

LRAD Corp
Form 10-K
December 21, 2018

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, 2018

Commission File Number 0-24248

LRAD CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	87-0361799
(State or other jurisdiction of	(I.R.S. Employer
Incorporation or organization)	Identification No.)
16262 West Bernardo Drive,	92127
San Diego, California	
(Address of principal executive offices) (Zip Code)	

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

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

<u>Title of each class</u>	<u>Name of exchange on which registered</u>
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 every Interactive Data File required to be submitted 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 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 a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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Emerging growth company

If an emerging growth company, indicate by a check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018 (the last business day of the registrant's most recently completed second fiscal quarter) was \$56,315,500 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:

33,186,989 shares of common stock, par value \$0.00001 per share, as of December 13, 2018.

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 2019 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, 2018.

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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 is a leading innovator and manufacturer of acoustic communication systems that project audible voice messages, tones, and warning sirens over distance. By broadcasting audible voice messages with exceptional clarity and only where needed, we offer novel sound applications that conventional bullhorns, loudspeakers, public address and emergency warning systems cannot achieve. With the January 2018 acquisition of Genasys Holding S.L. (“Genasys”) (see Note 4, Acquisition, to our consolidated financial statements), we combined our advanced mass notification voice broadcast systems with Genasys’ location-based mass messaging solutions. Using our proprietary technologies, we have developed two product lines:

• Acoustic Hailing Devices (“AHDs”), which project audible voice and tone broadcasts with exceptional intelligibility in a 30° beam from close range up to 5,500 meters, and;

•

Genasys™ Mass Notification (“MN”), which include systems that project 60° - 360° audible voice broadcasts with industry-leading vocal clarity from close range to over 14 square kilometers from a single installation, and geospatial, mass messaging mobile alert solutions that are compatible with major emergency warning protocols.

We have sold our Long Range Acoustic Device® (“LRAD”) systems and Genasys solutions in 72 countries and pioneered a worldwide market for AHDs and revolutionized the mass notification industry with advanced voice broadcast systems. We continue to develop new communication innovations and believe we have established significant competitive advantages in our principal markets.

Technology and Products

Our LRAD systems are a technological breakthrough in broadcasting audible, highly intelligible voice messages and tones over long distances and high ambient noise using minimal power. Our LRAD products were initially developed for the U.S. Navy to fill a capability gap identified after the October 2000 attack on the USS Cole. LRAD systems are deployed by the U.S. Army, Navy, Air Force, Marine Corps, and Coast Guard, as well as international military services, and maritime, public safety and commercial security organizations around the globe. We have redesigned and enhanced our LRAD systems with improved voice intelligibility, output, and durability. The rugged construction of our systems enables us to meet stringent military specifications. Our AHDs are designed to enable users to safely hail and warn, inform and direct, prevent misunderstandings, determine intent, establish large safety zones, resolve uncertain situations, and potentially save lives.

Our AHD product line provides a complete range of solutions from handheld, portable devices to permanently installed, remotely operated systems. We continue to add new models to meet specific customer requirements and to expand into new markets. We have also added various features and accessories, including wireless capability, record on-the-fly microphones, integrated and remote electronics packages, and amplifiers.

Building on the success of our AHDs, we designed and developed our multidirectional mass notifications product line. Unlike most siren-based systems, our Genasys mass notification systems broadcast both emergency warning sirens and highly intelligible voice messages with uniform 60° - 360° coverage over local and wide areas. We believe our ability to shape the broadcast coverage area, our industry-leading speech intelligibility, and our multiple system activation and control options enable us to successfully compete in the large and growing mass notification market.

We continue to enhance our acoustic communication technologies and product lines to provide a complete range of systems and accessories. Our patented XL driver technology, which generates higher audio output in a smaller and lighter form factor, is being incorporated into our AHD and mass notifications systems. To date, we have incorporated our XL driver technology into the 450XL, LRAD 1950XL, LRAD 950RXL, DS-60XL, 360XL, and 360XL-MID. We plan to incorporate our XL driver technology into other AHDs and mass notification systems. We're enhancing our system design and manufacturing capabilities to improve the durability and performance of our products. Our systems have been competitively selected over other commercially available systems by the U.S. Department of Defense and numerous foreign militaries. Our product lines include the following:

LRAD AHD Systems:

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

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

LRAD 450XL—the loudest long range AHD for its size and weight—uses our patented technology to provide more output in a smaller form factor with the same high level of clarity and intelligibility consistent with all our LRAD systems. The LRAD 450XL was designed to provide an effective communication solution for small vessels, military and law enforcement vehicles, and helicopters.

