acoustic Hailing Service" and the LRAD 360X as the "Best Mass Notification System" in its publication.

Our revenues decreased from $24,591,342 in the fiscal year ended September 30, 2014 to $16,784,220 in the fiscal year ended September 30, 2015. The decrease in revenues is due to delays in the award of contracts for both U.S. and International projects due to various factors, including budget delays, decreased oil and gas prices which have delayed capital expenditures, the strong dollar slowing international growth, and regional conflicts, especially in the Middle East. In almost all cases, these opportunities were delayed and not lost to competitors. Continued deferrals of U.S. defense spending delayed opportunities to meet the demands of our U.S. Military customers that we had hoped to see rebound this year. We continue to have the most success in the public safety market for crowd and riot control and military vehicles, as well as other diverse markets such as border and perimeter security, Navy and Coast Guard ships, tsunami warning and emergency notification systems, wildlife control, maritime security, marine surveillance and oil and gas. We received key, strategic, initial orders from the National Guard, State Department, U.S. Coast Guard and other customers that have strong business potential for us. We made progress expanding into the mass notification markets, increasing revenues of our omnidirectional products by $1,301,603 or 83% compared to prior fiscal year. Receipt of orders will often be uneven due to the timing of approvals or budgets. Gross profit decreased by $5,234,498 to 51% of net revenues, compared to 56% of net revenues in fiscal 2014, primarily due to lower net revenues, lower fixed overhead absorption and unfavorable channel mix, offset by lower manufacturing overhead expenses resulting from the lower volume. Operating expenses decreased by $3,130,995 or 30%, primarily due to lower bonus expense for not meeting established performance targets and lower third party commission expense as a result of a decrease in commissionable sales. Income from operations before income taxes decreased by $2,002,190 or 60% in fiscal 2015, compared to the prior year. Income tax expense decreased by $23,918. We also recognized a favorable, non-cash benefit of $8,339,000 resulting from the release of a portion of the valuation allowance against deferred tax assets. Our working capital decreased by $2,078,285 during fiscal 2015, primarily due to investing $3,047,166 in long-term securities. Future cash flows from operating activities are expected to fluctuate based on working capital requirements, operating expense levels and other factors. We believe we have adequate financial resources to fund operations for the next twelve months.

We incurred $2,028,539 of research and development expense during fiscal 2015. We designed, developed and launched the LRAD 450XL in early fiscal 2015, which is the loudest long range AHD for its size and weight, using and enhanced patent pending technology to provide outstanding output in a smaller form factor, with the same high level of clarity and intelligibility consistent with our full LRAD product line. In fiscal 2015, we worked on other products that will utilize that technology. We also designed and developed the proprietary pan and tilt LRAD 500RX, which is a lighter, compact, cost-effective version of our successful LRAD 1000RX. We continue to enhance and expand our LRAD-X product line to provide a complete range of systems and accessories from single operator portable to permanently installed, remotely operated. Our LRAD products have been competitively selected over other commercially available systems by the United States military and by several international militaries. We seek to continually improve the quality and manufacturability of our products to retain our competitive advantage in the AHD market from both a technology standpoint and to remain cost competitive. We believe our improved products provide increased sales opportunities into government and commercial markets and demonstrate our ability to remain the leader in the AHD market.

We continue the design and development of our LRAD ONE VOICE omnidirectional product line. Our development focus includes an investment in software to produce a fully integrated product offering controlled by our proprietary software. Product improvements that were made in 2015 resulted in sales of the LRAD 360XT, our mobile mass notification platform. We are continuing to make investments in engineering, software development, tooling and third party certifications of our product to compete in the global mass notification market with, what we believe to be, a superior product.

We intend to continue innovating during fiscal 2016 with consistent levels of research and development expenditures.

Business Outlook

Our product line-up continues to gain awareness and acceptance worldwide through media exposure and word of mouth as a result of positive responses and increased acceptance of our products. We believe we have a solid global brand, 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. We have launched a line of omnidirectional products targeted to meet the needs of the large and growing mass notification market. We believe that we have strong market opportunities for our directional and omnidirectional product offerings 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 expanding our sales efforts internationally on the mass notification market, especially in the Middle East and Europe where we believe there are greater sales opportunities for our omnidirectional products. Our selling network has expanded through the addition of business development personnel as well as continuing to improve and increase our 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 2016 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.

Our products have varying gross margins and therefore, product sales mix materially affects gross profit. In addition, the margins differ based on the channel of trade through which the products are sold. We continue to implement product updates and changes, including raw material and component changes that may impact product costs. We also have increased competition in the mass notification market where there are a number of larger, more established companies that we expect will cause pricing pressure on our omnidirectional products. We do not believe that historical gross profit margins should be relied upon as an indicator of future gross profit margins.

We increased the number of business development and marketing personnel at the company from 10 to 12 employees during 2015, as well as one additional full-time international business consultant, with a second international consultant being added shortly following the fiscal yearend. We have increased our participation in trade shows and demonstrations, including road shows with our LRAD 360XT trailer to various events. We may expend additional resources on marketing our products in future periods. As a result, we would expect our selling, general and administrative expenses to increase in fiscal 2016. Also, commission expense will fluctuate based on the level of commissionable sales incurred.

Research and development ("R&D") expenses vary period to period due to the timing of projects, the availability of funds, and the timing, extent and use of outside consulting, design and development firms. In fiscal 2015, R&D expenses were primarily for in-house development; however, we continue to supplement our in-house development with third party consulting resulting in higher expenses. We added two additional engineers during the year to support our development requirements. In addition, we invested in capital for third party software to develop a web application to set up, integrate and administer our mass notification system installations. Based on current plans and engineering staffing, we expect fiscal year 2016 R&D expenses will also include third party consulting and will be somewhat higher than in fiscal year 2015.

Critical Accounting Policies and Estimates

We have identified the policies below as critical to our business operations and to understanding our results of operations. Our accounting policies are more fully described in our financial statements and related notes located in "Item 8. Financial Statements and Supplementary Data." The impact and any associated risks related to these policies on our business operations are discussed in "Item 1A. Risk Factors" and throughout "Item 7. 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 United States, 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. These estimates affect the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition. We derive our revenues primarily from two sources: (i) product revenues and (ii) contracts, license fees, other services and freight. Product revenues from customers, including resellers and system integrators, are recognized in the periods that products are shipped (free on board ("FOB") shipping point) or received by customers (FOB destination), when the fee is fixed or determinable, when collection of resulting receivables is probable and we have no remaining obligations. Most revenues to resellers and system integrators are based on firm commitments from the end user, and as a result, resellers and system integrators carry little or no inventory. Revenues from associated engineering and installation contracts are recognized based on milestones or completion of the contracted services. Our customers do not have the right to return product unless the product is found to be defective.

We also sell extended repair and maintenance contracts with terms ranging from one to several years, which provide repair and maintenance services after expiration of the original one-year warranty term. Revenues from separately priced extended repair and maintenance contracts are recognized on a straight-line basis, over the contract period, and classified as contract and other revenues.

Share-Based Compensation. We account for share-based compensation in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 718, "Compensation—Stock Compensation" ("ASC 718") using the modified prospective method which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. ASC 718 requires the use of subjective assumptions, including expected stock price volatility and the estimated term of each award. We estimate the fair value of stock options granted using the Black-Scholes option-pricing model, which is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. This model also utilizes the fair value of our common stock and requires that, at the date of grant, we use the expected term of the share-based award, the expected volatility of the price of our common stock over the expected term, the risk free interest rate and the expected dividend yield of our common stock to determine the estimated fair value. We determine the amount of share-based compensation expense based on awards that we ultimately expect to vest, reduced for estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Allowance for doubtful accounts. Our products are sold to customers in many different markets and geographic locations. We estimate our bad debt reserve on a case-by-case basis due to a limited number of customers. We base these estimates on many factors including customer credit worthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. Our judgments and estimates regarding collectability of accounts receivable have an impact on our financial statements.

Valuation of Inventory. Our inventory is comprised of raw materials, assemblies and finished products. We must periodically make judgments and estimates regarding the future utility and carrying value of our inventory. The carrying value of our inventory is periodically reviewed and impairments, if any, are recognized when the expected future benefit from our inventory is less than its carrying value.

Valuation of Intangible Assets. Intangible assets consist of patents and trademarks that are amortized over their estimated useful lives. We must make judgments and estimates regarding the future utility and carrying value of intangible assets. The carrying values of such assets are periodically reviewed and impairments, if any, are recognized when the expected future benefit to be derived from an individual intangible asset is less than its carrying value. This generally occurs when certain assets are no longer consistent with our business strategy and whose expected future value has decreased.

