

QUARTERLY UPDATE

Second Quarter Fiscal 2012 Financial Results and Business Update

Snapshot

June 20, 2012

LRAD Corp. (“the Company”) develops and markets acoustic hailing devices (AHD) that support the delivery and intelligibility of audio broadcasts over long ranges. The Company’s Long Range Acoustic Device® (LRAD®) technology uses advanced sound reproduction technologies and novel acoustic materials to broadcast authoritative and highly intelligible instructions, warnings, alarms, and other sounds over several miles. LRAD® improves upon traditional speaker systems and megaphones by directing sound only where needed. Similar to a spotlight, which produces an intense beam of targeted light, each LRAD® system delivers a focused, directional audio broadcast. The beam width, frequency range, and maximum continuous output of LRAD® devices can be adjusted to target individuals, small groups, and large crowds at various ranges. LRAD Corp.’s versatile product portfolio has a range of applications, including public safety, law enforcement, military, commercial security, and wildlife and asset protection.



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Recent Financial Data

Ticker (Exchange)	LRAD (NASDAQ)
Recent Price (06/20/2012)	\$1.15
52-week Range	\$1.12 - \$3.36
Shares Outstanding*	~32.4 million
Market Capitalization	~\$37 million
Average 3-month Volume	33,164
Insider Owners + 5%	25.8%
Institutional Owners	27.8%
EPS (6 months ended 03/31/2012)	\$0.00 (diluted)
Employees	37



* As of April 26, 2012.

Key Points

- During the first six months of LRAD Corp.’s 2012 fiscal year (ended March 31), the Company reported revenues of \$6 million versus \$17.7 million for the corresponding 2011 timeframe (which included a \$12.1 foreign military order). Law enforcement and public safety initiatives represented a significant portion of the Company’s sales during the first half FY 2012, helping the Company achieve breakeven results for the six-month period despite lower military sales.
- LRAD® systems have been used by law enforcement for various major public affairs, such as for the 2012 NATO summit in Chicago, and will be used for the upcoming 2012 Summer Olympics in London. These events have led to various publicity features for the Company’s systems, including the *Tonight Show with Jay Leno*, local news stations in major cities (e.g., Los Angeles and Chicago), as well as an AOL *Digital Justice* webisode.
- LRAD Corp. expects military sales to gain momentum in the second half as the U.S. government nears the end of its fiscal year (Sept. 30). Recently, the U.S. military placed orders for roughly \$1.5 million in LRAD® systems and support equipment. The Company has completed and submitted its bid to the U.S. Navy’s Request for Proposal (RFP) for between 4 each and 1,300 small, medium, and large acoustic hailing devices over the next five years.
- LRAD Corp. continues to penetrate commercial security and wildlife and asset protection markets globally. In May 2012, the Company received a \$1.7 million order for Asian maritime security.
- LRAD Corp. has also expanded its product line to include the LRAD 360X, which provides uniform 360-degree broadcasts in support of effectively delivering mass notifications and emergency warnings.
- As of March 31, 2012, LRAD Corp. had cash and cash equivalents of \$13.9 million.

Financial Results and Recent Events

On May 7, 2012, LRAD Corp. reported financial results for its second quarter ended March 31, 2012. The Company's fiscal year (FY) ends September 30.

For the Three Months Ended March 31, 2012

LRAD Corp.'s revenues were \$2.4 million in the fiscal second quarter ended March 31, 2012, versus \$15.5 million for the prior year's period, which included the delivery of a \$12.1 million foreign military order.

The Company's gross profit for the second quarter FY 2012 decreased to \$1.3 million versus nearly \$10.9 million for the year-ago timeframe, representing 55% and 70% of revenues, respectively. In the FY 2011 period, the foreign military order had contributed to greater revenues, reductions in product costs, improved production rates, and greater fixed absorption of manufacturing costs.

LRAD Corp.'s operating expenses decreased to \$1.6 million for the three months ended March 31, 2012, versus roughly \$5.1 million for the corresponding FY 2011 quarter, during which time the Company had incurred \$3 million in commission-related costs and a \$482,000 bonus expense for achieving certain performance targets.