LRAD 500X—selected by the U.S. Navy for many of its vessels, and the U.S. Army for a variety of missions, including transportation security and military law enforcement—is lightweight and can be easily transported to provide security personnel long-range communication and a highly effective hailing and warning capability. A helicopter-mounted version, the LRAD 500X-MMT air-to-ground communication system, is being used by the U.S. State Department and the Air National Guard.

LRAD 500RX—engineered and designed on a proprietary pan and tilt system to provide remotely controlled communication, security, and first response—is a lighter, more compact version of our LRAD 1000RX.

LRAD 950RXL—selected for the U.S. Navy's multi-year contract for Situational Awareness Systems on Military Sealift Command ships and other U.S. Navy vessels—combines the remotely operated pan and tilt system of the LRAD 500RX with our enhanced XL driver technology.

LRAD 1000Xi—selected by the U.S. Navy as its AHD for larger vessels for shipboard defense—can be manually operated to provide long distance hailing and warning and highly intelligible voice communications. This system is available in both fully integrated and remotely operated electronics. Every U.S. Navy surface combatant is equipped

with either the LRAD 500X, LRAD 1000X, or LRAD 1000Xi.

LRAD 1000RX—our solution for remotely controlled communication, security, and first response for ports, oil & gas platforms, utility installations, and other critical infrastructure enables—system operators to detect and communicate with a security threat over extended distances and initiate a remote first response. The LRAD 1000RX 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 threat 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 1950XL—our largest AHD that incorporates our patented XL driver technology - features military-tested construction, low power requirements, and a rugged, easily transportable aluminum tripod for rapid deployment. Broadcasting highly intelligible voice communications that can be clearly heard and understood over distances of up to 5,000 meters, the LRAD 1950XL is designed primarily for defense, border, and critical infrastructure security applications.

LRAD 2000X—designed to meet the requirements of larger security applications—is our largest AHD. Broadcasting highly intelligible voice communications over distances of up to 5,500 meters, the LRAD 2000X unit is designed primarily for perimeter and border security applications.

LRAD SOUND SHIELD®— a vehicle mounted speaker system that secures to armored, VIP, government or corporate vehicles and delivers voice communications and warning tones in a 360° radius of up to 100 meters. Using optimized driver and waveguide technology, the SOUND SHIELD is designed to safely and effectively warn and ward off security threats.

We continue to augment our AHD product line by using our proprietary technology to develop louder, longer distance systems in smaller form factors, as well as incorporating customer and market-specific enhancements.

LRAD Genasys MN Systems:

Using our new cloud/site-based Genasys Command and Control software (“CCS”), we recently integrated our mass notification voice broadcast systems with Genasys’ mass messaging solutions. Genasys CCS is compatible with external inputs, sensors, and major emergency warning protocols, and controls mass notification voice broadcast systems and geospatial mobile alerts. LRAD mass notification solutions feature industry-leading vocal intelligibility, and activation and control options.

DS-60X/DS-60XL—a mounted horn system for areas that require 60° - 360° mass notification coverage. The DS-60XL has the same form factor as the LRAD DS-60X, uses our patented XL driver technology, and has a 60°, 900-meter range. When configured in a 360° ring array, the broadcast coverage area extends to 2.5 square kilometers. Each DS-60XL horn in the ring array can be operated independently, providing customizable mass notification area coverage.

360X/360XL—provides 360° coverage and is targeted for broad market applications including tsunami, hurricane, tornado, and severe weather warnings, government, campus, and industrial public address and emergency notification, and military base mass notification and public address.

