

LRAD Corp  
Form 10-Q  
May 03, 2017

---

---

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

---

---

**FORM 10-Q**

---

---

**(Mark one)**

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

**For the quarterly period ended March 31, 2017**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .**

**Commission File Number: 000-24248**

---

**LRAD CORPORATION**

(Exact name of registrant as specified in its charter)

---

Delaware  
(State or other jurisdiction of  
incorporation or organization)

87-0361799  
(I.R.S. Employer  
Identification Number)

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

92127  
(Zip Code)

(858) 676-1112

(Registrant's telephone number, including area code)

---

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or 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 (Do not check if a smaller reporting company) Smaller reporting company  
Emerging growth company

If an emerging growth company, indicate by 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 number of shares of Common Stock, \$0.00001 par value, outstanding on April 26, 2017 was 31,800,103.

---

---

---

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

	<b>March 31, 2017 (Unaudited)</b>	<b>September 30, 2016</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$14,563,812	\$13,466,711
Short-term marketable securities	3,463,710	2,936,124
Accounts receivable	3,240,729	3,408,912
Inventories, net	5,120,115	4,763,909
Prepaid expenses and other	696,942	595,638
Total current assets	27,085,308	25,171,294
Long-term marketable securities	1,556,679	2,187,536
Deferred tax assets	8,844,243	8,527,000
Property and equipment, net	471,664	473,344
Intangible assets, net	63,510	62,905
Other assets	258,266	391,454
Total assets	\$38,279,670	\$36,813,533
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$1,282,115	\$574,566
Accrued liabilities	2,188,586	1,503,044
Total current liabilities	3,470,701	2,077,610
Other liabilities - noncurrent	112,240	165,038
Total liabilities	3,582,941	2,242,648
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, \$0.00001 par value; 5,000,000 shares authorized; none issued and outstanding	-	-

Edgar Filing: LRAD Corp - Form 10-Q

Common stock, \$0.00001 par value; 50,000,000 shares authorized; 31,800,103 shares issued and outstanding	318	318
Additional paid-in capital	87,109,366	86,467,215
Accumulated deficit	(52,409,428)	(51,895,099)
Accumulated other comprehensive loss	(3,527 )	(1,549 )
Total stockholders' equity	34,696,729	34,570,885
Total liabilities and stockholders' equity	\$38,279,670	\$36,813,533

See accompanying notes

**LRAD Corporation**

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Revenues:				
Product sales	\$5,471,613	\$3,339,707	\$8,173,572	\$5,903,514
Contract and other	270,778	262,267	510,154	519,992
Total revenues	5,742,391	3,601,974	8,683,726	6,423,506
Cost of revenues	2,808,546	1,970,512	4,525,370	3,493,682
Gross profit	2,933,845	1,631,462	4,158,356	2,929,824
Operating expenses:				
Selling, general and administrative	1,893,045	2,276,694	3,859,480	3,736,786
Research and development	605,239	597,635	1,192,650	1,158,837
Total operating expenses	2,498,284	2,874,329	5,052,130	4,895,623
Income (loss) from operations	435,561	(1,242,867 )	(893,774 )	(1,965,799 )
Other income	32,074	31,693	62,202	64,957
Income (loss) from operations before income taxes	467,635	(1,211,174 )	(831,572 )	(1,900,842 )
Income tax expense (benefit)	169,285	(546,511 )	(317,243 )	(856,106 )
Net income (loss)	\$298,350	\$(664,663 )	\$(514,329 )	\$(1,044,736 )
Net income (loss) per common share - basic and diluted	\$0.01	\$(0.02 )	\$(0.02 )	\$(0.03 )
Weighted average common shares outstanding:				
Basic	31,800,103	31,828,167	31,800,103	32,146,928
Diluted	31,863,902	31,828,167	31,800,103	32,146,928
Cash dividends declared per common share	\$-	\$0.01	\$-	\$0.02

See accompanying notes

**LRAD Corporation**

**Consolidated Statements of Comprehensive Income (Loss)**

(Unaudited)

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net income (loss)	\$298,350	\$(664,663)	\$(514,329)	\$(1,044,736)
Other comprehensive loss, net of tax:				
Unrealized gain/(loss) on marketable securities, net of tax	4,332	3,679	(1,978 )	(529 )
Other comprehensive income (loss)	4,332	3,679	(1,978 )	(529 )
Comprehensive income/(loss)	\$302,682	\$(660,984)	\$(516,307)	\$(1,045,265)