Accrued Expenses. We establish a warranty reserve based on anticipated warranty claims at the time product revenue is recognized. This reserve requires us to make estimates regarding the amount and costs of warranty repairs we expect to make over a period of time. Factors affecting warranty reserve levels include the number of units sold, anticipated cost of warranty repairs, and anticipated rates of warranty claims. Warranty expense is recorded in cost of revenues. We evaluate the adequacy of this reserve each reporting period.

We use the recognition criteria of ASC 450-20, “Loss Contingencies” to estimate the amount of bonuses when it becomes probable a bonus liability will be incurred and we recognize expense ratably over the service period. We accrue bonus expense each quarter based on estimated year-end results, and then adjust the actual in the fourth quarter based on our final results compared to targets.

Deferred Tax Asset. We evaluate quarterly the realizability of the deferred tax assets and assess the need for a valuation allowance. We record valuation allowances to reduce our deferred tax assets to an amount that we believe is more likely than not to be realized. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Utilizing the net operating loss (“NOL”) carryforwards in future years could be substantially limited due to restrictions imposed under federal and state laws upon a change in ownership or control. Included in the NOL carryforwards are deductions from stock options that, if recognized, will be recorded as a credit to additional paid-in capital rather than through our results of operations. In determining taxable income for financial statement reporting purposes, we must make certain estimates and judgments. These estimates and judgments are applied in the calculation of certain tax liabilities and in the determination of the ability to recover deferred tax assets.

The Company will continue to evaluate the ability to realize its net deferred tax assets on an ongoing basis to identify whether any significant changes in circumstances or assumptions have occurred that could materially affect the ability to realize deferred tax assets and will adjust the valuation accordingly.

Recent Accounting Pronouncements

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

Segment and Related Information

We are engaged in the design, development and commercialization of directed sound technologies and products. We present our business as one reportable segment due to the similarity in nature of products marketed, financial performance measures (revenue growth and gross margin), methods of distribution (direct and indirect) and customer markets (each product is sold by the same personnel to government and commercial customers, domestically and internationally). Our chief operating decision-making officer reviews financial information on sound products on a consolidated basis. See Note 15 to our consolidated financial statements for further discussion.

Comparison of Results of Operations for Fiscal Years Ended September 30, 2015 and 2014

The following table provides for the periods indicated certain items of our consolidated statements of operations expressed in dollars and as a percentage of net sales. The financial information and discussion below should be read in conjunction with the consolidated financial statements and notes contained in this Annual Report.

	Year Ended September 30, 2015		**September 30, 2014**		**Increase/(Decrease)**	
	Amount	**% of Total Revenues**	**Amount**	**% of Total Revenues**	**Amount**	**%**
Revenues:						
Product sales	$15,800,800	94.1 %	$23,382,521	95.1 %	$(7,581,721)	(32.4)%
Contract and other	983,420	5.9 %	1,208,821	4.9 %	(225,401)	(18.6)%
Total revenues	16,784,220	100.0 %	24,591,342	100.0 %	(7,807,122)	(31.7)%
Cost of revenues	8,255,663	49.2 %	10,828,287	44.0 %	(2,572,624)	(23.8)%
Gross profit	8,528,557	50.8 %	13,763,055	56.0 %	(5,234,498)	(38.0)%
Operating expenses:						
Selling, general and administrative	5,280,704	31.5 %	7,959,003	32.4 %	(2,678,299)	(33.7)%
Research and development	2,028,539	12.1 %	2,481,235	10.1 %	(452,696)	(18.2)%
Total operating expenses	7,309,243	43.6 %	10,440,238	42.5 %	(3,130,995)	(30.0)%
Income from operations	1,219,314	7.2 %	3,322,817	13.5 %	(2,103,503)	(63.3)%
Other income	121,836	0.7 %	20,523	0.1 %	101,313	493.7%
Income from continuing operations before income taxes	1,341,150	7.9 %	3,343,340	13.6 %	(2,002,190)	(59.9)%
Income tax (benefit) expense	(8,346,666)	(49.8)%	16,252	0.1 %	(8,362,918)	*
Net income	$9,687,816	57.7 %	$3,327,088	13.5 %	$6,360,728	191.2%

* Not meaningful

Revenues

Revenues decreased $7,807,122, or 31.7%, in the fiscal year ended September 30, 2015 as a result of award contract delays for both U.S. and International projects due to various factors, including budget delays, the decline in oil and gas prices, the strong dollar slowing international growth, and regional conflicts which can slow contracting. Reduced

U.S. defense spending continued to delay opportunities with the U.S. Military. We also had a large $4.0 million order for border security to a country in the Middle East in fiscal 2014 that did not recur in fiscal 2015. Revenues from the public safety market for crowd and riot control and military vehicles continued to be strong, as well as other diverse markets including border and perimeter security, Navy and Coast Guard ships, tsunami warning and emergency notification systems, wildlife control, maritime security, marine surveillance and to some extent, oil and gas. We received key, strategic, initial orders from the National Guard, State Department, U.S. Coast Guard and other customers that have strong business potential for us. We made progress expanding into the mass notification markets, increasing revenues of our omnidirectional products by $1,301,603 or 83%, compared to prior fiscal year. The receipt of orders will often be uneven due to the timing of approvals or budgets. We had aggregate deferred revenue of $51,345 and $567,639 for prepayments from customers in advance of product shipment at September 30, 2015 and 2014, respectively.

Gross Profit

Gross profit for the year ended September 30, 2015 decreased by $5,234,498, or 38.0%, primarily due to decreased revenue, unfavorable channel mix and lower fixed overhead absorption, partially offset by a decrease in manufacturing overhead costs which were variable with the decreased volume, and lower warranty expense related to decreased shipments. The lower gross profit percentage was partially attributable to a higher mix of revenues through resellers at lower reseller pricing compared to direct customer sales which have higher pricing, but a commission may be paid and is reported in operating expense. As a result, third party commission expense in fiscal 2015 decreased by $746,849 compared to fiscal 2014.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by $2,678,299, or 33.7%, primarily due to a reduction of $1,801,753 for accrued bonus for not meeting established performance targets in 2015, after meeting the targets in fiscal 2014, $746,849 for commission paid to our third party sale representatives due to a lower level of commissionable revenues, $100,912 for travel expense, $31,703 for bank fees, $26,965 for reduced non-cash share-based compensation expenses and $27,421 of other savings, partially offset by $57,304 for increased salaries and consulting fees as a result of adding business development personnel.

We incurred non-cash share-based compensation expenses of $473,118 and $500,083 in the fiscal years ended September 30, 2015 and 2014, respectively. The decrease is due to options becoming fully vested, partially offset by new grants in November 2014.

Research and Development Expenses

R&D expenses decreased by $452,696, or 18.2%, primarily due to $704,885 for accrued bonus for not meeting established performance targets, after meeting the targets in fiscal 2014, partially offset by increases of $127,183 for salaries and consulting fees, $47,687 for non-cash share-based compensation expense, $36,762 for depreciation, $27,002 for development and testing costs and $13,555 of other increases.

Included in R&D expenses for the year ended September 30, 2015 was $120,728 of non-cash share-based compensation expenses, compared to $73,041 for the year ended September 30, 2014. The increase is due to new option grants.

During fiscal years 2015 and 2014, we reviewed the ongoing value of our capitalized intangible assets. As a result of this review, we reduced the value of these patents by $4,580 for the fiscal year ended September 30, 2014 for assets identified as no longer consistent with our business strategy. No adjustments were made in the fiscal year ended September 30, 2015.

Other Income

Other income increased by $101,313 due to $148,213 for increased interest income from cash and investment balances, partially offset by $46,900 for amortization and accretion of our investments.

Net Income

The increase in net income was due, in part, to the decrease in revenues and gross margin, partially offset by a decrease in operating expenses. Income tax expense decreased $23,918, due to lower net income, and also a non-cash benefit of $8,339,000 during the quarter ended September 30, 2015, resulting from the release of a portion of the valuation allowance against deferred assets. Management assessed the Company's historical and projected taxable income, along with any tax planning strategies and any other positive or negative evidence, and determined it was more likely than not that a portion of the deferred tax assets will be realized. For additional details, refer to Note 10, Income Taxes.

Liquidity and Capital Resources

Cash and cash equivalents at September 30, 2015 was $18,316,103, compared to $23,894,744 at September 30, 2014. Other than cash and expected future cash flows from operating activities in subsequent periods, we have no other unused sources of liquidity at this time.

Principal factors that could affect the availability of our internally generated funds include:

- ability to meet sales projections;
- government spending levels;
- introduction of competing technologies;
- product mix and effect on margins;
- ability to reduce and manage inventory levels; and
- product acceptance in new markets.

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.

Our Board of Directors approved a share buyback program under which the Company may utilize up to $4 million in cash to repurchase outstanding common shares using available cash and from future cash flow from operations through December 31, 2015. Based on our current cash position, our order backlog, and assuming the accuracy of our currently planned expenditures, we believe we have sufficient capital to fund planned levels of operations for at least the next twelve months. However, we operate in a rapidly evolving and often 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, if at all.