360XL-MID—designed for urban areas, small campuses, industrial sites, and government & defense facilities, the 360XL-MID can be installed on existing infrastructure or mounted on a tripod. Available in one and two emitter configurations, the 360XL-MID is powered and controlled by the Company’s Compact Control Cabinet (“CCC”). Genasys CCS connects to the CCC over a TCP/IP network to activate recorded messages and warning tones and enables live voice streaming to one or several systems. The CCC features flexible LRAD mass notification system command and control via TCP/IP, WiFi, Fiber, GPRS/GSM, or L-Band satellite.

360XL-MID Mobile Kit—comprises two XL driver powered emitters, ruggedized carrying case power amplifier, hardened control module, all-weather push-to-talk mic, tripod, and other accessories. The kit provides a self-contained solution for operations requiring advanced mobile mass notification. Rapidly deployable, the 360XL-MID Mobile Kit is designed for defense, homeland security, law enforcement, and public safety mass notification applications.

360XT— fully self-contained and self-powered, the 360XT mobile mass notification system delivers highly intelligible voice and emergency warning tone broadcasts with uniform 360° coverage over an 850-meter coverage radius from a rapidly deployable, telescoping 30-foot pneumatic mast. The 360XT is integrated and mounted on a ruggedized trailer featuring securely mounted, lockable electronics and equipment enclosures containing the amplifier modules and pneumatic systems.

SoundSaber®-X—is the next generation of SoundSaber mass notification line array speakers. The SoundSaber-X ("SS-X") features a new lightweight, rugged, and highly efficient driver technology that provides exceptional vocal intelligibility while utilizing 66% less power to generate 16dB more in audio output than the previous generation SS400. The SS-X is designed to alleviate reflection and echoing, to provide uniform acoustic coverage with wide audio dispersion along the short axis and narrow dispersion along the long axis, and ensure broadcasts are clearly heard and understood in high ambient noise environments. The thin form factor of the SS-X provides unobtrusive installation for many types of mass notification and public address applications.

We believe the integration of mass messaging solutions and Genasys' software development capabilities enable the Company to enhance existing product offerings and provide business growth opportunities in new markets.

Strategy

LRAD has developed a global market and increasing demand for directed, long-range voice broadcast systems in several business segments. We have a strong brand in these markets and a reputation for producing quality products that feature industry-leading broadcast coverage and vocal intelligibility. We are building on our AHD leadership position by offering an increasing variety of directional and multidirectional voice broadcast systems and accessories for an expanding range of applications. In executing our strategy, we use direct sales to governments, militaries, large end-users, and system integrators. We have built a worldwide distribution channel consisting of partners and resellers that have significant expertise and experience selling integrated communication solutions into our various target markets. As our primary sales opportunities are with domestic and international military and government departments and agencies, we are subject to each customer's unique budget cycle, which leads to long selling cycles and uneven revenue flow, complicating our product planning.

In fiscal 2019, we plan to continue our pursuit of business opportunities around the world with the support of business development consultants, and key representatives and resellers. We plan to grow our revenues through increased direct sales to domestic and international militaries, and to large commercial and defense-related companies that desire to integrate our communication technologies into their product offerings. This includes building on fiscal 2018 domestic defense sales by pursuing further U.S. military opportunities. We also plan to pursue mass notification, government, law enforcement, fire rescue, homeland and international security, private and commercial security, border security, maritime security, and wildlife preservation and control business opportunities.

With the acquisition of Genasys, we plan to expand our presence and increase our market share in the global mass notification market. In addition to the recent completion of our Genasys CCS, we intend to obtain qualifying certifications and launch other solutions that will enable our mass notification systems to access and compete in further mass notification applications. While the mass notification market is more mature with established manufacturers and suppliers, we believe that our advanced technology and superior solutions provide opportunities to penetrate and succeed in this large, expanding market. We also plan to expand and strengthen domestic and international sales channels by adding key mass notification partners, distributors, and dealers.

