LSI INDUSTRIES INC
Form 10-Q
February 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2015.

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ________________ TO ________________.

Commission File No. 0-13375

LSI Industries Inc.

State of Incorporation - Ohio IRS Employer I.D. No. 31-0888951

10000 Alliance Road

Cincinnati, Ohio 45242

(513) 793-3200

Indicate by checkmark 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 __X__ NO ____

Indicate by checkmark 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES __X__ NO ____

Indicate by checkmark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ]	Smaller reporting company [ ]

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ____ NO __X

As of February 2, 2016 there were 24,689,131 shares of the Registrant's common stock, no par value per share, outstanding.

LSI INDUSTRIES INC.

FORM 10-Q

FOR THE QUARTER ENDED DECEMBER 31, 2015

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"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995

This Form 10-Q contains certain forward-looking statements that are subject to numerous assumptions, risks or uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Forward-looking statements may be identified by words such as "estimates," "anticipates," "projects," "plans," "expects," "intends," "believes," "seeks," "may," "will," "should" or the negative versions of those words and similar expressions, and by the context in which they are used. Such statements, whether expressed or implied, are based upon current expectations of the Company and speak only as of the date made. Actual results could differ *materially from those contained in or implied by such forward-looking statements as a result of a variety of risks and uncertainties over which the Company may have no control. These risks and uncertainties include, but are not limited to, the impact of competitive products and services, product demand and market acceptance risks, potential costs associated with litigation and regulatory compliance, reliance on key customers, financial difficulties experienced by customers, the cyclical and seasonal nature of our business, the adequacy of reserves and allowances for doubtful accounts, fluctuations in operating results or costs whether as a result of uncertainties inherent in tax and accounting matters or otherwise, unexpected difficulties in integrating acquired businesses, the ability to retain key employees of acquired businesses, unfavorable economic and market conditions, the results of asset impairment assessments and the other risk factors that are identified herein. You are cautioned to not place undue reliance on these forward-looking statements. In addition to the factors described in this paragraph, the risk factors identified in our Form 10-K and other filings the Company may make with the SEC constitute risks and uncertainties that may affect the financial performance of the Company and are incorporated herein by reference. The Company does not undertake and hereby disclaims any duty to update any forward-looking statements to reflect subsequent events or circumstances.*

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)	Three Months Ended December 31 2015	2014	Six Months Ended December 31 2015	2014
Net sales	$84,687	$84,715	$170,612	$163,181
Cost of products and services sold	60,761	64,160	123,337	124,018
Gross profit	23,926	20,555	47,275	39,163
Loss on sale of subsidiary (see Note 13)	--	--	--	565
(Gain) on sale of building	--	--	--	(343)
Selling and administrative expenses	18,546	18,331	36,132	34,183
Operating income	5,380	2,224	11,143	4,758
Interest (income)	(17)	(6)	(25)	(9)
Interest expense	9	12	17	23
Income before income taxes	5,388	2,218	11,151	4,744
Income tax expense	1,606	630	3,619	1,629

Net income	$3,782	$1,588	$7,532	$3,115
Earnings per common share (see Note 4)				
Basic	$0.15	$0.06	$0.30	$0.13
Diluted	$0.15	$0.06	$0.30	$0.13
Weighted average common shares outstanding				
Basic	24,911	24,449	24,838	24,442
Diluted	25,624	24,507	25,405	24,506

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except shares)	December 31, 2015	June 30, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	$28,763	$26,409
Accounts receivable, less allowance for doubtful accounts of $372 and $317, respectively	43,122	43,661
Inventories	45,885	43,083
Refundable income taxes	574	99
Other current assets	7,448	7,562
Total current assets	125,792	120,814
Property, Plant and Equipment, at cost		
Land	6,980	6,952
Buildings	38,162	37,706
Machinery and equipment	77,570	76,383
Construction in progress	1,514	588
	124,226	121,629
Less accumulated depreciation	(80,510)	(78,441)
Net property, plant and equipment	43,716	43,188
Goodwill	10,508	10,508
Other Intangible Assets, net	5,839	6,092
Other Long-Term Assets, net	1,679	1,777

Total assets	$ 187,534	$ 182,379

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except shares)	December 31, 2015	June 30, 2015
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$8,829	$14,721
Accrued expenses	23,307	22,126
Total current liabilities	32,136	36,847
Other Long-Term Liabilities	2,099	2,580
Commitments and Contingencies (Note 12)		
Shareholders' Equity		
Preferred shares, without par value; Authorized 1,000,000 shares, none issued		
Common shares, without par value; Authorized 40,000,000 shares; Outstanding 24,685,777 and 24,392,938 shares, respectively	110,891	106,353
Retained earnings	42,408	36,599
Total shareholders' equity	153,299	142,952
Total liabilities & shareholders' equity	$187,534	$182,379

