LSI INDUSTRIES INC
Form 10-Q
May 01, 2015

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 MARCH 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 April 27, 2015 there were 24,238,684 shares of the Registrant's common stock, no par value per share, outstanding.

LSI INDUSTRIES INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 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)

	Three Months Ended March 31		Nine Months Ended March 31	
(In thousands, except per share data)	2015	2014	2015	2014
Net sales	$68,603	$68,996	$231,784	$225,605
Cost of products and services sold	52,298	55,281	176,316	176,011
Gross profit	16,305	13,715	55,468	49,594
Loss on sale of subsidiary (see Note 13)	--	--	565	--
Gain on sale of building	--	--	(343)	--
Selling and administrative expenses	15,723	14,661	49,906	46,190
Operating income (loss)	582	(946)	5,340	3,404
Interest (income)	(8)	(2)	(17)	(16)
Interest expense	11	19	34	57
Income (loss) before income taxes	579	(963)	5,323	3,363
Income tax expense	186	46	1,815	1,637

Net income (loss)	$393	$(1,009)	$3,508	$1,726
Earnings (loss) per common share (see Note 4)				
Basic	$0.02	$(0.04)	$0.14	$0.07
Diluted	$0.02	$(0.04)	$0.14	$0.07
Weighted average common shares outstanding				
Basic	24,528	24,401	24,470	24,376
Diluted	24,643	24,401	24,550	24,545

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)	March 31, 2015	June 30, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$27,966	$9,013
Accounts receivable, less allowance for doubtful accounts of $438 and $294, respectively	35,403	42,753
Inventories	42,583	45,408
Refundable income taxes	29	1,973
Asset held for sale	--	611
Other current assets	6,282	6,319
Total current assets	112,263	106,077
Property, Plant and Equipment, at cost		
Land	6,952	6,918
Buildings	37,613	37,027
Machinery and equipment	76,300	75,533
Construction in progress	611	221
	121,476	119,699
Less accumulated depreciation	(78,091)	(75,417)
Net property, plant and equipment	43,385	44,282
Goodwill	10,508	10,508
Other Intangible Assets, net	6,219	7,227

Other Long-Term Assets, net	1,823	1,794
Total assets	$174,198	$169,888

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)	March 31, 2015	June 30, 2014
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$11,900	$13,658
Accrued expenses	19,270	15,631
Total current liabilities	31,170	29,289
Other Long-Term Liabilities	1,592	2,187
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 24,232,699 and 24,122,284 shares, respectively	105,752	104,064
Retained earnings	35,684	34,348
Total shareholders' equity	141,436	138,412
Total liabilities & shareholders' equity	$174,198	$169,888

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)	Nine Months Ended March 31	
	2015	2014
Cash Flows from Operating Activities		
Net income	$3,508	$1,726
Non-cash items included in net income		
Depreciation and amortization	4,728	4,583
Deferred income taxes	(584)	284
Deferred compensation plan	62	57
Stock option expense	1,153	896
Issuance of common shares as compensation	144	144
(Gain) on disposition of building	(343)	--
(Gain) on disposition of fixed assets	(2)	(18)
Loss on sale of subsidiary	565	--
Allowance for doubtful accounts	268	88
Inventory obsolescence reserve	1,093	973
Changes in certain assets and liabilities:		
Accounts receivable	6,579	8,442
Inventories	901	(5,459)
Refundable income taxes	1,885	365
Accounts payable	(1,884)	(534)
Accrued expenses and other	4,340	(1,782)
Customer prepayments	(625)	1,064
Net cash flows provided by operating activities	21,788	10,829
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(3,439)	(4,528)
Proceeds from sale of subsidiary, net of cash sold	1,494	--
Proceeds from sale of fixed assets	953	250
Net cash flows (used in) investing activities	(992)	(4,278)
Cash Flows from Financing Activities		
Cash dividends paid	(2,172)	(4,333)
Proceeds and tax benefits from exercises of stock options	401	351