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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:

	Year Ended September 30, 2015	2014
Cash provided by (used in):		
Operating activities	135,811	8,402,855
Investing activities	(4,654,157)	(341,847)
Financing activities	(1,060,295)	28,541

Operating Activities

Net income of $9,687,816 for the fiscal year ended September 30, 2015 was reduced by $7,373,148 of non-cash items that include deferred income taxes, share-based compensation expense, depreciation and amortization, inventory obsolescence and a provision for warranty. Cash generated from operating activities reflected a decrease in accounts receivable of $2,167,728 due to lower revenues, and a decrease in prepaid expenses and other – noncurrent of $187,485, which represents the amortization of our prepaid maintenance agreement. Cash used in operating activities included decreased accrued and other liabilities of $3,228,324, primarily for the payment of bonuses earned in fiscal 2014 and a reduction of prepayments from customers, increased inventory of $1,096,128 based on our current sales forecast, decreased accounts payable of $126,561, increased prepaid expenses and other of $41,719 and warranty settlements of $41,338. Net income of $3,327,088 for the fiscal year ended September 30, 2014 was adjusted for $993,722 of non-cash items that include share-based compensation expense, depreciation and amortization, a provision for warranty and doubtful accounts, inventory obsolescence and impairment of patents. Cash generated from operating activities reflected an increase in accrued and other liabilities of $2,942,897, primarily related to bonus accrual for meeting performance targets, a decrease in accounts receivable of $678,253, primarily due to prepayment terms for certain shipments in the fourth quarter, a decrease in inventory of $655,047 due to year end shipments, a decrease in prepaid expenses and other of $479,928 and prepaid expenses and other – noncurrent of $148,093 due to the timing of payments. Cash used in operating activities included a reduction of accounts payable of $765,906 due to payment of inventories needed for year-end shipments and warranty settlements of $56,267.

We had accounts receivable of $2,116,323 and $4,284,051 at September 30, 2015 and 2014, respectively. The level of trade accounts receivable at September 30, 2015 represented approximately 46 days of revenues for the year compared to 64 days of revenues at September 30, 2014. The decrease in days was due to a lower ending receivables balance due to lower revenues in the quarter ended September 30, 2015 compared to the same quarter in the prior year. Terms with individual customers vary greatly. We typically require thirty-day terms from our customers. Our receivables can vary dramatically due to overall sales volume and due to quarterly variations in sales and timing of shipments to and receipts from large customers.

At September 30, 2015 and 2014, our working capital was $25,601,714 and $27,679,999, respectively. The reduction in working capital was primarily the result of purchasing $3,047,166 of long-term marketable securities.

Investing Activities

In the fiscal year ended September 30, 2015, we purchased short and long-term marketable securities of $4,299,414. We did not purchase any securities in the same period in fiscal 2014.

We also used cash in investing activities primarily for the purchase of new computer software, product tooling, computer equipment and new patents and trademarks. Cash used for capital expenditures was $344,266 and $326,957 in the fiscal years ended September 30, 2015 and 2014, respectively. Cash used for investment in new patents and trademarks was $10,477 and $14,890 in the fiscal years ended September 30, 2015 and 2014, respectively. We anticipate continued expenditures for patents and capital expenditures in fiscal 2015 as we continue to invest in new products and technologies.

Financing Activities

In the years ended September 30, 2015 and 2014, we received proceeds from the exercise of stock options of $504,371 and $544,893, respectively. 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, and extended the expiration from December 31, 2013 to December 31, 2014. In November 2014, the expiration of the buyback program was further extended to December 31, 2015. During the year ended September 30, 2015, the Company purchased 734,070 shares at an average price paid per share of $2.13 for a total cost of $1,564,666. During the year ended September 30, 2014, the Company purchased 277,157 shares at an average price paid per share of $1.86 for a total cost of $516,352. At September 30, 2015, all repurchased shares were retired.

Commitments

We are committed for our facility lease as more fully described in Note 11, Commitments and Contingencies, to our consolidated financial statements.

We have a bonus plan for employees, in accordance with their terms of employment, whereby they can earn a percentage of their salary at three different levels based on meeting three different targeted objectives for earnings per share. The number of shares outstanding used for the calculation is as of October 1, 2014. In fiscal 2015, the Company did not meet the targeted objectives for earnings per share so an accrual was not recorded. In fiscal 2014, the Company accrued $2,711,223 for bonuses and related payroll taxes based on the level of targeted objectives achieved for the year. The bonuses for fiscal 2014 were paid in the quarter ended December 31, 2014.

In April 2009, our Board of Directors adopted a Change in Control Severance Benefit Plan. The Change of Control Plan provides that in the event of a qualifying termination, each of the two participating executives will be entitled to receive (i) a lump sum payment equal to twenty-four months' base salary (less applicable tax and other withholdings), (ii) a lump sum payment equal to the officer's target bonus for the year in which the officer is terminated, (iii) continuation of health benefits for twenty-four months and (iv) accelerated vesting of any unvested stock options and other securities or similar incentives held at the time of termination. A qualifying termination under the Change of Control Plan is any involuntary termination without cause or any voluntary termination for good reason, in each case occurring within three months before or twelve months after a change of control of LRAD.

We entered into an employment agreement in September 2006 with our president and chief executive officer that provides for severance benefits in the form of up to a maximum of six months' salary and health benefit continuation if his employment is terminated without cause or he resigns for good reason. There are no other employment agreements with executive officers or other employees providing future benefits or severance arrangements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, financings or other relationships with unconsolidated entities or other persons.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Information requested by this Item is not included as we are electing scaled disclosure requirements available to Smaller Reporting Companies.

Item 8. Financial Statements and Supplementary Data.

The financial statements required by this item begin on page F-1 with the index to financial statements followed by the consolidated financial statements.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There have been no disagreements or any reportable events requiring disclosure under Item 304(b) of Regulation S-K.

Item 9A. 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.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in our Exchange Act Reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed in our Exchange Act Reports is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2015 and, based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at a reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2015 based on the guidelines established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Our internal control over financial reporting includes policies and procedures that provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles in the United States. Based on this evaluation, management has concluded that the Company's internal control over financial reporting was effective as of September 30, 2015.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC that permit the company to provide only management's report in this Annual Report.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting since June 30, 2015, in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15, 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.

Item 9B. Other Information.

None

PART III

Certain information required by this Part III is omitted from this report and is incorporated by reference to our Definitive Proxy Statement to be filed with the SEC in connection with the Annual Meeting of Stockholders to be held in 2016 (the "Proxy Statement").

Item 10. Directors, Executive Officers and Corporate Governance.

The information with respect to our executive officers is set forth in the section entitled "Executive Officers" in Part I of this Annual Report on Form 10-K. The information required by this item with respect to our directors and corporate governance matters is incorporated by reference to the information under the captions "Election of Directors," "Board and Committee Matters and Corporate Governance Matters" and "Section 16(a) Beneficial Ownership Reporting Compliance" contained in Proxy Statement.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to the information in the Proxy Statement under the caption "Executive Compensation."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to the information in the Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information."

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference to the information in the Proxy Statement under the captions "Certain Transactions" and "Independence of the Board of Directors."

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference to the Proxy Statement, under the heading “Principal Accountant Fees and Services.”

PART IV

Item 15. Exhibits, Financial Statement Schedules.

Index to Consolidated Financial Statements

The financial statements required by this item are submitted in a separate section beginning on page F-1 of this annual report.

Financial Statement Schedules:

None.

Exhibits:

The following exhibits are incorporated by reference or filed as part of this report.

3.	**Articles of Incorporation and Bylaws**
3.1	Certificate of Incorporation dated March 1, 1992. Incorporated by reference to Exhibit 2.1 on Form 10-SB effective August 1, 1994.
3.1.1	Amendment to Certificate of Incorporation dated March 24, 1997 and filed with Delaware on April 22, 1997. Incorporated by reference to Exhibit 3.1.1 on Form 10-QSB for the quarter ended March 31, 1997, dated May 13, 1997.
3.1.2	Certificate of Amendment to Certificate of Incorporation filed with Delaware on September 26, 2002. Incorporated by reference to Exhibit 3.1.6 on Form 10-K for the year ended September 30, 2002, dated December 23, 2002.
3.1.3	Amendment to Certificate of Incorporation dated March 24, 2010. Incorporated by reference to Exhibit 3.1 on Form 8-K dated March 31, 2010.

3.2 Restated Bylaws. Incorporated by reference to Exhibit 3.1 on Form 10-Q for the quarter ended March 31, 2006, dated May 10, 2006.