The Company reported a net loss of nearly \$292,000, or (\$0.01) per diluted share, for its second quarter FY 2012, versus a net income of \$5.7 million, or \$0.17 per diluted share, for the same timeframe in FY 2011.

For the Six Months Ended March 31, 2012

LRAD Corp. reported revenues of over \$6 million for the six months ended March 31, 2012, versus revenues of \$17.7 million for the corresponding 2011 timeframe.

The Company's gross profit for the six-month period in FY 2012 decreased to nearly \$3.1 million, a decrease from roughly \$11.9 million for the same timeframe in FY 2011, accounting for 51% and 67% of revenues, respectively. LRAD Corp. attributed the reduction to effects of the foreign military order, as detailed above.

For the six months ended March 31, 2012, LRAD Corp.'s operating expenses were approximately \$3.1 million versus nearly \$6.5 million in the year-ago period, which had included various commission and bonus expenses related to the large military order.

The Company's net income for the six-month period in FY 2012 was \$22,000, or \$0.00 per diluted share, versus \$5.3 million, or \$0.17 per diluted share, for the same timeframe in FY 2011.

As of March 31, 2012, LRAD Corp. had cash and cash equivalents of nearly \$13.9 million, a slight increase versus September 30, 2011.

Recent Events


An overview of the Company's recent announcements is provided below, referring the reader to LRAD Corp.'s website for complete press releases (www.lradx.com).

- On May 24, 2012, LRAD Corp. announced that it received new orders totaling \$1.1 million from the U.S. military. The orders include LRAD 100X™, LRAD 300X™, and LRAD 500X™ systems and support equipment.
- On May 15, 2012, LRAD Corp. announced that it received a \$1.7 million order of LRAD-RX® systems for Asian maritime security.
- On May 7, 2012, the Company reported financial results for the second quarter ended March 31, 2012 (summarized on page 2).
- On April 10, 2012, LRAD Corp. announced that it received an order from the U.S. Navy for LRAD 500X™ systems and Scram Carts. The order, worth in excess of \$400,000, is scheduled to ship during the third quarter FY 2012.

Company Background

LRAD Corp. develops and markets novel directed acoustic hailing devices (AHDs) that are designed to improve communication between the user and the target audience (individuals or groups). The Company's full suite of AHD products (illustrated in Figure 1) is based on its proprietary Long Range Acoustic Device® (LRAD®) platform, which employs a novel combination of sound reproduction technologies and acoustic materials to project highly intelligible speech and other sounds over long ranges. To the Company's knowledge, each LRAD® model presents the loudest and most intelligible AHD in its size and weight category.

Figure 1
LRAD® PRODUCT LINE



Model	LRAD 2000X™	LRAD-RX®	LRAD 1000™	LRAD 500X™	LRAD 300X™	LRAD 100X™
Application	Fixed Infrastructure	Fixed Infrastructure	Fixed Infrastructure/ Large Vehicles	Large Vehicles	Medium to Large Vehicles	Handheld/ Man Portable
Max dB	162 dB	153 dB	153 dB	149 dB	143 dB	137 dB
Max Range	8,900+ m	3,000+ m	3,000+ m	2,000+ m	1,500+ m	700+ m

Source: LRAD Corp.

Similar to a beam of light from a spotlight, LRAD® produces a focused, directional beam of sound, which can be broadened or narrowed as needed. The Company's product line meets a broad range of requirements for communicating to and deterring potential threats, from the hand-held LRAD 100X™ to the LRAD 2000X™, which is capable of broadcasting a clear message up to 8,900 meters (roughly 5.5 miles or the equivalent of 81 football fields).

Since the first-generation LRAD® product was released in 2003, LRAD® systems have been deployed by the U.S. Army, Navy, Marines, and Coast Guard, as well as commercial vessels and public safety organizations worldwide. Providing an effective means to hail, warn, and communicate to individuals or groups enables troops, sailors, law enforcement, and security personnel (among others) to better establish and maintain safety and standoff zones. As well, LRAD® systems provide time and distance for military personnel to determine the intent of and react to approaching threats.