Purchase of treasury shares	(165)	(166)
Issuance of treasury shares	93	64
Net cash flows (used in) financing activities	(1,843)	(4,084)
Increase in cash and cash equivalents	18,953	2,467
Cash and cash equivalents at beginning of period	9,013	7,949
Cash and cash equivalents at end of period	$27,966	$10,416

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 March 31, 2015, the results of its operations for the three and nine month periods ended March 31, 2015 and 2014, and its cash flows for the nine month periods ended March 31, 2015 and 2014. These statements should be read in conjunction with the financial statements and footnotes included in the fiscal 2014 Annual Report on Form 10-K. Financial information as of June 30, 2014 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 from product sales 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 (light emitting diode) 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 sale of the product.

The Company evaluates the appropriateness of revenue recognition in accordance with Accounting Standards Codification ("ASC") Subtopic 605-25, "Revenue Recognition: Multiple–Element Arrangements." 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 ASC Subtopic 985-605, "Software: Revenue Recognition." Our solid-state LED video screens, billboards and active digital signage contain software elements which the Company has determined are incidental and excluded from the scope of ASC Subtopic 985-605.

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)	March 31, 2015	June 30, 2014
Accounts receivable	$35,841	$43,047
less Allowance for doubtful accounts	(438)	(294)
Accounts receivable, net	$35,403	$42,753

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 March 31, 2015 and June 30, 2014, the Company had bank balances of $29,925,000 and $12,367,000, respectively, without insurance coverage. Of these amounts, $741,000 was held in foreign bank accounts as of June 30, 2014. As a result of the sale of LSI Saco Technologies Inc., there are no longer cash accounts in foreign banks as of March 31, 2015 (See Note 13).

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	28 - 40 years
Machinery and equipment	3 - 10 years
Computer software	3 - 8 years

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 ASC Subtopic 350-40, "Intangibles – Goodwill and Other: Internal-Use Software." Leasehold improvements are amortized over the shorter of fifteen years or the remaining term of the lease.

The Company recorded $1,465,000 and $1,409,000 of depreciation expense in the third quarter of fiscal 2015 and 2014, respectively, and $4,328,000 and $3,972,000 of depreciation expense in the first nine months of fiscal 2015 and 2014, 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 fair value measurement of these nonfinancial assets and nonfinancial liabilities is based on significant inputs not observable in the market and thus represent Level 3 measurements as defined in ASC 820, "Fair Value Measurement."

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)	Nine Months Ended March 31, 2015	Nine Months Ended March 31, 2014	Fiscal Year Ended June 30, 2014
Balance at beginning of the period	$2,662	$1,424	$1,424
Additions charged to expense	2,588	2,395	3,816
Deductions for repairs and replacements	(1,799)	(1,871)	(2,578)
Sale of subsidiary	(3)	--	--
Balance at end of the period	$3,448	$1,948	$2,662

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, supplies, depreciation and other administrative costs. The Company follows the requirements of ASC Subtopic 985-20, “Software: Costs of Software to be Sold, Leased, or Marketed,” and 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 $1,096,000 and $1,973,000 for the three months ended March 31, 2015 and 2014, respectively, and $4,397,000 and $6,054,000 for the nine months ended March 31, 2015 and 2014, respectively.

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, contingently issuable shares and common shares to be issued under a deferred compensation plan, all of which totaled 440,000 shares and 306,000 shares for the three months ended March 31, 2015 and 2014, respectively, and 401,000 shares and 472,000 shares for the nine months ended March 31, 2015 and 2014, respectively. See further discussion of earnings per share in Note 4.

New Accounting Pronouncements:

In July 2013, the Financial Accounting Standards Board issued ASU 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” This amended guidance is intended to eliminate the diversity that is in practice with regard to the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amended guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2013, or the Company’s fiscal year 2015, with early adoption permissible. The adoption of this guidance did not have a material impact on the financial statements.