10. Material Contracts

10.1 American Technology Corporation 2005 Equity Incentive Plan (as Amended March 15, 2007). Incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed on May 14, 2007.+

10.2 Form of Stock Option Agreement under the 2005 Equity Incentive Plan for grants on or after August 5, 2005. Incorporated by reference to Exhibit 10.11 on Form 10-Q for the quarter ended June 30, 2005 dated August 9, 2005.+

10.3 Form of Stock Award Agreement under the 2005 Equity Incentive Plan. Incorporated by reference to Exhibit 10.12 on Form 10-Q for the quarter ended June 30, 2005 dated August 9, 2005.+

10.4 Employment Letter between American Technology Corporation and Thomas R. Brown dated August 23, 2006. Incorporated by reference to Exhibit 99.2 on Form 8-K filed August 25, 2006.+

10.5 Employment Letter between American Technology Corporation and Katherine H. McDermott dated June 21, 2007. Incorporated by reference to Exhibit 10.37 on Form 10-K for the year ended September 30, 2007 filed January 7, 2008.+

10.6 Change in Control Severance Benefit Plan, issued April 30, 2009. Incorporated by reference to Exhibit 10.15 on Form 10-K for the year ended September 30, 2009 filed December 1, 2009.+

10.7 Form of Warrant, issued February 4, 2011. Incorporated by reference to Exhibit 4.1 on Form 8-K filed February 8, 2011.

10.8 Form of Warrant Amendment, effective as of February 4, 2011. Incorporated by reference to Exhibit 4.2 on Form 10-Q filed May 4, 2011.

10.9 Registration Rights Agreement, dated February 4, 2011. Incorporated by reference to Exhibit 4.2 on Form 8-K filed February 8, 2011.

10.10 Lease between LRAD Corporation and The Realty Associates Fund VIII, LP dated November 16, 2011. Incorporated by reference to Exhibit 10.15 on Form 10-K filed December 5, 2011.

10.11 Form of Indemnification Agreement. Incorporated by reference to Exhibit 10.1 on Form 8-K filed June 27, 2013.

10.12 Non-Employee Director Compensation Summary. Incorporated by reference to Exhibit 10.15 on Form 10-K filed November 21, 2013.+

10.13 LRAD Corporation 2015 Equity Incentive Plan. Incorporated by reference to Exhibit 10.1 on Form 8-K filed March 24, 2015.+

10.14	Form of Stock Award Agreement under the 2015 Equity Incentive Plan. Incorporated by reference to Exhibit 10.2 on Form 8-K filed March 24, 2015.+
21.	**Subsidiaries of the Registrant**
21.1	Subsidiary of LRAD Corporation. Incorporated by reference to Exhibit 21.1 on Form 10-K filed November 21, 2013.
23.	**Consents of Experts and Counsel**
23.1	Consent of Squar Milner LLP (formerly Squar, Milner, Peterson, Miranda & Williamson, LLP).*
24.	**Power of Attorney**
24.1	Power of Attorney. Included on signature page.*
31.	**Certifications**
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.*
99.	**Additional Exhibits**
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

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* Filed herewith.
+ Management contract or compensatory plan or arrangement.

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LRAD Corporation

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

LRAD Corporation:

We have audited the accompanying consolidated balance sheets of LRAD Corporation as of September 30, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LRAD Corporation as of September 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/S/ SQUAR MILNER LLP (formerly SQUAR, MILNER, PETERSON, MIRANDA & WILLIAMSON, LLP)

San Diego, California

December 3, 2015

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LRAD Corporation

Consolidated Balance Sheets

	September 30, 2015	**2014**
ASSETS		
Current assets:		
Cash and cash equivalents	$18,316,103	$23,894,744
Short-term marketable securities	1,251,947	-
Accounts receivable	2,116,323	4,284,051
Inventories, net	4,926,172	3,895,736
Prepaid expenses and other	565,666	523,947
Total current assets	27,176,211	32,598,478
Long-term marketable securities	3,047,166	-
Deferred tax assets	8,339,000	-
Property and equipment, net	471,963	360,084
Intangible assets, net	58,385	53,835
Prepaid expenses and other - noncurrent	578,938	766,423
Total assets	$39,671,663	$33,778,820
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$703,942	$830,503
Accrued liabilities	870,555	4,087,976
Total current liabilities	1,574,497	4,918,479
Other liabilities - noncurrent	147,954	157,550
Total liabilities	1,722,451	5,076,029
Commitments and contingencies (Note 11)		
Stockholders' equity:		
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; 32,898,461 and 33,236,489 shares issued and outstanding	329	332
Additional paid-in capital	87,608,034	88,049,125
Accumulated deficit	(49,658,850)	(59,346,666)
Accumulated other comprehensive loss	(301)	-
Total stockholders' equity	37,949,212	28,702,791
Total liabilities and stockholders' equity	$39,671,663	$33,778,820

See accompanying notes

LRAD Corporation

Consolidated Statements of Operation

	Years Ended September 30,	
	2015	**2014**
Revenues:		
Product sales	$15,800,800	$23,382,521
Contract and other	983,420	1,208,821
Total revenues	16,784,220	24,591,342
Cost of revenues	8,255,663	10,828,287
Gross profit	8,528,557	13,763,055
Operating expenses:		
Selling, general and administrative	5,280,704	7,959,003
Research and development	2,028,539	2,481,235
Total operating expenses	7,309,243	10,440,238
Income from operations	1,219,314	3,322,817
Other income	121,836	20,523
Income from operations before income taxes	1,341,150	3,343,340
Income tax (benefit) expense	(8,346,666)	16,252
Net income	$9,687,816	$3,327,088
Net income per common share - basic and diluted	$0.29	$0.10
Weighted average common shares outstanding:		
Basic	33,174,546	33,077,556
Diluted	33,574,919	33,437,124

LRAD Corporation
Consolidated Statements of Comprehensive Income

	Year Ended September 30,	
	2015	**2014**

Net income	$9,687,816	$3,327,088
Other comprehensive loss, net of tax:		
Unrealized loss on marketable securities, net of tax	(301)	-
Other comprehensive loss	(301)	-
Comprehensive income	$9,687,515	$3,327,088

See accompanying notes

LRAD Corporation

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances, September 30, 2013	32,900,705	$ 329	$ 87,434,834	$ (62,673,754)	$ -	$ 24,761,409
Issuance of common stock upon exercise of stock options, net	612,941	6	544,887	-	-	544,893
Share-based compensation expense	-	-	585,753	-	-	585,753
Repurchase of common stock	(277,157)	(3)	(516,349)	-	-	(516,352)
Net income	-	-	-	3,327,088	-	3,327,088
Balances, September 30, 2014	33,236,489	332	88,049,125	(59,346,666)	-	28,702,791
Share-based compensation expense	-	-	619,201	-	-	619,201
Issuance of common stock upon exercise of stock options, net	396,042	4	504,367	-	-	504,371
Repurchase of common stock	(734,070)	(7)	(1,564,659)	-	-	(1,564,666)
Other comprehensive income	-	-	-	-	(301)	(301)
Net income	-	-	-	9,687,816	-	9,687,816
Balances, September 30, 2015	32,898,461	$ 329	$ 87,608,034	$ (49,658,850)	$ (301)	$ 37,949,212

See accompanying notes

LRAD Corporation

Consolidated Statements of Cash Flows

	Years Ended September 30,	
	2015	**2014**
Operating Activities:		
Net income	$9,687,816	$3,327,088
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	238,314	209,975
Provision for doubtful accounts	-	(3,772)
Warranty provision	42,645	157,819
Inventory obsolescence	65,692	36,967
Share-based compensation	619,201	585,753
Loss on sale or impairment of patents	-	6,980
Deferred income taxes	(8,339,000)	-
Changes in operating assets and liabilities:		
Accounts receivable	2,167,728	678,253
Inventories	(1,096,128)	655,047
Prepaid expenses and other	(41,719)	479,928
Prepaid expenses and other - noncurrent	187,485	148,093
Accounts payable	(126,561)	(765,906)
Warranty settlements	(41,338)	(56,267)
Accrued and other liabilities	(3,228,324)	2,942,897
Net cash provided by operating activities	135,811	8,402,855
Investing Activities:		
Purchases of marketable securities	(4,299,414)	-
Capital expenditures	(344,266)	(326,957)
Patent costs paid	(10,477)	(14,890)
Net cash used in investing activities	(4,654,157)	(341,847)
Financing Activities:		
Repurchase of common stock	(1,564,666)	(516,352)
Proceeds from exercise of stock options	504,371	544,893
Net cash (used in) provided by financing activities	(1,060,295)	28,541
Net (decrease) increase in cash	(5,578,641)	8,089,549
Cash and cash equivalents, beginning of period	23,894,744	15,805,195
Cash and cash equivalents, end of period	$18,316,103	$23,894,744

Supplemental Disclosure of Cash Flow Information		
Cash paid for taxes	$-	$14,445

See accompanying notes

LRAD Corporation

Notes to the Consolidated Financial Statements

1. OPERATIONS

LRAD Corporation, a Delaware corporation (the “Company”), is engaged in 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, Middle East and Asia.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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 consolidated financial statements include the accounts of this subsidiary after elimination of intercompany transactions and accounts.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions (e.g., share-based compensation valuation, valuation of inventory and intangible assets, warranty reserve, accrued bonus and valuation allowance related to deferred tax assets) that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting periods. Actual results could materially differ from those estimates.