See accompanying notes

**LRAD Corporation**

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	<b>Six months ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Operating Activities:</b>		
Net loss	\$(514,329 )	\$(1,044,736 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	62,834	97,546
Warranty provision	111,369	26,303
Inventory obsolescence	(181,486 )	11,067
Share-based compensation	642,151	308,257
Deferred income taxes	(317,243 )	(857,706 )
Changes in operating assets and liabilities:		
Accounts receivable	168,183	(361,037 )
Inventories	(174,720 )	(287,325 )
Prepaid expenses and other	(101,304 )	(82,637 )
Other assets	133,188	93,742
Accounts payable	707,549	738,256
Warranty settlements	(19,212 )	(24,099 )
Accrued and other liabilities	540,587	1,172,443
Net cash provided by (used in) operating activities	1,057,567	(209,926 )
<b>Investing Activities:</b>		
Sales (purchases) of marketable securities	101,293	(612,219 )
Capital expenditures	(57,473 )	(126,594 )
Patent costs paid	(4,286 )	(5,658 )
Net cash provided by (used in) investing activities	39,534	(744,471 )
<b>Financing Activities:</b>		
Repurchase of common stock	-	(1,748,456 )
Common stock cash dividends paid	-	(636,661 )
Net cash used in financing activities	-	(2,385,117 )
Net increase (decrease) in cash	1,097,101	(3,339,514 )
Cash and cash equivalents, beginning of period	13,466,711	18,316,103
Cash and cash equivalents, end of period	\$ 14,563,812	\$ 14,976,589

See accompanying notes





## **LRAD Corporation**

### **Notes to Condensed Consolidated Financial Statements (Unaudited)**

#### **1. OPERATIONS**

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

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

##### General

The Company’s unaudited condensed consolidated financial statements included herein have been prepared in accordance with the instructions to Form 10-Q and Article 8 of Regulation S-X and the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In management’s opinion, the accompanying statements reflect adjustments necessary to present fairly the financial position, results of operations, and cash flows for those periods indicated, and contain adequate disclosure to make the information presented not misleading. Adjustments included herein are of a normal, recurring nature unless otherwise disclosed in the footnotes. The condensed consolidated financial statements and notes thereto should be read in conjunction with the Company’s audited financial statements and notes thereto for the year ended September 30, 2016 included in the Company’s Annual Report on Form 10-K, as filed with the SEC on December 7, 2016. The accompanying condensed balance sheet at September 30, 2016 has been derived from the audited consolidated balance sheet at September 30, 2016, contained in the above referenced Form 10-K. Results of operations for interim periods are not necessarily indicative of the results of operations for a full year.

##### Principles of Consolidation

The Company has a currently inactive wholly owned subsidiary, LRAD International Corporation, which the Company formed to conduct international marketing, sales and distribution activities. The condensed consolidated

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

### Reclassifications

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

## **3. RECENT ACCOUNTING PRONOUNCEMENTS**

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This guidance changes how companies account for certain aspects of share-based payments to employees. Among other things, under the new guidance, companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in-capital ("APIC"), but will instead record such items as income tax expense or benefit in the income statement, and APIC pools will be eliminated. Companies will apply this guidance prospectively. Another component of the new guidance allows companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards, whereby forfeitures can be estimated, as required today, or recognized when they occur. If elected, the change to recognize forfeitures when they occur needs to be adopted using a modified retrospective approach. All of the guidance will be effective for the Company in the fiscal year beginning October 1, 2017. Early adoption is permitted. The Company is currently evaluating the impact of this guidance, if any, on its financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which issued new guidance related to leases that outlines a comprehensive lease accounting model and supersedes the current lease guidance. The new guidance requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than 12 months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The new guidance must be adopted using the modified retrospective approach and will be effective for the Company in the fiscal year beginning October 1, 2019. Early adoption is permitted. The Company is currently evaluating the impact of this guidance, if any, on its 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 the Company in the fiscal year beginning October 1, 2017. 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.



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. Recently, FASB has issued guidance clarifying certain topics such as (i) gross versus net revenue reporting, (ii) identifying performance obligations and licensing and (iii) accounting for shipping and handling fees and costs and accounting for consideration given by a vendor to a customer. 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.

#### **4. FAIR VALUE MEASUREMENTS**

The Company’s 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 the Company’s cash equivalents and marketable securities was determined based on Level 1 and Level 2 inputs. The Company did not have any marketable securities in the Level 3 category as of March 31, 2017 or September 30, 2016. The Company believes that the recorded values of its other financial instruments approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

Instruments Measured at Fair Value

The following tables present the Company's cash equivalents and marketable securities' costs, gross unrealized gains and losses, and fair value by major security type recorded as cash equivalents or short-term or long-term marketable securities as of March 31, 2017 and September 30, 2016.

	March 31, 2017					
	Cost Basis	Unrealized Losses	Fair Value	Cash Equivalents	Short-term Securities	Long-term Securities
Level 1:						
Money Market Funds	\$66,879	\$ -	\$66,879	\$ 66,879	\$-	\$-
Level 2:						
Corporate bonds	\$2,746,576	\$ (3,527 )	\$2,743,049	\$ -	\$1,623,710	\$1,119,339
Certificates of deposit	2,237,340	-	2,237,340	-	1,800,000	437,340
Municipal securities	40,000	-	40,000	-	40,000	-
Subtotal	5,023,916					