While LRAD® systems may be used by various military branches and law enforcement as a defensive tool in high-tension environments (e.g., riots, wars), the products are designed to serve as communications devices—not acoustic weapons. When operated correctly, the broadcast levels for LRAD® systems are purposely kept below the threshold that could result in permanent hearing damage from brief exposure. While prolonged exposure can cause damage (similar to fire sirens or rock concerts), the sound at close range causes most people to experience discomfort, cover their ears, and move away. The simple act of covering one's ears with hands reduces the volume by roughly 25 decibels (dB).

To date, LRAD® systems have been deployed in approximately 55 countries across North America, Europe, Asia, Africa, Europe, and Australia. LRAD Corp.'s AHDs are approved by the U.S. General Services Administration (GSA). As well, many of the Company's products have NATO stock numbers—including the LRAD 100X™, 300X™, 500X™, and 1000X™.

Applications for LRAD® Technology

LRAD® fills a critical communications gap for a number of global applications. Today, LRAD® systems have been used in fixed and mobile military deployments, maritime security, critical infrastructure and perimeter security, commercial security, border and port security, law enforcement and emergency responder communications, and wildlife preservation and control. The ability to operate LRAD® remotely further broadens the device's potential. For instance, its uses include securing unmanned oil platforms or unmanned vehicles, where operation from the safety of a command and control center is preferred.

The Company classifies these applications into four target markets: (1) public safety; (2) military; (3) commercial security; and (4) wildlife and asset protection. Each of these key sectors is overviewed on pages 22-38 of the base Executive Informational Overview® (EIO) on LRAD Corp. issued February 13, 2012, and available at www.crystalra.com.

In the first half of the Company's 2012 fiscal year, public safety/law enforcement sales represented the majority of LRAD Corp.'s revenues, helping the Company to achieve breakeven results for the six-month period in combination with cost-controlling measures and a continuing focus on operations. LRAD Corp. anticipates that it could achieve higher revenues during the fiscal second half due to increased demand for LRAD® systems based on U.S. and foreign military orders to date and continued penetration of its systems into public safety, commercial security, and wildlife and asset protection markets globally.

Public Safety/Law Enforcement Represents an Increasing Share of LRAD Corp.'s Market

Law enforcement and public safety initiatives represented a significant portion of the Company's sales during the first half of LRAD Corp.'s 2012 fiscal year and the Company has received significant publicity around several of these initiatives. LRAD® can be a critical part of the layered defense/escalation of force strategy for law enforcement and government agencies trying to control protests, riots, or other large crowd scenarios, helping to fill the communications gap between megaphone (or "bullhorn") warnings—which may not be heard or understood by all participants—and non-lethal force (e.g., batons, rubber bullets).

In May 2012, the Chicago Police Department employed LRAD 1000Xi™ systems to communicate to crowds during the 2012 NATO Summit in Chicago. This was one of many safety and security measures the city put in place in preparation for the event. Various protests and demonstrations were expected leading up to and throughout the Summit.

The Chicago Police Department sought improved techniques to ensure that orders can be effectively delivered to crowds and protestors. In May 2012, a federal court judge gave preliminary approval to a more than \$6 million settlement to protestors who were arrested by Chicago police after police using bullhorns failed to deliver clear orders to protestors during an anti-war march nearly a decade ago. Chicago Police purchased two LRAD units to clearly communicate instructions to crowds at the Summit (Source: NBC Chicago, May 15, 2012).

LRAD Corp. and its technology have also been featured on the *Tonight Show with Jay Leno*, KTLA 5 News (Los Angeles), ABC7 News (Chicago), as well as in an April 2012 webisode of AOL *Digital Justice* (shown in Figure 2 [page 6]). The full-length *Digital Justice* video clip is available at <http://on.aol.com/video/lrad---long-range-acoustic-hailing-devices-517331597>) and has been viewed 63,390 times as of June 20, 2012. The Company's products also received publicity after use during the 2009 G20 Summit in Pittsburgh and the Occupy Wall Street movement in New York and Los Angeles in late 2011. Beyond protests, public safety, and crowd control, the Company anticipates that its products could be beneficial in a number of additional law enforcement scenarios, including SWAT operations, potential suicide situations, serving warrants, and large community events (among others), improving communication and often reducing the number of law enforcement and security personnel required.