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Six Months Ended December 31 2015	2014
Cash Flows from Operating Activities		
Net income	$7,532	$3,115
Non-cash items included in net income		
Depreciation and amortization	3,174	3,138
Deferred income taxes	(448)	(101)
Deferred compensation plan	310	94
Stock option expense	2,150	882
Issuance of common shares as compensation	113	96
(Gain) on disposition of building	--	(343)
(Gain) Loss on disposition of fixed assets	1	(1)
Loss on sale of subsidiary	--	565
Allowance for doubtful accounts	131	176
Inventory obsolescence reserve	699	753
Changes in certain assets and liabilities:		
Accounts receivable	387	(2,021)
Inventories	(3,480)	1,757
Refundable income taxes	(475)	1,801
Accounts payable	(5,962)	(784)
Accrued expenses and other	920	1,792
Customer prepayments	438	(201)
Net cash flows provided by operating activities	5,490	10,718
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(3,384)	(2,404)
Proceeds from sale of subsidiary, net of cash sold	--	1,494
Proceeds from sale of fixed assets	4	952
Net cash flows provided by (used in) investing activities	(3,380)	42
Cash Flows from Financing Activities		
Cash dividends paid	(1,721)	(1,688)

Exercise of stock options	2,195	108
Purchase of treasury shares	(277)	(139)
Issuance of treasury shares	47	--
Net cash flows provided by (used in) financing activities	244	(1,719)
Increase in cash and cash equivalents	2,354	9,041
Cash and cash equivalents at beginning of period	26,409	9,013
Cash and cash equivalents at end of period	$28,763	$18,054

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

LSI INDUSTRIES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 - INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements are unaudited and are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the interim financial statements include all normal adjustments and disclosures necessary to present fairly the Company's financial position as of December 31, 2015, the results of its operations for the three and six month periods ended December 31, 2015 and 2014, and its cash flows for the six month periods ended December 31, 2015 and 2014. These statements should be read in conjunction with the financial statements and footnotes included in the fiscal 2015 Annual Report on Form 10-K. Financial information as of June 30, 2015 has been derived from the Company's audited consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation:

The condensed consolidated financial statements include the accounts of LSI Industries Inc. (an Ohio corporation) and its subsidiaries (collectively, the "Company"), all of which are wholly owned. All intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition:

Revenue is recognized when title to goods and risk of loss have passed to the customer, there is persuasive evidence of a purchase arrangement, delivery has occurred or services have been rendered, and collectability is reasonably assured. Revenue is typically recognized at time of shipment. In certain arrangements with customers, as is the case with the sale of some of our solid-state LED video screens, revenue is recognized upon customer acceptance of the video screen at the job site. Sales are recorded net of estimated returns, rebates and discounts. Amounts received from customers prior to the recognition of revenue are accounted for as customer pre-payments and are included in accrued expenses.

The Company has five sources of revenue: revenue from product sales; revenue from installation of products; service revenue generated from providing integrated design, project and construction management, site engineering and site permitting; revenue from the management of media content and digital hardware related to active digital signage; and revenue from shipping and handling.

Product revenue is recognized on product-only orders upon passing of title and risk of loss, generally at time of shipment. However, product revenue related to orders where the customer requires the Company to install the product is recognized when the product is installed. The company provides product warranties and certain post-shipment service, support and maintenance of certain solid state LED video screens and billboards.

Installation revenue is recognized when the products have been fully installed. The Company is not always responsible for installation of products it sells and has no post-installation responsibilities, other than normal warranties.

Service revenue from integrated design, project and construction management, and site permitting is recognized when all products at each customer site have been installed.

Revenue from the management of media content and digital hardware related to active digital signage is recognized evenly over the service period with the customer. Media content service periods with most customers range from 1 month to 1 year.

Shipping and handling revenue coincides with the recognition of revenue from the sale of the product.

In situations where the Company is responsible for re-imaging programs with multiple sites, each site is viewed as a separate unit of accounting and has stand-alone value to the customer. Revenue is recognized upon the Company’s complete performance at the location, which may include a site survey, graphics products, lighting products, and installation of products. The selling price assigned to each site is based upon an agreed upon price between the Company and its customer and reflects the estimated selling price for that site relative to the selling price for sites with similar image requirements.

The Company also evaluates the appropriateness of revenue recognition in accordance with the accounting standard on software revenue recognition. Our solid-state LED video screens, billboards and active digital signage contain software elements which the Company has determined are incidental.