In September 2013, the Internal Revenue Service issued Treasury Decision 9636, which enacted final tax regulations regarding the capitalization and expensing of amounts paid to acquire, produce, or improve tangible property. The regulations also include guidance regarding the retirement of depreciable property. The regulations are required to be effective in taxable years beginning on or after January 1, 2014, or the Company's fiscal year 2015. The Company has reviewed the impact of the final regulations and the anticipated impact to the financial statements is not material.

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, 2016, or the Company's fiscal year 2018. The Company has not yet determined the impact the amended guidance will have on its financial statements.

Comprehensive Income:

The Company does not have any comprehensive income items other than net income (loss). 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

ASC Topic 280, “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. With a new Chief Executive Officer and a new view on how the Company will be managed, the Company has realigned its operating segments to be in alignment with the financial information now received by the CODM. 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.

There was no concentration of consolidated net sales in the three or nine months ended March 31, 2015 or 2014. There was no concentration of accounts receivable at March 31, 2015 or June 30, 2014.

Summarized financial information for the Company's operating segments is provided for the indicated periods and as of March 31, 2015 and June 30, 2014:

(In thousands)	Three Months Ended March 31		Nine Months Ended March 31	
	2015	2014	2015	2014
Net Sales:				
Lighting Segment	$48,865	$52,553	$164,382	$167,595
Graphics Segment	13,363	10,638	49,656	40,367
Technology Segment	6,375	5,520	17,705	16,482
All Other Category	--	285	41	1,161
	$68,603	$68,996	$231,784	$225,605
Operating Income (Loss):				
Lighting Segment	$2,913	$2,219	$11,230	$8,680
Graphics Segment	(320)	(1,577)	798	(1,150)
Technology Segment	855	108	1,986	1,628
All Other Category	--	(231)	(183)	(642)
Corporate and Eliminations	(2,866)	(1,465)	(8,491)	(5,112)
	$582	$(946)	$5,340	$3,404
Capital Expenditures:				
Lighting Segment	$319	$1,605	$1,529	$2,792
Graphics Segment	29	127	935	361
Technology Segment	97	72	448	555
All Other Category	--	--	4	39
Corporate and Eliminations	437	3	523	781
	$882	$1,807	$3,439	$4,528
Depreciation and Amortization:				
Lighting Segment	$778	$688	$2,229	$2,062
Graphics Segment	262	246	768	704
Technology Segment	281	395	944	1,163
All Other Category	--	42	31	119
Corporate and Eliminations	269	243	756	535
	$1,590	$1,614	$4,728	$4,583

	March 31, 2015	June 30, 2014
Identifiable Assets:		

Lighting Segment	$84,367	$93,847
Graphics Segment	26,384	24,425
Technology Segment	31,081	33,440
All Other Category	--	2,860
Corporate and Eliminations	32,366	15,316
	$174,198	$169,888

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 March 31		Nine Months Ended March 31	
(In thousands)	2015	2014	2015	2014
Lighting Segment inter-segment net sales	$533	$486	$2,030	$2,379
Graphics Segment inter-segment net sales	$132	$482	$388	$921
Technology Segment inter-segment net sales	$6,788	$8,116	$21,735	$26,070
All Other Category inter-segment net sales	$--	$795	$308	$1,781

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 March 31		Nine Months Ended March 31	
	2015	2014	2015	2014
Net Sales (a):				
United States	$68,603	$68,711	$231,743	$224,444
Canada	--	285	41	1,161
	$68,603	$68,996	$231,784	$225,605

	March 31, 2015	June 30, 2014
Long-lived Assets (b):		
United States	$45,208	$45,886
Canada	--	190
	$45,208	$46,076