CONCENTRATION OF CREDIT RISK

The Company sells its products to a large number of geographically diverse customers. The Company routinely assesses the financial strength of its customers and generally does not require collateral or other security to support customer receivables. At September 30, 2015, accounts receivable from two customers accounted for 21% and 19% of total accounts receivable with no other single customer accounting for more than 10% of the accounts receivable balance. At September 30, 2014, accounts receivable from three customers accounted for 22%, 18% and 10% of total accounts receivable with no other single customer accounting for more than 10% of the accounts receivable balance.

The Company maintains cash and cash equivalent accounts with Federal Deposit Insurance Corporation ("FDIC") insured financial institutions. We place our cash investments in instruments that meet high credit quality standards, as specified in our investment policy guidelines such as money market funds, corporate bonds, municipal bonds and Certificates of Deposit. These guidelines also limit the amount of credit exposure to any one issue, issuer or type of instrument. It is generally our policy to invest in instruments that have a final maturity of no longer than three years, with a portfolio weighted average maturity of no longer than 18 months.

CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

The Company considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents.

The Company considers any amounts pledged as collateral or otherwise restricted for use in current operations to be restricted cash. Restricted cash is classified as a current asset unless amounts are not expected to be released and available for use in operations within one year.

MARKETABLE SECURITIES

The Company accounts for investments in debt instruments as available-for-sale. Management determines the appropriate classification of such securities at the time of purchase and re-evaluates such classification as of each balance sheet date. Marketable securities are reported at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), net of tax. The realized gains and losses on marketable securities are determined using the specific identification method.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company carries its accounts receivable at their historical cost, less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts for estimated losses considering the following factors when determining if collection of a receivable is reasonably assured: customer credit-worthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. If the Company has no previous experience with the customer, the Company may obtain reports from various credit organizations to ensure that the customer has a history of paying its creditors. The Company may also request financial information to ensure that the customer has the means of making payment. If these factors do not indicate collection is reasonably assured, revenue is deferred until collection becomes reasonably assured, which is generally upon receipt of cash. There was no deferred revenue at September 30, 2015 or 2014 as a result of collection issues. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. The Company determines allowances on a customer specific basis. The Company had no allowances for doubtful accounts at September 30, 2015 and 2014.

CONTRACT MANUFACTURERS

The Company employs contract manufacturers for production of certain components and sub-assemblies. The Company may provide parts and components to such parties from time to time, but recognizes no revenue or markup on such transactions. During fiscal 2015, the Company performed assembly of products in-house using components and sub-assemblies from a variety of contract manufacturers and suppliers.

INVENTORIES

Inventories are valued at the lower of cost or net realizable value. Cost is determined using a standard cost system whereby differences between the standard cost and purchase price are recorded as a purchase price variance in cost of revenues. Inventory is comprised of raw materials, assemblies and finished products intended for sale. The Company periodically makes judgments and estimates regarding the future utility and carrying value of inventory. The carrying value of inventory is periodically reviewed and impairments, if any, are recognized when the expected net realizable value is less than carrying value. The Company has inventory reserves for estimated obsolescence or unmarketable inventory, which is equal to the difference between the cost of inventory and the estimated market value, based upon assumptions about future demand and market conditions. The Company increased its inventory reserve by $65,692 and $36,967 during the years ended September 30, 2015 and 2014, respectively, based on expected usage of components resulting from changes in product lines and customer demand.

EQUIPMENT AND DEPRECIATION

Equipment is stated at cost. Depreciation on machinery and equipment and office furniture and equipment is computed over the estimated useful lives of two to seven years using the straight-line method. Leasehold improvements are amortized over the life of the lease. Upon retirement or disposition of equipment, the related cost and accumulated depreciation is removed, and a gain or loss is recorded.

INTANGIBLES

Intangible assets, which consist of patents and trademarks, are carried at cost less accumulated amortization. Intangible assets are amortized over their estimated useful lives, which have been estimated to be 15 years. The carrying value of intangibles is periodically reviewed and impairments, if any, are recognized when the future undiscounted cash flows realized from the assets is less than its carrying value.

LEASES

Leases entered into are classified as either capital or operating leases. At the time a capital lease is entered into, an asset is recorded, together with its related long-term obligation to reflect the purchase and financing. At September 30, 2015 and 2014, the Company had no capital lease obligations.

REVENUE RECOGNITION

The Company derives its revenue primarily from two sources: (i) product revenues, and (ii) contracts, license fees, other services, and freight.

Product revenues from customers, including resellers and system integrators, are recognized in the periods that products are shipped (FOB shipping point) or received by customers (FOB destination), when the fee is fixed or determinable, when collection of resulting receivables is reasonably assured, and there are no remaining obligations for the Company. Most revenues to resellers and system integrators are based on firm commitments from the end user; as a result, resellers and system integrators carry little or no inventory. Revenues from associated engineering and installation contracts are recognized based on milestones or completion of the contracted services. The Company’s customers do not have the right to return product unless the product is found to be defective.

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The Company also sells extended repair and maintenance contracts with terms ranging from one to several years, which provide repair and maintenance services after expiration of the original one year warranty term. Revenues from separately priced extended repair and maintenance contracts are recognized on a straight-line basis over the contract period and classified as contract and other revenues.

SHIPPING AND HANDLING COSTS

Shipping and handling costs are included in cost of revenues. Shipping and handling costs invoiced to customers are included in revenue. Actual shipping and handling costs were $120,317 and $255,680 for the fiscal years ended September 30, 2015 and 2014, respectively.

ADVERTISING

Advertising costs are charged to expense as incurred. The Company expensed $61,680 and $61,588 for the years ended September 30, 2015 and 2014, respectively, for advertising costs.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred.

WARRANTY RESERVES

The Company warrants its products to be free from defects in materials and workmanship for a period of one year from the date of purchase. The warranty is generally limited. The Company currently provides direct warranty service. Some agreements with OEM customers, from time to time, may require that certain quantities of product be made available for use as warranty replacements. International market warranties are generally similar to the U.S. market. The Company also sells extended warranty contracts and maintenance agreements.

The Company establishes a warranty reserve based on anticipated warranty claims at the time product revenues are recognized. Factors affecting warranty reserve levels include the number of units sold, anticipated cost of warranty repairs and anticipated rates of warranty claims. The Company evaluates the adequacy of the provision for warranty costs each reporting period. The warranty reserve was $315,618 and $314,311 at September 30, 2015 and 2014, respectively.

INCOME TAXES

The Company determines its income tax provision using the asset and liability method. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. A valuation allowance is recorded by the Company to the extent it is more likely than not that some portion or all of the deferred tax asset will not be realized. Significant management judgment is required in assessing the ability to realize the Company’s deferred tax assets. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income and the tax rates in effect at that time. Additional information regarding income taxes appears in Note 10, Income Taxes.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets and identifiable intangibles held for use are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of undiscounted expected future cash flows is less than the carrying amount of the asset, or if changes in facts and circumstances indicate this, an impairment loss is measured and recognized using the asset’s fair value.

SEGMENT INFORMATION

The Company presents its business as one reportable segment due to the similarity in nature of products provided, financial performance measures (revenue growth and gross margin), methods of distribution (direct and indirect) and customer markets (each product is sold by the same personnel to government and commercial customers, domestically and internationally). The Company’s chief operating decision making officer reviews financial information on sound products on a consolidated basis. See Note 15, Major Customers, Suppliers, Segment and Related Information, for additional information.

NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution of securities that could occur if outstanding securities convertible into common stock were exercised or converted. See Note 14, Net Income Per Share, for additional information.

FOREIGN CURRENCY TRANSLATION

The Company’s functional currency is U.S. dollars as substantially all of the Company’s operations use this denomination. Foreign sales to date have been denominated in U.S. dollars. Transactions undertaken in other currencies, which have not been material, are translated using the exchange rate in effect as of the transaction date. Any exchange gains and losses are included in the statements of operations.

SHARE-BASED COMPENSATION

The Company recognized share-based compensation expense related to non-qualified stock options issued to employees and directors over the expected vesting term of the stock-based instrument based on the grant date fair value. 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. See Note 12, Share-based Compensation, for additional information.