Credit and Collections:

The Company maintains allowances for doubtful accounts receivable for probable estimated losses resulting from either customer disputes or the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in their inability to make the required payments, the Company may be required to record additional allowances or charges against income. The Company determines its allowance for doubtful accounts by first considering all known collectability problems of customers' accounts, and then applying certain percentages against the various aging categories based on the due date of the remaining receivables. The resulting allowance for doubtful accounts receivable is an estimate based upon the Company's knowledge of its business and customer base, and historical trends. The Company also establishes allowances, at the time revenue is recognized, for returns, discounts, pricing and other possible customer deductions. These allowances are based upon historical trends.

The following table presents the Company's net accounts receivable at the dates indicated.

(In thousands)	December 31, 2015	June 30, 2015
Accounts receivable	$ 43,494	$ 43,978
Less: Allowance for doubtful accounts	(372)	(317)
Accounts receivable, net	$ 43,122	$ 43,661

Cash and Cash Equivalents:

The cash balance includes cash and cash equivalents which have original maturities of less than three months. The Company maintains balances at financial institutions in the United States. The FDIC limit for insurance coverage on non-interest bearing accounts is $250,000. As of December 31, 2015 and June 30, 2015, the Company had bank balances of $31,602,000 and $28,494,000, respectively, without insurance coverage.

Inventories:

Inventories are stated at the lower of cost or market. Cost of inventories includes the cost of purchased raw materials and components, direct labor, as well as manufacturing overhead which is generally applied to inventory based on direct labor and material content. Cost is determined on the first-in, first-out basis.

Property, Plant and Equipment and Related Depreciation:

Property, plant and equipment are stated at cost. Major additions and betterments are capitalized while maintenance and repairs are expensed. For financial reporting purposes, depreciation is computed on the straight-line method over the estimated useful lives of the assets as follows:

Buildings (in years)	28 - 40
Machinery and equipment (in years)	3 - 10
Computer software (in years)	3 - 8

Costs related to the purchase, internal development, and implementation of the Company's fully integrated enterprise resource planning/business operating software system are either capitalized or expensed in accordance with accounting guidance on internal use software. Leasehold improvements are amortized over the shorter of fifteen years or the remaining term of the lease.

The Company recorded $1,471,000 and $1,425,000 of depreciation expense in the second quarter of fiscal 2016 and 2015, respectively, and $2,921,000 and $2,863,000 of depreciation expense in the first half of fiscal 2016 and 2015, respectively.

Intangible Assets:

Intangible assets consisting of customer relationships, trade names and trademarks, patents, technology and software, and non-compete agreements are recorded on the Company's balance sheet. The definite-lived intangible assets are being amortized to expense over periods ranging between five and twenty years. The Company evaluates definite-lived intangible assets for permanent impairment when triggering events are identified. Neither indefinite-lived intangible assets nor the excess of cost over fair value of assets acquired ("goodwill") are amortized, however they are subject to review for impairment. See additional information about goodwill and intangibles in Note 7.

Fair Value:

The Company has financial instruments consisting primarily of cash and cash equivalents, revolving lines of credit, and on occasion, long-term debt. The fair value of these financial instruments approximates carrying value because of their short-term maturity and/or variable, market-driven interest rates. The Company has no financial instruments with off-balance sheet risk.

Fair value measurements of nonfinancial assets and nonfinancial liabilities are primarily used in goodwill and other intangible asset impairment analyses, in the purchase price of acquired companies (if any), and in the valuation of the contingent earn-out. The accounting guidance was used to measure the fair value of these nonfinancial assets and nonfinancial liabilities.

Product Warranties:

The Company offers a limited warranty that its products are free from defects in workmanship and materials. The specific terms and conditions vary somewhat by product line, but generally cover defective products returned within one to five years, with some exceptions where the terms extend to 10 years, from the date of shipment. The Company records warranty liabilities to cover the estimated future costs for repair or replacement of defective returned products as well as products that need to be repaired or replaced in the field after installation. The Company calculates its liability for warranty claims by applying estimates to cover unknown claims, as well as estimating the total amount to be incurred for known warranty issues. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes in the Company's warranty liabilities, which are included in accrued expenses in the accompanying consolidated balance sheets, during the periods indicated below were as follows:

(In thousands)	Six Months Ended December 31, 2015	Six Months Ended December 31, 2014	Fiscal Year Ended June 30, 2015
Balance at beginning of the period	$ 3,408	$ 2,662	$ 2,662
Additions charged to expense	2,259	1,557	3,185
Deductions for repairs and replacements	(1,357)	(971)	(2,439)
Balance at end of the period	$ 4,310	$ 3,248	$ 3,408

Research and Development Costs:

Research and development expenses are costs directly attributable to new product development, including the development of new technology for both existing and new products, and consist of salaries, payroll taxes, employee benefits, materials, outside legal costs and filing fees related to obtaining patents, supplies, depreciation and other administrative costs. The Company expenses as research and development all costs associated with development of software used in solid-state LED products. All costs are expensed as incurred and are included in selling and administrative expenses. Research and development costs related to both product and software development totaled $1,320,000 and $1,450,000 for the three months ended December 31, 2015 and 2014, respectively, and $2,631,000 and $3,301,000 for the six months ended December 31, 2015 and 2014, respectively.