Our research and development strategy is to continue innovating voice broadcast systems and accessories, and mobile alert solutions to meet the needs of our target markets. Our mass notification product line includes emitters and speaker arrays in different sizes, as well as various configurations of amplifiers, mounts, power sources, and software. We developed and patented our XL driver technology, which generates higher audio output in smaller, lighter form factors. We have incorporated our XL driver technology into the LRAD 450XL, LRAD 1950XL, LRAD 950RXL, DS-60XL, 360XL, and 360XL-MID. We plan to incorporate our XL driver technology into other AHDs and mass notification systems. We're enhancing our system design and manufacturing capabilities to improve the durability and performance of our products. Our mass notification systems represent a much more complex, integrated offering. We are pursuing certain certifications, which are often required when bidding on government and mass notification opportunities. In addition to the recent completion of our Genasys CCS, we intend to invest engineering resources for other solutions that will enhance our mass notification systems and enable us to compete for larger mass notification business opportunities. We are also configuring alternative solutions to achieve lower price points to meet the needs of certain customers or applications. We also engage in ongoing value engineering to reduce the cost and simplify the manufacturing of our products.

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

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 the end of fiscal year 2018, the Company moved to a new facility with expanded engineering and manufacturing capacity to support current and expected business growth. In our facility, we complete the final assembly, test and ship our products. We have refined our internal processes to improve how we design, test, and qualify products. 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. We minimize inventories and maximize the efficiency of our supply chain by having a large number of components and sub-assemblies produced by outside suppliers mostly located within 50 miles of our facility. We also purchase several 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 costs. 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, Wisconsin, and Spain as well as through full-time business consultants in Germany and Thailand. Our corporate and administrative offices are located in San Diego, California.

We sell directly to governments, militaries, large end-users, and defense-related companies. We use independent representatives on a commission basis to assist 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. In addition, we utilize part-time consultants with expertise in various U.S. government and defense sectors to advise us on procedures and budgetary policies in an effort to be successful in these areas.

We have a global reputation for providing high quality, innovative voice broadcast systems and mobile alert solutions that have made LRAD an internationally recognized product brand. We actively promote our brands and products through our website, trade shows, and advertising. We intend to increase the use of our trademarks throughout our product distribution chain and believe growing brand awareness will assist in expanding our business. We believe our reputation for technological expertise, quality products, and strong service and support provide us competitive advantages.

Customer Concentration

For the fiscal year ended September 30, 2018, we had one customer accounting for 20% of revenues, with no other single customer accounting for more than 10% of revenues. For the fiscal year ended September 30, 2017, we had one customer accounting for 15% 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. We have made progress diversifying our revenues and expect to continue to do so in future periods.

Backlog

Our order backlog for products that are deliverable in the next 12 months was approximately \$23,646,910 at September 30, 2018, compared to \$11,943,259 at September 30, 2017. 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 material and workmanship defects 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.

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. Commercial and government audio industry markets are fragmented and include numerous manufacturers with audio products that vary widely in price, quality, and distribution channels. Present and potential 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, and our responsiveness to customers and the ability to meet their needs. We believe the quality, durability, and superior performance of our products, which have been developed by incorporating feedback from our customers, and our desire to provide the highest quality products, also provide us competitive advantages.

Our AHD product line features the leading voice broadcast systems for military and commercial applications. Our AHD competitors include Ultra Electronics/USSI, IML Sound Commander, and others. We do not believe these competitors have achieved significant global market penetration in the AHD market to date. We believe our AHD product line has demonstrated acceptance, 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 may enter, which could impact our competitiveness.

In the mature and established mass notification market, we compete against several domestic and international competitors, including Everbridge, OnSolve, Whelen Engineering Company Inc., Hoermann, and others. We believe our ability to shape the broadcast coverage area from 60° - 360°, our industry-leading voice broadcast intelligibility, our multiple system activation and control options, including satellite, TCP/IP, fiber, Wi-Fi, digital or analog radio, Ethernet or hard wire, give us competitive advantages against these established organizations. We believe the addition of Genasys geospatially controlled, mass messaging mobile alerts, and our Genasys CCS with its ease of integration with external sensors and inputs, and compatibility with major emergency warning protocols also provide competitive advantages. We believe the domestic and international markets for mass notification systems are substantial and growing.