REGISTRATION PAYMENT ARRANGEMENTS

In connection with the issuance of warrants on February 4, 2011 (“2011 Warrants”), the Company entered into a Registration Rights Agreement with the warrant holders (“Warrant Holders”), whereby the Company agreed to prepare and file, within 30 days following the issuance of the 2011 Warrants, a registration statement covering the resale of the shares of common stock issuable upon exercise of the 2011 Warrants. If the Warrant Holders are unable to re-sell the shares purchased upon exercise of the 2011 Warrants, the Company would be obligated to pay liquidated damages to the purchasers in the amount of $0.01335 per day per applicable share until 180 days after the date the registration statement is required to be filed, and $0.0267 per day per applicable share thereafter, but not to exceed a total of $0.534 per applicable share or a maximum of $869,323. This obligation will be effective for the five year term of the Warrants, or until all 2011 Warrants have been exercised. No liquidated damages have been accrued as of September 30, 2015 as it was not deemed to be probable that any such damages will be incurred.

RECLASSIFICATIONS

Where necessary, the prior year's information has been reclassified to conform to the fiscal 2015 statement presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

SUBSEQUENT EVENTS

Management has evaluated events subsequent to September 30, 2015 through the date the accompanying consolidated financial statements were filed with the Securities and Exchange Commission and noted that there have been no events or transactions which would affect the Company's consolidated financial statements for the year ended September 30, 2015.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, *Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"), which simplifies the presentation of deferred income taxes by eliminating the need for entities to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. This amendment is effective for the Company in the fiscal year beginning October 1, 2017. Earlier application is permitted as of the beginning of an interim or annual reporting period, so the Company plans to adopt this guidance in the period beginning October 1, 2015.

In May 2014, the FASB issued 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. In July 2015, the FASB deferred the effective date of the standard by an additional year; however, it provided companies the option to adopt one year earlier, commensurate with the original effective date. Accordingly, the standard will be effective for the Company in the fiscal year beginning October 1, 2018, with an option to adopt the standard for the fiscal year beginning October 1, 2017. The Company is currently evaluating this standard and has not yet selected a transition method or the effective date on which it plans to adopt the standard, nor has it determined the effect of the standard on its financial statements and related disclosures.

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 and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The guidance requires an entity to measure inventory at the lower of cost or net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation, rather than the lower of cost or market in the previous guidance. This amendment applies to inventory that is measured using first-in, first-out (FIFO). This amendment is effective for public entities for fiscal years beginning after December 15, 2016, including interim periods within those years. A reporting entity should apply the amendments prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of this guidance, if any, on its consolidated financial statements and related disclosures.

4. FAIR VALUE MEASUREMENTS

At September 30, 2015, for certain financial instruments, including accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their relatively short maturities.

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.

Investments 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 at September 30, 2015. At September 30, 2014, we did not have any investments that are required to be measured at fair value on a recurring basis.

	Cost Basis	Unrealized Gains/(Losses)	Fair Value	Cash and Cash Equivalents	Short-term Securities	Long-term Securities
Level 1:						
Money Market Funds	$301,193	$ -	$301,193	$ 301,193	$-	$-
Level 2:						
Certificates of deposit	3,296,238	-	3,296,238	-	249,072	3,047,166
Municipal securities	654,205	293	654,498	160,058	494,440	-
Corporate bonds	509,029	(594)	508,435	-	508,435	-
Subtotal	4,459,472	(301)	4,459,171	160,058	1,251,947	3,047,166
Total	$4,760,665	$ (301)	$4,760,364	$ 461,251	$1,251,947	$3,047,166

5. INVENTORIES

Inventories consisted of the following:

	September 30,	
	2015	**2014**
Raw materials	$4,562,535	$3,462,869
Finished goods	763,227	634,246
Work in process	20,588	153,107
Inventories, gross	5,346,350	4,250,222
Reserve for obsolescence	(420,178)	(354,486)
Inventories, net	$4,926,172	$3,895,736

The Company had raw materials located at supplier locations of $80,098 and $54,989 at September 30, 2015 and 2014, respectively.

The Company relies on one supplier for compression drivers for its LRAD product and is making efforts to obtain alternative suppliers to reduce such reliance. The Company's ability to manufacture its LRAD product could be adversely affected if it were to lose this sole source supplier and was unable to find an alternative supplier.

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	September 30,	
	2015	**2014**
Machinery and equipment	$940,289	$903,798
Office furniture and equipment	877,011	720,548
Leasehold improvements	67,913	61,863
Property and equipment, gross	1,885,213	1,686,209
Accumulated depreciation	(1,413,250)	(1,326,125)
Property and equipment, net	$471,963	$360,084

	Year Ended September 30, 2015	2014
Depreciation expense	$232,387	$204,250

7. INTANGIBLE ASSETS

Intangible assets consisted of the following:

	September 30,	
	2015	**2014**
Cost	$96,975	$86,498
Accumulated amortization	(38,590)	(32,663)
Intangible assets, net	$58,385	$53,835

	Year ended September 30,	
	2015	**2014**
Amortization expense	$5,927	$5,725
Loss on sale or impairment of patents	-	4,580
Net sale or impairment of patents	$5,927	$10,305

Each quarter, the Company reviews the ongoing value of its capitalized patent costs. In the fiscal years ended September 30, 2015 and 2014, some of these assets were identified as being associated with patents no longer consistent with the Company's business strategy. As a result of this review, the Company recorded a loss as shown above from the impairment of patents that were previously capitalized.

Estimated Amortization Expense Years Ended September 30,	
2016	$6,401
2017	6,401
2018	6,401
2019	6,401
2020	6,401
Thereafter	26,380
	$58,385

8. PREPAID MAINTENANCE AGREEMENT

At March 31, 2011, prepaid expenses included $1,500,000 paid to a third party service provider in connection with the Company's obligations under a sales contract to a foreign military service to provide repair and maintenance services over an eight year period for products sold thereunder. The total prepaid expense is being amortized on a straight-line basis at an annual rate of $187,500 over the eight-year contract period to correspond with the revenues for these services, and is being recognized as a component of cost of sales. Accordingly, as of September 30, 2015, $187,500 of the total prepayment was classified as a current asset and $468,750 was classified as noncurrent. As of September 30, 2014, $187,500 of the total prepayment was classified as a current asset and $656,250 was classified as noncurrent.

9. ACCRUED AND OTHER LIABILITIES—NONCURRENT

Accrued liabilities consisted of the following:

	September 30, 2015	2014
Payroll and related	$330,916	$3,033,223
Warranty reserve	289,660	288,480
Accrued contract costs	197,034	197,034
Deferred revenue	51,345	567,639
Other	1,600	1,600
Total	$870,555	$4,087,976

Other liabilities - noncurrent consisted of the following:

Deferred rent	$121,996	$131,719
Extended warranty	25,958	25,831
Total	$147,954	$157,550

Payroll and related

Accrued payroll and related consists primarily of accrued vacation and outside commissions at September 30, 2015 and accrued bonus and related taxes, vacation and outside commissions at September 30, 2014.

Deferred Revenue

Deferred revenue at September 30, 2015 included prepayments on current orders scheduled for delivery in the year ended September 30, 2016.

Warranty Reserve

Details of the estimated warranty reserve were as follows:

	Years Ended September 30, 2015	2014
Beginning balance	$314,311	$212,759
Warranty provision	42,645	157,819
Warranty settlements	(41,338)	(56,267)
Ending balance	$315,618	$314,311

	September 30, 2015	2014
Short-term warranty reserve	$289,660	$288,480
Long-term warranty reserve	25,958	25,831
Total warranty reserve	$315,618	$314,311

The Company establishes a warranty reserve based on anticipated warranty claims at the time product revenue is recognized. Factors affecting warranty reserve levels include the number of units sold, anticipated cost of warranty repairs and anticipated rates of warranty claims. The Company evaluates the adequacy of the provision for warranty costs each reporting period.

Accrued contract costs

Accrued contract costs consist of accrued expenses for contracting a third party service provider to fulfill repair and maintenance obligations required under a contract through 2019 with a foreign military for units sold in the year ended September 30, 2011. Payments to the service provider will be made annually upon completion of each year of service. These services are being recorded in cost of revenues to correspond with the revenues for these services.