Cost of Products and Services Sold:

Cost of products sold is primarily comprised of direct materials and supplies consumed in the manufacture of products, as well as manufacturing labor, depreciation expense and direct overhead expense necessary to acquire and convert the purchased materials and supplies into finished product. Cost of products sold also includes the cost to distribute products to customers, inbound freight costs, internal transfer costs, warehousing costs and other shipping and handling activity. Cost of services sold is primarily comprised of the internal and external labor costs required to support the Company’s service revenue along with the management of media content.

Earnings Per Common Share:

The computation of basic earnings per common share is based on the weighted average common shares outstanding for the period net of treasury shares held in the Company’s non-qualified deferred compensation plan. The computation of diluted earnings per share is based on the weighted average of common shares outstanding for the period and includes common share equivalents. Common share equivalents include the dilutive effect of stock options, restricted stock units, contingently issuable shares and common shares to be issued under a deferred compensation plan, all of which totaled 987,000 shares and 383,000 shares for the three months ended December 31, 2015 and 2014, respectively, and 836,000 shares and 383,000 shares for the six months ended December 31, 2015 and 2014, respectively See further discussion of earnings per common share in Note 4.

New Accounting Pronouncements:

In June 2014, the Financial Accounting Standards Board issued ASU 2014-09, "Revenue from Contracts with Customers." This amended guidance supersedes and replaces all existing U.S. GAAP revenue recognition guidance. The guidance established a new revenue recognition model, changes the basis for deciding when revenue is recognized over a point in time, provides new and more detailed guidance on specific revenue topics, and expands and improves disclosures about revenue. The amended guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2017, or the Company's fiscal year 2019. The Company has not yet determined the impact the amended guidance will have on its financial statements.

In July 2015, the Financial Accounting Standards Board issued ASU 2015-11, "Simplifying the Measurement of Inventory." The amended guidance requires an entity to measure in scope inventory at lower of cost and net realizable value. The amended guidance is effective for fiscal years beginning after December 15, 2016, or the Company's fiscal year 2018, with early adoption permitted.

In December 2015, the Financial Accounting Standards Board issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes." The amended guidance eliminates the requirements for organizations to present deferred tax liabilities and assets as current and noncurrent. Instead, all deferred tax assets and liabilities will be classified as noncurrent. The amended guidance is effective for financial statements issued for fiscal years and interim periods within those years, beginning after December 15, 2016, or the Company's fiscal year 2018, with early adoption permitted.

Comprehensive Income:

The Company does not have any comprehensive income items other than net income. The functional currency of the Company's former Canadian operation was the U.S. dollar.

Subsequent Events:

The Company has evaluated subsequent events for potential recognition and disclosure through the date the condensed consolidated financial statements were filed. No items were identified during this evaluation that required adjustment to or disclosure in the accompanying financial statements.

Use of Estimates:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 3 - SEGMENT REPORTING INFORMATION

The accounting guidance on segment reporting establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information of those segments to be presented in financial statements. Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision maker (the Company's Chief Executive Officer or "CODM") in making decisions on how to allocate resources and assess performance. In the third quarter of fiscal 2015, the Company realigned its operating segments to be in alignment with the financial information received by the then new Chief Executive Officer. The Company's three operating segments are Lighting, Graphics, and Technology, each of which has a president who is responsible for that business and reports to the CODM. An All Other Category as well as Corporate and Eliminations will also be reported in the segment information. As a result of the realignment of the Company's operating segments in the third quarter of fiscal 2015, all prior period segment information has been revised so as to be comparable with the new segment reporting structure.

The changes made and realignment of the Company's operating segments involved the following:

1) The segment formerly known as the Electronic Components Segment was renamed as the Technology Segment.
2) The LED Video Screen product line was moved out of the Lighting Segment and into the Technology Segment.
3) The Company's installation management business (LSI Adapt) and the menu board business (LSI Images) were moved out of the All Other Category and into the Graphics Segment.