Seasonality

Because our sales are primarily to domestic and international government 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 produced to comply with standard product safety requirements for sale in the U.S. 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 17, Segment Information, and Note 18, Major Customers, to our consolidated financial statements. Suppliers and Related Information.

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. We pursue a policy of vigorously enforcing our intellectual property rights.

In addition to such factors as innovation, technological expertise, and experienced personnel, we believe strong product offerings that are 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[®], ONE VOICE[®], and SOUND SHIELD[®]. Many of our registered trademarks 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, as well as customized solutions for specific customer applications. 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, 2018 and 2017, we spent approximately \$3.5 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.

Richard S. Danforth, age 59, was appointed Chief Executive Officer in August 2016. Mr. Danforth formed the strategic business consulting firm, RsD Aero, Ltd., in 2014, which provided consulting services for the Defense, Aerospace, Space and Transportation sectors, with an emphasis on M&A and Transatlantic trade. He served at DRS Technologies as Group President of DRS Integrated Defense Systems & Service (2013 – 2014); Chief Executive Officer, President and Board Member of DRS Defense Solutions (2008 – 2012); President, Command Control & Communication (2005 – 2008); President, Navy Electronics & Intelligence Systems (2004 – 2005); and Executive Vice President, Electronics Systems Group (2002 – 2004). He began his career at Raytheon in 1982 and held various manufacturing, quality assurance and program manager positions until 1996. Mr. Danforth was then appointed Vice President of Operations for Raytheon Aircraft Company (1996 – 2000). In 2000, he was named Senior Vice President of Raytheon Aircraft Company's Commercial Aircraft Business division, where he led a staff of 370 sales, marketing and customer service personnel. Mr. Danforth holds a Bachelor of Science in Industrial Technology from the University of Massachusetts Lowell and a Masters in Engineering Management from Western New England College.

Dennis D. Klahn, age 60, was appointed Interim Chief Financial Officer in August 2017 and promoted to Chief Financial Officer in September 2017. Mr. Klahn has more than 30 years of accounting, finance and operations experience, which includes serving as Controller or CFO at publicly traded companies. He was most recently a Group Controller at Teledyne RD Instruments, a subsidiary of Teledyne Technologies Incorporated, between 2011 and August 2017. Prior to that role, he served as Controller or CFO at several companies including, ISE Corporation, Overland Storage, Inc., Anacomp, Inc., and International Lottery & Totalizator Systems, Inc. Mr. Klahn began his

career as a Staff Accountant at Coopers & Lybrand after receiving his B.A. in Accounting from St. Ambrose University.

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

Employees

At September 30, 2018, we employed a total of 75 people. Of such employees, 14 were in research and development, 32 were in production, quality assurance and materials control, 13 were in general and administrative and 16 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 products. We have not experienced any work stoppages, 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 16262 West Bernardo Drive, San Diego, California, 92127, our telephone number is 858-676-1112, and our website is located at www.LRAD.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 and political conditions may adversely affect our business, operating results and financial condition

Our operations and performance depend significantly on worldwide economic and political 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 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.

We have historically had a high concentration of revenues from a limited number of customers. We expect to continue to be dependent on a limited number of customers.

In fiscal year 2018, we had one customer that accounted for 20% of revenues and no other customers accounted for more than 10% of revenues. Historically, our revenues have been dependent upon a limited number of customers and we expect that we will continue to have some significant customers in future years. 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 U.S., 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.

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 year 2018, direct and indirect sales to the U.S. government accounted for approximately 49% of our total net sales, compared to 15% of our total net sales in fiscal year 2017 and 31% in fiscal year 2016. 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. Even awards granted may not result in orders 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 are competing against a number of large competitors in the mass notification market, and we need to establish our omnidirectional products as a viable competitor in this market to allow us to win awards against these competitors, increase our customer base and gain market share. 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.

We may not be able to successfully integrate the Genasys businesses or any other businesses that we may acquire in the future, and we may not be able to realize anticipated cost savings, revenue enhancements, or other synergies from such acquisitions.

On January 18, 2018, we acquired all of the issued and outstanding shares of capital stock of Genasys. Our ability to successfully implement o