Figure 2

LRAD® DEVICES FEATURED AND TESTED IN AOL *DIGITAL JUSTICE* WEBISODE, APRIL 2012



Source: AOL Digital Justice.

LRAD® Devices To Be Deployed During the 2012 Summer Olympics

In May 2012, BBC News reported that the UK Ministry of Defence had confirmed the planned use of LRAD 1000Xi™ devices by Royal Marines as a security measure during the 2012 Summer Olympics in London (Source: BBC News' *Sonic device deployed in London during Olympics*, May 2012). LRAD Corp. estimates that the article was distributed by over 300 media outlets globally, helping the Company to continue to spread awareness about the benefits of its devices abroad. At the London Olympics, the devices will primarily be used to facilitate communication to boaters on the Thames River near Westminster, UK, and could also be used to broadcast verbal warnings to crowds, among other purposes.

Military Sales Are Gaining Momentum in the Second Half of FY 2012

LRAD Corp. anticipates increased military sales in the second half of 2012. While revenues in the first half of 2012 were largely supported by law enforcement sales, military sales typically gain momentum as the government nears the end of its fiscal year (September 30) and elects to spend remaining budget allowances.

Continuing a strong base of repeat business, the U.S. military placed new orders in May 2012 totaling \$1.1 million for LRAD 100X™, LRAD 300X™, and LRAD 500X™ systems and support equipment. LRAD Corp. expects the orders to ship this quarter. LRAD® systems help protect armed services personnel by facilitating long-range communication, enabling soldiers and sailors to unequivocally determine intent, while providing them time and distance to scale their response.

Additionally, in April 2012, the U.S. Navy submitted an order for \$400,000 in LRAD 500X™ systems and Scram Carts, which are portable platforms with rugged, weatherproof exteriors that help deploy, transport, and store LRAD® systems for use in harsh maritime conditions. Each Scram Cart includes a self-contained battery pack that provides up to six hours of continuous operation, eliminating the need for external power.

The U.S. Navy Has Issued a New Request for Proposal (RFP) for Acoustic Hailing Devices

The U.S. Navy has been a customer of LRAD Corp. since 2003, employing LRAD® systems as part of its escalation-of-force protocol to help protect sailors and keep civilians safe during uncertain situations at sea. LRAD Corp. reports that the Navy is using its full line of LRAD® systems, and estimates that its technologies have been deployed on most of the Navy's large ships.

LRAD® products have been competitively selected over other commercially available systems by U.S. and foreign militaries. In 2007, the Company won a multiyear contract after the U.S. Navy issued a RFP, a process in which companies competitively bid for the variable contract.

Operating on five-year cycles, the U.S. Navy issued a new RFP in April 2012 for between four each and 1,300 small, medium, and large acoustic hailing devices—which equates to LRAD Corp.’s LRAD 100X™, 500X™, and 1000X™ systems, respectively—over the next five years. Any company that seeks to compete for the contract must submit a bid by June 15, 2012. The Company has completed and submitted its bid and believes the contract could be awarded before the end of the government’s fiscal year. LRAD Corp. reports that the U.S. Navy has purchased over 450 LRAD® systems to date resulting in approximately \$14 million in sales for the Company.

Maritime Security Sales and Continuing Global Concern over Terrorist and Piracy Threats

LRAD Corp. reports that its proprietary acoustic devices are becoming an important component in maritime escalation-of-force protocols to help combat terrorist and piracy threats. Maritime piracy continues to be a major concern globally, costing an estimated \$7 billion to \$12 billion annually for ransoms, insurance premiums, protection by naval forces and armed guards, and extra fuel for faster steaming or rerouting ships (Source: *The National*, the Abu Dhabi Media company’s first English-language publication, May 14, 2012). Despite current security measures, the International Maritime Bureau (IMB) received reports of 439 pirate attacks globally during 2011, slightly down from 445 incidents in 2010. In total, 113 vessels were fired upon, 176 ships were boarded, 45 vessels were hijacked, over 800 crew members were taken hostage, and eight people were killed (Source: the IMB’s Piracy Reporting Centre, January 19, 2012). In total, pirates accumulated an estimated \$160 million in ransom for the return of ships, cargo, and crew (Source: *The National*, May 14, 2012).