The Lighting Segment includes outdoor, indoor, and landscape lighting utilizing both traditional and LED light sources, that have been fabricated and assembled for the commercial, industrial and multi-site retail lighting markets, the Company’s primary niche markets (petroleum / convenience store market, automotive dealership market, and quick service restaurant market).

The Graphics Segment designs, manufactures and installs exterior and interior visual image elements related to traditional graphics, active digital signage along with the management of media content related to digital signage, and menu board systems that are either digital or traditional by design. These products are used in visual image programs in several markets, including the petroleum / convenience store market, multi-site retail operations, banking, and restaurants. The Graphics Segment implements, installs and provides program management services related to products sold by the Graphics Segment and by the Lighting Segment.

The Technology Segment designs and manufactures electronic circuit boards, assemblies and sub-assemblies, various control system products used in other applications (including the control of solid-state LED lighting and metal halide lighting), and solid state LED video screens, scoreboards and advertising ribbon boards. This operating segment sells its products directly to customers (primarily in the transportation, original equipment manufacturers and medical markets) and also has significant inter-segment sales to the Lighting Segment.

The All Other Category includes only the Company’s former subsidiary that designed and produced high-performance light engines, large format video screens using solid-state LED technology, and certain specialty LED lighting. This subsidiary was sold on September 30, 2014 (See Note 13).

The Company’s corporate administration activities are reported in a line item titled Corporate and Eliminations. This primarily includes intercompany profit in inventory eliminations, expense related to certain corporate officers and support staff, the Company’s internal audit staff, expense related to the Company’s Board of Directors, stock option expense for options granted to corporate administration employees, certain consulting expenses, investor relations activities, and a portion of the Company’s legal, auditing and professional fee expenses. Corporate identifiable assets primarily consist of cash, invested cash (if any), refundable income taxes, and deferred income tax assets.

The Company’s Lighting Segment and Graphics Segment net sales to a petroleum / convenience store customer represented approximately $17,045,000 or 10% of consolidated net sales in the six months ended December 31, 2015. There was no concentration of consolidated net sales in the three months ended December 31, 2015 or in the three and six months ended December 31, 2014. The Company’s Graphics Segment accounts receivable balance related to this customer at December 31, 2015 was $4,690,000 or 11% of consolidated net accounts receivable. There was no concentration of accounts receivable at June 30, 2015.

Summarized financial information for the Company’s operating segments is provided for the indicated periods and as of December 31, 2015 and December 31, 2014:

(In thousands)	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2015	2014	2015	2014
Net Sales:				
Lighting Segment	$59,601	$59,796	$118,676	$115,517
Graphics Segment	21,034	20,269	42,787	36,293
Technology Segment	4,052	4,650	9,149	11,330
All Other Category	--	--	--	41
	$84,687	$84,715	$170,612	$163,181
Operating Income (Loss):				
Lighting Segment	$5,182	$4,090	$10,864	$8,317
Graphics Segment	2,035	1,065	4,196	1,118
Technology Segment	993	499	2,333	1,131
All Other Category	--	--	--	(183)
Corporate and Eliminations	(2,830)	(3,430)	(6,250)	(5,625)
	$5,380	$2,224	$11,143	$4,758
Capital Expenditures:				
Lighting Segment	$1,160	$599	$1,849	$1,181
Graphics Segment	604	533	1,109	867
Technology Segment	108	241	224	285
All Other Category	--	--	--	4
Corporate and Eliminations	150	61	202	67
	$2,022	$1,434	$3,384	$2,404
Depreciation and Amortization:				
Lighting Segment	$717	$729	$1,422	$1,451
Graphics Segment	213	256	428	506
Technology Segment	364	325	719	663
All Other Category	--	--	--	31

Corporate and Eliminations	304	242	605	487
	$1,598	$1,552	$3,174	$3,138

	December 31, 2015	June 30, 2015
Identifiable Assets:		
Lighting Segment	$87,209	$90,713
Graphics Segment	36,306	29,477
Technology Segment	29,956	28,423
All Other Category	--	--
Corporate and Eliminations	34,063	33,766
	$187,534	$182,379

The segment net sales reported above represent sales to external customers. Segment operating income, which is used in management's evaluation of segment performance, represents net sales less all operating expenses including impairment of goodwill, but excluding interest expense and interest income. Identifiable assets are those assets used by each segment in its operations. Corporate identifiable assets primarily consist of cash, invested cash (if any), refundable income taxes, and deferred income tax assets.