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 March 31		Nine Months Ended March 31	
	2015	2014	2015	2014
BASIC EARNINGS (LOSS) PER SHARE				
Net income (loss)	$393	$(1,009)	$3,508	$1,726
Weighted average shares outstanding during the period, net of treasury shares (a)	24,203	24,095	24,149	24,073
Weighted average shares outstanding in the Deferred Compensation Plan during the period	325	306	321	303
Weighted average shares outstanding	24,528	24,401	24,470	24,376
Basic earnings (loss) per share	$0.02	$(0.04)	$0.14	$0.07
DILUTED EARNINGS (LOSS) PER SHARE				
Net income (loss)	$393	$(1,009)	$3,508	$1,726
Weighted average shares outstanding				
Basic	24,528	24,401	24,470	24,376
Effect of dilutive securities (b):				
Impact of common shares to be issued under stock option plans, and contingently issuable shares, if any	115	--	80	169
Weighted average shares outstanding (c)	24,643	24,401	24,550	24,545
Diluted earnings (loss) per share	$0.02	$(0.04)	$0.14	$0.07

(a) Includes shares accounted for like treasury stock in accordance with Accounting Standards Codification Topic 710, Compensation - General.

(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 1,729,273 common shares and 1,235,650 common shares at March 31, 2015 and 2014, respectively, and options to purchase 2,272,823 common shares and 1,687,650 common shares at March 31, 2015 and 2014, respectively, were not included in the computation of the three month and nine 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)	March 31, 2015	June 30, 2014
Inventories:		
Raw materials	$27,832	$30,278
Work-in-process	4,913	5,393
Finished goods	9,838	9,737
Total Inventories	$42,583	$45,408

NOTE 6 - ACCRUED EXPENSES

The following information is provided as of the dates indicated:

(In thousands)	March 31, 2015	June 30, 2014
Accrued Expenses:		
Compensation and benefits	$10,728	$7,134
Customer prepayments	848	1,473
Accrued sales commissions	1,424	1,814
Accrued warranty	3,448	2,662
Other accrued expenses	2,822	2,548
Total Accrued Expenses	$19,270	$15,631

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 ASC Topic 350, “Intangibles – Goodwill and Other.” 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.

As part of the realignment of the Company's operating segments, the reporting units defined in the annual goodwill impairment testing were reassessed and it was determined that the Company has three reporting units that contain goodwill. 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.

As of March 1, 2015, the Company performed its annual goodwill impairment test on the three reporting units that contain goodwill. The preliminary goodwill impairment test in the Lighting Segment passed with a business enterprise value that was $36.2 million or 45% above the carrying value of this reporting unit. The preliminary goodwill impairment test of the one reporting unit with goodwill in the Graphics Segment passed with an estimated business enterprise value that was $4.0 million or 344% above the carrying value of the reporting unit. The preliminary goodwill impairment test of the reporting unit in the Technology Segment that contains goodwill passed with an estimated business enterprise value that was $14.9 million or 58% above the carrying value of this reporting unit. The impairment test is expected to be completed in the fourth quarter of fiscal 2015. It is anticipated that the results of the test will not change when the test is complete.

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, 2014					
Goodwill	$34,913	$28,690	$ 11,621	$ 3,119	$78,343
Accumulated impairment losses	(34,778)	(27,525)	(2,413)	(3,119)	(67,835)
Goodwill, net as of June 30, 2014	135	1,165	9,208	--	10,508
Sale of LSI Saco					
Goodwill	--	--	--	(3,119)	(3,119)
Accumulated impairment losses	--	--	--	3,119	3,119
	--	--	--	--	--
Balance as of March 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, 2014	$135	$1,165	$ 9,208	$ --	$10,508

The Company performed its annual review of indefinite-lived intangible assets as of March 1, 2015 and determined there was no impairment. The preliminary indefinite-lived intangible impairment test passed with a fair market value that was $6.6 million or 192% above its carrying value. The impairment test is expected to be completed in the fourth quarter of fiscal 2015. It is anticipated that the results of the test will not change when the test is complete.