10. INCOME TAXES

Income taxes consisted of the following:

	Years ended September 30,	
	2015	**2014**
Current tax benefit		
Federal	$-	$-
State	(7,700)	16,000
Total current tax benefit	(7,700)	16,000
Deferred benefit		
Federal	(7,564,000)	(2,309,000)
State	(775,000)	(408,000)
Total deferred benefit	(8,339,000)	(2,717,000)
Change in valuation allowance	-	2,717,000
Provision for income taxes	$(8,346,700)	$16,000

A reconciliation of income taxes at the federal statutory rate of 34% to the effective tax rate was as follows:

	Years ended September 30,	
	2015	**2014**
Income taxes computed at the federal statutory rate	$456,000	$1,137,000
Change in valuation allowance	(8,316,000)	(2,717,000)
Expired net operating loss carryforwards	598,000	1,285,000
Nondeductible compensation, interest expense and other	20,000	8,000
State income taxes, net of federal tax benefit	24,000	102,000
Change in R&D credit carryover	(17,000)	79,000
Stock options and other prior year true-ups	(1,103,000)	105,000
Other	(8,700)	17,000
Provision for income taxes	$(8,346,700)	$16,000

The types of temporary differences between the tax basis of assets and liabilities and their approximate tax effects that give rise to a significant portion of the net deferred tax asset at September 30, 2015 and 2014 were as follows:

	At September 30,	
	2015	**2014**

Deferred tax assets:		
Net operating loss carryforwards	$16,966,000	$16,920,000
Research and development credit	2,309,000	2,182,000
Share-based compensation	468,000	414,000
Equipment	(24,000)	(6,000)
Patents	134,000	174,000
Accruals and other	465,000	630,000
State tax deduction	(6,000)	(3,000)
Federal AMT Credit	52,000	49,000
Allowances	150,000	131,000
Gross deferred tax asset	20,514,000	20,491,000
Less valuation allowance	(12,175,000)	(20,491,000)
Total deferred tax assets, net of valuation allowance	$8,339,000	$-

At September 30, 2015, the Company had net deferred tax assets of approximately $20,514,000. The deferred tax assets are primarily composed of federal and state NOL carryforwards and federal and state research and development (“R&D”) credit carryforwards. At September 30, 2015, the Company had federal NOL carryforwards of approximately $46,338,000, which expire from 2021 through 2028. The Company also has an estimated $1,783,000 and $797,000 of federal and state R&D tax credits, respectively, at September 30, 2015, a portion of which will begin to expire in the 2018 tax year. The Company recognizes windfall tax benefits associated with the exercise of stock options directly to stockholders’ equity only when realized. Accordingly, deferred tax assets are not recognized for NOL carryforwards resulting from windfall tax benefits occurring from October 1, 2008 onward. At September 30, 2015, deferred tax assets do not include excess tax benefits from stock-based compensation of approximately $1,130,000.

The Company reviews its ability to realize its deferred tax assets on a quarterly basis. In doing so, management considers historical and projected taxable income of the Company, along with any tax planning strategies and any other positive or negative evidence. Realization is dependent on generating sufficient taxable income prior to the expiration of the loss carryforwards and other deferred assets. The Company has sustained profitability over the past six years. In the past few years, the Company has targeted products and expanded its marketing efforts into the mass notification market, which is a very large and growing market. While the Company is still in the early stages of market penetration, it has increased its confidence in forecasted taxable income based on growth opportunities in this market. It has also increased its forecasted revenues and taxable income for its directional product opportunities, where it is the dominant player in the world market. As a result, during the quarter ended September 30, 2015, the Company determined it was more likely than not that a portion of the deferred tax assets will be realized and, accordingly, released $8,339,000 of the valuation allowance against those deferred assets. The Company continues to maintain a valuation allowance of $12,175,000, as the company believes the negative evidence that it will be able to recover these net deferred tax assets outweighs the positive evidence. Since future financial results may differ from previous estimates, periodic adjustments to the Company’s valuation allowances may be necessary.

The Company recorded an adjustment to the prior year tax provision, but did not record a tax provision for the year ended September 30, 2015 as the Company’s annual effective tax rate is zero. During the quarter ended June 30, 2012, the Company amended its federal tax return for the year ended September 30, 2008 to make an election 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, as per 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 for eligible small businesses. As of September 30, 2015, the Company had no unrecognized tax benefits. The Company’s practice is to recognize interest and/or penalties related to income tax matters in income tax expense.

The Company is subject to taxation in the U.S. and various state jurisdictions. All of the Company’s historical tax years are subject to examination by the Internal Revenue Service and various state jurisdictions due to the generation of NOL and credit carryforwards.

11. COMMITMENTS AND CONTINGENCIES

Facility Lease

On November 29, 2011, the Company entered into a lease for 31,360 square feet to replace the prior San Diego facility as the Company's executive offices, research and development, assembly and operational facilities. The lease commenced July 1, 2012 and will expire June 30, 2018. The aggregate monthly payments, with abatements, averaged $16,306 per month in the first year, and is $25,088, $26,656, $28,224, $29,792 and $31,360 per month for the second through sixth years of the lease, plus certain other costs and charges as specified in the lease agreement, including the Company's proportionate share of the building operating expenses and real estate taxes.

Operating Leases

Total operating lease expense, including facilities and business equipment commitments, recorded by the Company for the years ended September 30, 2015 and 2014 was $356,107 and $337,099, respectively.

The obligations under all operating leases are as follows:

Years ending September 30:	
2016	$377,033
2017	391,578
2018	298,797
2019	16,557
2020	15,177
Total lease obligations	$1,099,142

Employment Agreements

The Company entered into an employment agreement in September 2006 with its president and chief executive officer that provides for severance benefits of up to a maximum of six months' salary and health benefit continuation if his employment is terminated without cause or he resigns for good reason. There are no other employment agreements with executive officers or other employees providing future benefits or severance arrangements.

Bonus Plan

The Company has established a bonus plan for its employees, in accordance with their terms of employment, whereby they can earn a percentage of their salary at three different levels based on meeting three different targeted objectives for earnings per share. The number of shares outstanding used for the calculation is as of October 1, 2014. In fiscal 2015, the Company did not meet the targeted objectives for earnings per share so an accrual was not recorded. In fiscal 2014, the Company accrued $2,711,223 for bonuses and related payroll taxes based on the level of targeted objectives achieved for the year. The bonuses for fiscal 2014 were paid in the quarter ended December 31, 2014.

Change of Control Severance Benefit Plan

The Company has a Change of Control Plan that provides that in the event of a qualifying termination, each of the two participating executives will be entitled to receive (i) a lump sum payment equal to twenty-four months' base salary (less applicable tax and other withholdings), (ii) a lump sum payment equal to the officer's target bonus for the year in which the officer is terminated, (iii) continuation of health benefits for twenty-four months and (iv) accelerated vesting of any unvested stock options and other securities or similar incentives held at the time of termination. A qualifying termination under the Change of Control Plan is any involuntary termination without cause or any voluntary termination for good reason, in each case occurring within three months before or twelve months after a change of control of the Company.

Employee Benefit—401K Plan

The Company has a defined contribution plan (401(k)) covering its employees. Matching contributions are made on behalf of all participants at the discretion of the board of directors. During the fiscal years ended September 30, 2015 and 2014, the Company made matching contributions of $135,229 and $201,056, respectively.

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.

Guarantees and Indemnifications

The Company enters into indemnification provisions under (i) its agreements with other companies in its ordinary course of business, typically with business partners, contractors, customers and landlords and (ii) its agreements with investors. Under these arrangements, the Company may indemnify other parties such as business partners, customers, underwriters, and investors for certain losses suffered, claims of intellectual property infringement, negligence and intentional acts in the performance of services, and violations of laws including certain violations of securities laws. The Company's obligation to provide such indemnification in such circumstances would arise if, for example, a third party sued a customer for intellectual property infringement and the Company agreed to indemnify the customer against such claims. The Company is unable to estimate with any reasonable accuracy the liability that may be incurred pursuant to such indemnification obligations. Some of the factors that would affect this assessment include, but are not limited to, the nature of the claim asserted, the relative merits of the claim, the financial ability of the parties, the nature and amount of damages claimed, insurance coverage that the Company may have to cover such claims, and the willingness of the parties to reach settlement, if any. Because of the uncertainty surrounding these circumstances, the Company's indemnification obligations could range from immaterial to having a material adverse impact on its financial position and its ability to continue in the ordinary course of business. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements in the past, and the Company had no liabilities recorded for these agreements as of September 30, 2015, or 2014.

Under its bylaws, the Company has agreed to indemnify its officers and directors for certain events or occurrences arising as a result of the officer or director serving in such capacity. In addition, the Company executed indemnification agreements in June 2013 with the then current Directors and Officers of the Company, indemnifying them from any expenses arising out of any claims. All new Directors and Officers subsequent to June 2013 have and will also execute indemnification agreements. The term of the indemnification period is for the officer or director's lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. However, the Company has a director and officers' liability insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company does not believe that a material loss exposure related to these agreements is either probable or can be reasonably estimated. Accordingly, the Company has no liability recorded for these agreements as of September 30, 2015, or 2014.

12. SHARE-BASED COMPENSATION

Stock Option Plans

At September 30, 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 September 30, 2015, there were options outstanding covering 2,662,419 and 190,000 shares of common stock under the 2005 Equity Plan and 2015 Equity Plan, respectively and 4,810,000 shares of common stock available for grant for a total of 7,662,419 currently available under the two equity plans.