The Company records a 10% mark-up on intersegment revenues. Any intersegment profit in inventory is eliminated in consolidation. Intersegment revenues were eliminated in consolidation as follows:

	Three Months Ended		Six Months Ended	
	December 31		December 31	
(In thousands)	2015	2014	2015	2014
Lighting Segment inter-segment net sales	$814	$445	$1,428	$1,497
Graphics Segment inter-segment net sales	$562	$125	$1,006	$256
Technology inter-segment net sales	$8,932	$7,675	$18,316	$14,947
All Other Category inter-segment net sales	$--	$--	$--	$308

The Company considers its geographic areas to be: 1) the United States, and 2) Canada. The Company's operations are in the United States, with one operation previously in Canada. As a result of the sale of a subsidiary on September 30, 2014, the Company no longer has a presence in Canada (See Note 13). The geographic distribution of the Company's net sales and long-lived assets are as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2015	2014	2015	2014
Net Sales (a):				
United States	$84,687	$84,715	$170,612	$163,140

Canada	--	--	--	41
	$84,687	$84,715	$170,612	$163,181

	December 31, 2015	June 30, 2015
Long-lived Assets (b):		
United States	$ 45,395	$44,965
Canada	--	--
	$ 45,395	$44,965

a. Net sales are attributed to geographic areas based upon the location of the operation making the sale.

b. Long-lived assets include property, plant and equipment, and other long-term assets. Goodwill and intangible assets are not included in long-lived assets.

NOTE 4 - EARNINGS PER COMMON SHARE

The following table presents the amounts used to compute basic and diluted earnings per common share, as well as the effect of dilutive potential common shares on weighted average shares outstanding (in thousands, except per share data) :

	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2015	2014	2015	2014
BASIC EARNINGS PER SHARE				
Net income	$3,782	$1,588	$7,532	$3,115
Weighted average shares outstanding during the period, net of treasury shares (a)	24,637	24,124	24,569	24,123
Weighted average vested restricted stock units outstanding	25	--	26	--
Weighted average shares outstanding in the Deferred Compensation Plan during the period	249	325	243	319
Weighted average shares outstanding	24,911	24,449	24,838	24,442
Basic earnings per share	$0.15	$0.06	$0.30	$0.13
DILUTED EARNINGS PER SHARE				
Net income	$3,782	$1,588	$7,532	$3,115
Weighted average shares outstanding				
Basic	24,911	24,449	24,838	24,442
Effect of dilutive securities (b): Impact of common shares to be issued under stock option plans, and contingently issuable shares, if any	713	58	567	64
Weighted average shares outstanding (c)	25,624	24,507	25,405	24,506
Diluted earnings per share	$0.15	$0.06	$0.30	$0.13

(a) Includes shares accounted for as treasury stock according to accounting standards.

(b) Calculated using the “Treasury Stock” method as if dilutive securities were exercised and the funds were used to purchase common shares at the average market price during the period.

(c) Options to purchase 1,115,250 common shares and 2,377,900 common shares at December 31, 2015 and 2014, respectively, and options to purchase 1,506,800 common shares and 2,371,900 common shares at December 31, 2015 and 2014, respectively, were not included in the computation of the three month and six month periods for diluted earnings per share, respectively, because the exercise price was greater than the average fair market value of the common shares.

NOTE 5 – INVENTORIES

The following information is provided as of the dates indicated:

(In thousands)	December 31, 2015	June 30, 2015
Inventories:		
Raw materials	$ 27,414	$ 27,920
Work-in-process	4,498	4,658
Finished goods	13,973	10,505
Total Inventories	$ 45,885	$ 43,083

NOTE 6 - ACCRUED EXPENSES

The following information is provided as of the dates indicated:

(In thousands)	December 31, 2015	June 30, 2015
Accrued Expenses:		
Compensation and benefits	$ 11,097	$ 11,614
Customer prepayments	1,762	1,324
Accrued sales commissions	2,021	1,982
Accrued warranty	4,310	3,408
Other accrued expenses	4,117	3,798
Total Accrued Expenses	$ 23,307	$ 22,126

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

Carrying values of goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment in accordance with the accounting standard on goodwill and intangible assets. The Company may first assess qualitative factors in order to determine if goodwill and indefinite-lived intangible assets are impaired. If through the qualitative assessment it is determined that it is more likely than not that goodwill and indefinite-lived assets are not impaired, no further testing is required. If it is determined more likely than not that goodwill and indefinite-lived assets are impaired, or if the Company elects not to first assess qualitative factors, the Company's impairment testing continues with the estimation of the fair value of goodwill and indefinite-lived intangible assets using a combination of a market approach and an income (discounted cash flow) approach, at the reporting unit level, that requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease an impairment charge. Company management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as adverse business conditions, economic factors and technological change or competitive activities may signal that an asset has become impaired.