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)*	March 31, 2015 Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			
Customer relationships	$9,316	$ 7,216	$ 2,100
Patents	338	111	227
LED technology firmware, software	11,228	10,891	337

Trade name	460	460	--
Non-compete agreements	710	577	133
Total Amortized Intangible Assets	22,052	19,255	2,797
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	$ 19,255	$ 6,219

	June 30, 2014		
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			
Customer relationships	$10,352	$ 7,412	$2,940
Patents	338	84	254
LED technology firmware, software	11,228	10,832	396
Trade name	460	454	6
Non-compete agreements	710	501	209
Total Amortized Intangible Assets	23,088	19,283	3,805
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	$26,510	$ 19,283	$7,227

(In thousands)	Amortization Expense of Other Intangible Assets	
	March 31, 2015	March 31, 2014
Three Months Ended	$125	$205
Nine Months Ended	$400	$611

The Company expects to record annual amortization expense as follows:

(In thousands)	
2015	$525
2016	$505
2017	$409
2018	$400
2019	$400
After 2019	$958

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 March 31, 2015.

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

NOTE 9 - CASH DIVIDENDS

The Company paid cash dividends of $2,172,000 and $4,333,000 in the nine months ended March 31, 2015 and 2014, respectively. In April 2015, the Board of Directors declared a regular quarterly cash dividend of $0.03 per share payable May 12, 2015 to shareholders of record May 5, 2015. The new indicated annual cash dividend rate is $0.12 per share.

NOTE 10 - EQUITY COMPENSATION

Stock Options

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 replaces all previous equity compensation plans. The options granted or stock awards made pursuant to this plan are granted at fair market value at the date of grant or award. 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. 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 1,311,983 shares, all of which were available for future grant or award as of March 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. As of March 31, 2015, a total of 2,727,387 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 1,650,439 options for common shares were vested and exercisable. As of March 31, 2015, the approximate unvested stock option expense that will be recorded as expense in future periods is $1,467,217. The weighted average time over which this expense will be recorded is approximately 38 months.

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		Nine Months Ended	
March 31		March 31	
2015	2014	2015	2014

Dividend yield	0.83 %	2.84 %	1.11 %	3.32 %
Expected volatility	53 %	60 %	56 %	53 %
Risk-free interest rate	1.57 %	1.71 %	1.63 %	1.66 %
Expected life	6.0 yrs.	5.5 yrs.	6.0 yrs.	5.5 yrs.

At March 31, 2015, the 713,323 options granted during the first nine months of fiscal 2015 to employees had exercise prices ranging from $5.96 to $7.88 per share, fair values ranging from of $2.19 to $3.49 per share, and remaining contractual lives of between nine years six months and nine years eleven months.

At March 31, 2014, the 436,000 options granted during the first nine months of fiscal 2014 to employees had exercise prices ranging from $7.20 to $8.44 per share, fair values ranging from $2.64 to $3.64 per share, and remaining contractual lives of between nine years five months and nine years nine 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 3.3% forfeiture rate effective January 1, 2015. Previous estimated forfeiture rates were 2.1% effective October 1, 2014, 2.0% effective April 1, 2014, 2.1% effective January 1, 2014, 2.2% effective July 1, 2013, and 2.3% effective January 1, 2013. 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 $271,669 and $116,686 of expense related to stock options in the three months ended March 31, 2015 and 2014, respectively, and $1,153,494 and $895,980 of expense related to stock options in the nine months ended March 31, 2015 and 2014, respectively. As of March 31, 2015, the Company had 2,701,380 stock options that were vested and that were expected to vest, with a weighted average exercise price of $8.86 per share, an aggregate intrinsic value of $2,484,958 and weighted average remaining contractual terms of 6.3 years.

Information related to all stock options for the nine months ended March 31, 2015 and 2014 is shown in the following table:

	Nine Months Ended March 31, 2015			
	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	