Shipping insurance companies have plans to invest \$70 million to deploy a private navy—called the Convoy Escort Programme (CEP)—in the Gulf of Aden, to escort merchant ships in dangerous areas, potentially reducing costs and reducing the need for merchant ships to carry guns. Acting only in self-defense, CEP crews first implement non-lethal responses, including LRAD, and only resort to force when life is in danger. CEP aims to integrate its operations into the international naval communications net in the Indian Ocean and is working with the EU Naval Force’s Maritime Security Centre (Horn of Africa), which monitors vessels sailing through the Gulf of Aden. CEP could entail an 18-ship fleet by the end of 2012.

Historically, when a suspicious vessel fails or refuses to respond to radio calls, warning shots may be fired by the merchant or by Privately Contracted Armed Security Personnel (PCASP). However, the effectiveness of warning shots is questionable due to the loud and sometimes chaotic marine environment (Source: *The Maritime Executive*, April 27, 2012). LRAD systems can bridge this gap by serving both as a long-range communication device and a non-lethal deterrent.

In particular, LRAD systems can be used to initiate escalation-of-force protocols by delivering warnings, instructions, and deterrent tones over long ranges. LRAD systems help armed security forces avoid accidental shooting incidents by aiding in determining the intent of an approaching threat while providing time and distance to scale a response.

Most recently, in May 2012, LRAD Corp. received a \$1.7 million LRAD-RX® order for Asian maritime security. The Company expects to begin delivering product during the quarter ended June 30, 2012, and continuing into the Company’s 2013 fiscal year.

Additional Market Opportunities

LRAD Corp. is focused on creating new markets for its products, increasing sales and marketing activities worldwide, and continuing investments in product development. In addition to its existing markets, LRAD Corp. has also identified market opportunities for university campuses, particularly during presidential election years, such as 2012. The Company reports that there have been a number of incidents on campuses concerning outdoor or stadium events that could have likely been avoided by improving communication between authorities and participants. As a result, campus security is increasingly seeking out means beyond bullhorns to deliver loud, understandable instructions to crowds over large areas very quickly as well as to ensure that everyone who is attending these events understands what is expected of them.

Continued Expansion of the LRAD® Product Line

LRAD Corp. reports that it continues to receive positive responses and increased global acceptance of its expanding LRAD-X® product line. In the second quarter ended March 31, 2012, the Company received its first order for the newly developed LRAD 360X product. LRAD Corp. designed this product to provide uniform 360-degree broadcasts in support of effectively delivering mass notifications and emergency warnings. The LRAD 360X is targeted for a number of markets, including campuses, border and perimeter security, tsunami, hurricane, and tornado warning systems, bird safety and control, and asset protection.

Corporate Information

LRAD Corp. was founded in 1980 and underwent a recapitalization in 1992. After launching its first directed sound technology in 1996, the Company began engineering sound solutions to address the needs of the commercial, government, and military markets. Since 1996, LRAD Corp. has developed novel acoustic products to project, focus, shape, and control sound. In 2010, the Company changed its name from “American Technology Corp.” to “LRAD Corp.” and spun off its hypersonic sound (HSS) business, Parametric Sound Corp. (PAMT-NASDAQ), as an independent, publicly traded entity. LRAD Corp.’s shares of Common Stock trade on the NASDAQ Capital Market under the symbol “LRAD.”

Headquarters and Employees

LRAD Corp. has headquarters in San Diego, California. As of March 31, 2012, LRAD Corp. employed 37 full-time individuals. The Company has continued strengthening its selling network through the addition of in-house business development personnel as well as key integrators and sales representatives within the U.S. and abroad. The Company also contracts technical and production personnel and outside consultants as needed.