The Company identified its reporting units in conjunction with its annual goodwill impairment testing. The Company relies upon a number of factors, judgments and estimates when conducting its impairment testing. These include operating results, forecasts, anticipated future cash flows and marketplace data, to name a few. There are inherent uncertainties related to these factors and judgments in applying them to the analysis of goodwill impairment.

The following table presents information about the Company's goodwill on the dates or for the periods indicated:

Goodwill *(In thousands)*	Lighting Segment	Graphics Segment	Technology Segment	All Other Category	Total
Balance as of June 30, 2015					
Goodwill	$34,913	$28,690	$ 11,621	$ --	$75,224
Accumulated impairment losses	(34,778)	(27,525)	(2,413)	--	(64,716)
Goodwill, net as of June 30, 2015	$135	$1,165	$ 9,208	$ --	$10,508
Balance as of December 31, 2015					
Goodwill	$34,913	28,690	11,621	--	75,224
Accumulated impairment losses	(34,778)	(27,525)	(2,413)	--	(64,716)
Goodwill, net as of December 31, 2015	$135	1,165	9,208	$ --	$10,508

In the first quarter of fiscal 2015, the Company sold LSI Saco Technologies Inc. A customer relationship intangible asset with a gross carrying amount of $1,036,000 and accumulated amortization of $428,000 was sold as a result of the sale of LSI Saco Technologies (See Note 13).

The gross carrying amount and accumulated amortization by major other intangible asset class is as follows:

Other Intangible Assets *(In thousands)*	December 31, 2015 Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			
Customer relationships	$9,316	7,436	1,880
Patents	338	136	202
LED technology firmware, software	11,228	10,950	278
Trade name	460	460	--
Non-compete agreements	710	653	57
Total Amortized Intangible Assets	22,052	19,635	2,417
Indefinite-lived Intangible Assets			
Trademarks and trade names	3,422	--	3,422
Total Indefinite-lived Intangible Assets	3,422	--	3,422
Total Other Intangible Assets	$25,474	19,635	5,839

Other Intangible Assets *(In thousands)*	June 30, 2015 Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			
Customer relationships	$9,316	$ 7,290	$2,026
Patents	338	120	218
LED technology firmware, software	11,228	10,910	318
Trade name	460	460	--
Non-compete agreements	710	602	108
Total Amortized Intangible Assets	22,052	19,382	2,670
Indefinite-lived Intangible Assets			
Trademarks and trade names	3,422	--	3,422
Total Indefinite-lived Intangible Assets	3,422	--	3,422
Total Other Intangible Assets	$25,474	$ 19,382	$6,092

(In thousands)	Amortization Expense of Other Intangible Assets	
	December 31, 2015	December 31, 2014
Three Months Ended	$127	$ 127
Six Months Ended	$253	$ 275

The Company expects to record annual amortization expense as follows:

(In thousands)	
2016	$505

2017	$409
2018	$400
2019	$400
2020	$327
After 2020	$629

NOTE 8 - REVOLVING LINE OF CREDIT

In March 2015, the Company renewed its $30 million unsecured revolving credit line. The line of credit expires in the third quarter of fiscal 2018. Interest on the revolving line of credit is charged based upon an increment over the LIBOR rate as periodically determined, or at the bank's base lending rate, at the Company's option. The increment over the LIBOR borrowing rate, as periodically determined, fluctuates between 150 and 190 basis points depending upon the ratio of indebtedness to earnings before interest, taxes, depreciation and amortization ("EBITDA"), as defined in the credit facility. The fee on the unused balance of the $30 million committed line of credit is 12.5 basis points. Under the terms of this credit facility, the Company has agreed to a negative pledge of assets and is required to comply with financial covenants that limit the amount of debt obligations, require a minimum amount of tangible net worth, and limit the ratio of indebtedness to EBITDA. There are no borrowings against the line of credit as of December 31, 2015.

The Company is in compliance with all of its loan covenants as of December 31, 2015.

NOTE 9 - CASH DIVIDENDS

The Company paid cash dividends of $1,721,000 and $1,688,000 in the six months ended December 31, 2015 and 2014, respectively. Dividends on restricted stock units in the amount of $4,690 were accrued in the six months ended December 31, 2015. These dividends will be paid upon the vesting of the restricted stock units when shares are issued to the award recipients. In January 2016, the Board of Directors declared a regular quarterly cash dividend of $0.05 per share payable February 16, 2016 to shareholders of record as of February 8, 2016. The new indicated annual cash dividend rate is $0.20 per share.