Share-Based Compensation

The Company's employee stock options have various restrictions that reduce option value, including vesting provisions and restrictions on transfer and hedging, among others, and are often exercised prior to their contractual maturity.

The Company recorded $619,201 and $585,753 of stock compensation expense for the years ended September 30, 2015 and 2014, respectively. The weighted average estimated fair value of employee stock options granted during the year ended September 30, 2015 and 2014 was calculated using the Black-Scholes option-pricing model with the following weighted average assumptions (annualized percentages):

	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
Weighted average fair value of options granted during the period	$1.09	$0.85

The Company has never paid 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 contractual term of the options was ten years through November 20, 2013 and then changed to seven years. 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. Such revision adjustments to expense will be recorded as a cumulative adjustment in the period in which the estimate is changed.

As of September 30, 2015, there was approximately $600,000 of total unrecognized compensation costs related to outstanding employee stock options. This amount is expected to be recognized over a weighted average period of 1.7 years. To the extent the forfeiture rate is different from what the Company anticipated, stock-based compensation related to these awards will be different from the Company's expectations.

Stock Option Summary Information

A summary of activity for the Company's stock option plans as of September 30, 2015 and 2014 is presented below:

	Number of Shares	**Weighted Average Exercise Price**
Outstanding October 1, 2014	2,530,535	$ 2.09
Granted	774,500	$ 2.64
Forfeited/expired	(56,574)	$ 2.54
Exercised	(396,042)	$ 1.26
Outstanding September 30, 2015	2,852,419	$ 2.35
Exercisable September 30, 2015	2,300,555	$ 2.36

The aggregate intrinsic value for options outstanding and options exercisable at September 30, 2015 was $118,205 and $99,239, respectively. The aggregate intrinsic value represents the difference between the Company's closing stock price on the last day of trading during the year, which was $1.67 per share, and the exercise price multiplied by the number of applicable options. The total intrinsic value of stock options exercised during the year ended September 30, 2015 was $438,484 and cash received from these exercises was $504,371. The total intrinsic value of stock options exercised during the year ended September 30, 2014 was $840,284 and cash received from these exercises was $544,893. The Company recognized $438,484 and $840,284 as a tax benefit in the income tax provision for the years ended September 30, 2015 and 2014, respectively.

The following table summarizes information about stock options outstanding at September 30, 2015:

Range of Exercise Prices			Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.93	-	$1.80	916,669	5.84	$ 1.59	799,798	$ 1.60
$1.86	-	$2.65	633,000	5.15	$ 2.21	438,437	$ 2.30
$2.66	-	$2.90	541,500	6.13	$ 2.85	311,070	$ 2.85
$2.91	-	$3.00	750,000	6.61	$ 3.00	750,000	$ 3.00
$3.01	-	$3.17	11,250	6.11	$ 3.17	1,250	$ 3.13
$0.93	-	$3.17	2,852,419	5.95	$ 2.35	2,300,555	$ 2.36

The Company recorded non-cash share-based compensation expense for employees, directors and consultants for the fiscal years ended September 30, 2015 and 2014. The amounts of share-based compensation expense are classified in the consolidated statements of operations as follows:

Years Ended September 30,	**2015**	**2014**
Cost of revenue	$25,355	$12,629
Selling, general and administrative	473,118	500,083
Research and development	120,728	73,041
Total	$619,201	$585,753

13. STOCKHOLDERS' EQUITY

Common Stock Activity

During the year ended September 30, 2015, the Company issued 396,042 shares of common stock and obtained gross proceeds of $504,371 in connection with the exercise of stock options. During the year ended September 30, 2014, the Company issued 612,941 shares of common stock and obtained gross proceeds of $544,893 in connection with the exercise of stock options.

Preferred Stock

The Company is authorized under its certificate of incorporation and bylaws to issue 5,000,000 shares of preferred stock, $0.00001 par value, without any further action by the stockholders. The board of directors has the authority to divide any and all shares of preferred stock into series and to fix and determine the relative rights and preferences of the preferred stock, such as the designation of series and the number of shares constituting such series, dividend rights, redemption and sinking fund provisions, liquidation and dissolution preferences, conversion or exchange rights and voting rights, if any. Issuance of preferred stock by the board of directors could result in such shares having dividend and or liquidation preferences senior to the rights of the holders of common stock and could dilute the voting rights of the holders of common stock.

No shares of preferred stock were outstanding during the fiscal years ended September 30, 2015 or 2014.

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Stock Purchase Warrants

At September 30, 2015 and 2014, 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, and extended the expiration of the program from December 31, 2013 to December 31, 2014. In November 2014, the expiration of the buyback program was further extended to December 31, 2015. During the year ended September 30, 2015, the Company purchased 734,070 shares at an average price paid per share of $2.13 for a total cost of $1,564,666. During the year ended September 30, 2014, the Company purchased 277,157 shares at an average price paid per share of $1.86 for a total cost of $516,352. At September 30, 2015, all repurchased shares were retired.

14. NET INCOME PER SHARE

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period increased to include the number of dilutive potential common shares outstanding during the period. The dilutive effect of outstanding stock options and warrants is reflected in diluted earnings per share by application of the treasury stock method, which assumes that the proceeds from the exercise of the outstanding options and warrants are used to repurchase common stock at market value. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities. If the Company has losses for the period, the inclusion of potential common stock instruments outstanding would be anti-dilutive. In addition, under the treasury stock method, the inclusion of stock options and warrants with an exercise price greater than the per-share market value would be antidilutive. Potential common shares that would be antidilutive are excluded from the calculation of diluted income per share.

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

	Year ended September 30,	
	2015	**2014**
Numerator:		
Income available to common stockholders	$9,687,816	$3,327,088
Denominator:		
Weighted average common shares outstanding	33,174,546	33,077,556
Assumed exercise of dilutive options and warrants	400,373	359,568
Weighted average dilutive shares outstanding	33,574,919	33,437,124
Basic income per common share	$0.29	$0.10
Diluted income per common share	$0.29	$0.10
Potentially dilutive securities outstanding at period end excluded from the diluted computation as the inclusion would have been antidilutive:		
Options	1,402,750	1,121,250
Warrants	1,627,945	1,627,945
Total	3,030,695	2,749,195

15. MAJOR CUSTOMERS, SUPPLIERS, SEGMENT AND RELATED INFORMATION

Major Customers

For the fiscal year ended September 30, 2015, revenues from one customer accounted for 15% of total revenues, with no other single customer representing more than 10% of total revenues. For the fiscal year ended September 30, 2014, revenues from one customer accounted for 16% of total revenues with no other single customer accounting for more than 10% of total revenues.

Suppliers

The Company has a large number of components and sub-assemblies produced by outside suppliers, some of which are sourced from a single supplier, which can magnify the risk of shortages and decrease the Company's ability to negotiate with suppliers on the basis of price. In particular, the Company depends on one supplier of compression drivers for its LRAD products. If supplier shortages occur, or quality problems arise, then production schedules could be significantly delayed or costs significantly increased, which could in turn have a material adverse effect on the Company's financial condition, results of operation and cash flows.

Segment and Related Information

The Company presents its business as one reportable segment due to the similarity in nature of products marketed, financial performance measures (revenue growth and gross margin), methods of distribution (direct and indirect) and customer markets (each product is sold by the same personnel to government and commercial customers, domestically and internationally). The Company's chief operating decision making officer reviews financial information on sound products on a consolidated basis.

The following table summarizes revenues by geographic region. Revenues are attributed to countries based on customer's delivery location.

	Years ended September 30,	
	2015	**2014**
Americas	$4,634,880	$7,124,129
Europe, Middle East and Africa	1,740,659	8,332,082
Asia Pacific	10,408,681	9,135,131
Total Revenues	$16,784,220	$24,591,342

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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
December 3, 2015

By: /s/ THOMAS R. BROWN
Thomas R. Brown
President and Chief Executive Officer

POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Thomas R. Brown, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his substitute or substituted, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of registrant in the capacities and on the dates indicated.

Date: December 3, 2015	By	/s/ THOMAS R. BROWN **Thomas R. Brown** **Chairman of the Board, President, Chief Executive Officer** **(Principal Executive Officer)**
Date: December 3, 2015	By	/s/ KATHERINE H. MCDERMOTT

Katherine H. McDermott, Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: December 3, 2015 By /s/ LAURA M. CLAGUE
Laura M. Clague

Director

Date: December 3, 2015 By /s/ GENERAL JOHN G. COBURN
General John G. Coburn

Director

Date: December 3, 2015 By /s/ RICHARD H. OSGOOD III
Richard H. Osgood III

Director

Date: December 3, 2015 By /s/ DENNIS J. WEND
Dennis J. Wend

Director