Key Points to Consider

- LRAD Corp. designs and develops novel products that allow customers to broadcast loud, crystal clear messages over long distances. The Long Range Acoustic Device® (LRAD®) platform uses proprietary sound reproduction technologies and acoustic materials to produce a directed, focused acoustic beam that can reach up to 3,000 meters for large vehicles/vessels or up to 8,900 meters in fixed infrastructure applications.
- Since 2003, LRAD Corp.'s systems have been deployed by the U.S. Army, Navy, Marines, and Coast Guard, as well as on commercial vessels and through public safety organizations worldwide.
- The Company has broadened its products' application to include all branches of the military, public safety (e.g., law enforcement, government), commercial security, wildlife and asset protection (e.g., wind farms, airports, tailing ponds), and university campuses (particularly during presidential election years), among other expanding markets globally.
- Law enforcement and public safety initiatives represented a significant portion of the Company's sales during the first half of LRAD Corp.'s 2012 fiscal year, helping the Company achieve breakeven results for the six-month period despite lower military sales.
 - In May 2012, the Chicago Police Department deployed LRAD 1000Xi™ systems to communicate to crowds during the 2012 NATO Summit in Chicago. As well, the UK Ministry of Defence had confirmed the planned use of LRAD® systems during the 2012 Summer Olympics in London.
 - The Company has received significant publicity around these major public safety initiatives. Recently, LRAD Corp. and its technology have been featured on the *Tonight Show with Jay Leno*, KTLA 5 News (Los Angeles), ABC7 News (Chicago), as well as in an AOL *Digital Justice* webisode.
- LRAD Corp. has stated that it anticipates achieving higher revenues during the fiscal second half as military sales gain momentum, particularly as the government nears the end of its fiscal year (September 30).
 - Continuing a strong base of repeat business, the U.S. military placed new orders in April and May 2012 totaling roughly \$1.5 million for LRAD® systems and support equipment.
 - Moreover, LRAD Corp. has completed and submitted its proposal to the U.S. Navy in response to a Request for Proposal (RFP) for between four each and 1,300 small, medium, and large acoustic hailing devices over the next five years. While the Company must compete to win the bid, LRAD Corp. believes that the experiences of winning a previous bid in 2007 and having delivered over 450 LRAD® systems to date to the U.S. Navy provides the Company with a significant competitive advantage.
- LRAD® products can also be deployed by cruise lines, unmanned oil and gas platforms, port security organizations, and personal vessels to help secure perimeters and protect infrastructure on land and at sea.
 - Maritime piracy continues to be a major concern globally, costing an estimated \$7 billion to \$12 billion annually. In May 2012, LRAD Corp. received a \$1.7 million LRAD-RX® systems order for Asian maritime security.
- To date, LRAD® systems have been deployed in approximately 55 countries across North America, South America, Asia, Africa, Europe, and Australia.
- LRAD Corp. seeks to continually upgrade and enhance its product portfolio. Most recently, the Company expanded its product line to include the LRAD 360X, which provides uniform 360-degree broadcasts in support of effectively delivering mass notifications and emergency warnings.
- At March 31, 2012, LRAD Corp. had cash and cash equivalents of \$13.9 million.

Risks

Some of the information in this Quarterly Update relates to future events or future business and financial performance. Such statements can only be predictions and the actual events or results may differ from those discussed due to the risks described in LRAD Corp.'s statements on Forms 10-K, 10-Q, 8-K, as well as other forms filed from time to time. The content of this update with respect to the Company has been compiled primarily from information available to the public released by LRAD Corp. through news releases, Annual Reports, and U.S. Securities and Exchange Commission (SEC) filings. LRAD Corp. is solely responsible for the accuracy of this information. Information as to other companies has been prepared from publicly available information and has not been independently verified by the Company. Certain summaries of activities have been condensed to aid the reader in gaining a general understanding. For more complete information about LRAD Corp., please refer to the Company's website at www.lradx.com. Additionally, please refer to Crystal Research Associates' base report, the Executive Informational Overview[®] (EIO) dated February 13, 2012, and located on Crystal Research Associates' website at www.crystalra.com for more comprehensive details of LRAD Corp.'s risk factors.

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