NOTE 10 - EQUITY COMPENSATION

Stock Based Compensation

The Company has an equity compensation plan that was approved by shareholders in November 2012 and that covers all of its full-time employees, outside directors and certain advisors. This 2012 Stock Incentive Plan replaced all previous equity compensation plans of the Company. The options granted and stock awards made pursuant to this Plan are granted at fair market value at the date of grant or award. Service-based options granted to non-employee directors become exercisable 25% each ninety days (cumulative) from the date of grant and options granted to employees generally become exercisable 25% per year (cumulative) beginning one year after the date of grant. Performance-based options granted to employees become exercisable 33.3% per year (cumulative) beginning one year after the date of grant. The maximum contractual term of the Company's stock options is ten years. If a stock option holder's employment with the Company terminates by reason of death, disability or retirement, as defined in the Plan, the Plan generally provides for acceleration of vesting. The number of shares reserved for issuance is 1,522,593 shares, all of which were available for future grant or award as of December 31, 2015. This Plan allows for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted and unrestricted stock awards, performance stock awards, and other stock awards. Service based and performance based stock options were granted and restricted stock units ("RSUs") were awarded during the six months ended December 31, 2015. As of December 31, 2015, a total of 3,340,462 options for common shares were outstanding from this Plan as well as one previous stock option plan (which has also been approved by shareholders), and of these, a total of 1,628,976 options for common shares were vested and exercisable. As of December 31, 2015, the approximate unvested stock option expense that will be recorded as expense in future periods is $3,110,463. The weighted average time over which this expense will be recorded is approximately 32 months. Additionally, as of December 31, 2015 a total of 67,000 RSUs were outstanding. The approximate unvested stock compensation expense that will be recorded as expense in future periods for the RSUs is $332,454. The weighted average time over which this expense will be recorded is approximately 36 months.

Stock Options

The fair value of each option on the date of grant was estimated using the Black-Scholes option pricing model. The below listed weighted average assumptions were used for grants in the periods indicated.

	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2015	2014	2015	2014
Dividend yield	1.33%	1.17%	1.28%	1.17%
Expected volatility	43 %	56 %	44 %	56 %
Risk-free interest rate	1.38%	1.64%	1.67%	1.64%
Expected life (in years)	6.0	6.0	6.0	6.0

At December 31, 2015, the 1,016,800 options granted during the first six months of fiscal 2016 to employees had exercise prices ranging from $8.84 to $11.82 per share, fair values ranging from $3.28 to $4.48 per share, and remaining contractual lives of between nine years, six months and nine years, eleven months.

At December 31, 2014, the 593,400 options granted during the first six months of fiscal 2015 to employees had exercise prices ranging from $5.96 to $6.94 per share, fair values ranging from $2.19 to $3.48 per share, and remaining contractual lives of between nine years, nine months and nine years, eleven months.

The Company calculates stock option expense using the Black-Scholes model. Stock option expense is recorded on a straight line basis, or sooner if the grantee is retirement eligible as defined in the 2012 Stock Incentive Plan, with an estimated 3.1% forfeiture rate effective October 1, 2015. Previous estimated forfeiture rates were between 2.0% and 3.3% for the period January 1, 2013 through September 30, 2015. The expected volatility of the Company's stock was calculated based upon the historic monthly fluctuation in stock price for a period approximating the expected life of option grants. The risk-free interest rate is the rate of a five year Treasury security at constant, fixed maturity on the approximate date of the stock option grant. The expected life of outstanding options is determined to be less than the contractual term for a period equal to the aggregate group of option holders' estimated weighted average time within which options will be exercised. It is the Company's policy that when stock options are exercised, new common shares shall be issued. The Company recorded $342,134 and $796,192 of expense related to stock options in the three months ended December 31, 2015 and 2014, respectively, and $1,830,707 and $881,825 of expense related to stock options in the six months ended December 31, 2015 and 2014, respectively. As of December 31, 2015, the Company had 3,287,071 stock options that were vested and that were expected to vest, with a weighted average exercise price of $9.12 per share, an aggregate intrinsic value of $12,468,545 and weighted average remaining contractual terms of 6.8 years.

Information related to all stock options for the three months ended December 31, 2015 and 2014 is shown in the following tables:

	Six Months Ended December 31, 2015			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at 6/30/15	2,677,436	$ 8.85	6.1	$4,914,601
Granted	1,016,800	$ 9.38		
Forfeitures	(55,050)	$ 11.65		
Exercised	(298,724)	$ 7.20		
Outstanding at 12/31/15	3,340,462	$ 9.11	6.8	$12,661,470
Exercisable at 12/31/15	1,628,976	$ 9.95	4.5	$6,032,985

Six Months Ended December 31, 2014

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at 6/30/14	2,677,464	$ 9.57	5.4	$1,674,010
Granted	593,400	$ 6.66		
Forfeitures	(378,525)	$ 9.99		
Exercised	(24,725)	$ 5.84		