LSI INDUSTRIES INC
Form 10-Q
February 03, 2017
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, 2016.

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 January 27, 2017 there were 25,056,164 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, 2016

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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 2016	2015	Six Months Ended December 31 2016	2015
Net sales	$85,658	$84,687	$169,817	$170,612
Cost of products and services sold	63,611	60,761	126,432	123,337
Restructuring costs	640	--	1,143	--
Gross profit	21,407	23,926	42,242	47,275
Restructuring costs	57	--	210	--
Selling and administrative expenses	18,532	18,546	38,148	36,132
Operating income	2,818	5,380	3,884	11,143
Interest (income)	(28)	(17)	(55)	(25)
Interest expense	8	9	21	17
Income before income taxes	2,838	5,388	3,918	11,151
Income tax expense	832	1,606	1,083	3,619
Net income	$2,006	$3,782	$2,835	$7,532

Earnings per common share (see Note 4)				
Basic	$0.08	$0.15	$0.11	$0.30
Diluted	$0.08	$0.15	$0.11	$0.30
Weighted average common shares outstanding				
Basic	25,314	24,911	25,294	24,838
Diluted	25,803	25,624	25,859	25,405

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, 2016	June 30, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	$ 33,023	$ 33,835
Accounts receivable, less allowance for doubtful accounts of $381 and $226, respectively	49,541	46,975
Inventories	42,404	44,141
Assets held for sale	3,176	--
Other current assets	2,996	2,792
Total current assets	131,140	127,743
Property, Plant and Equipment, at cost		
Land	6,422	6,978
Buildings	34,654	39,317
Machinery and equipment	78,908	82,628
Construction in progress	1,697	838
	121,681	129,761
Less accumulated depreciation	(78,255)	(82,299)
Net property, plant and equipment	43,426	47,462
Goodwill	10,508	10,508
Other Intangible Assets, net	5,378	5,586
Other Long-Term Assets, net	5,384	4,261
Total assets	$ 195,836	$ 195,560

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, 2016	June 30, 2016
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 13,917	$ 13,892
Accrued expenses	22,980	25,341
Total current liabilities	36,897	39,233
Other Long-Term Liabilities	1,119	807
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 25,021,703 and 24,982,219 shares, respectively	115,631	113,653
Retained earnings	42,189	41,867
Total shareholders' equity	157,820	155,520
Total liabilities & shareholders' equity	$ 195,836	$ 195,560

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	
	2016	2015
Cash Flows from Operating Activities		
Net income	$2,835	$7,532
Non-cash items included in net income		
Depreciation and amortization	3,605	3,174
Deferred income taxes	(962)	(448)
Deferred compensation plan	237	310
Stock compensation expense	1,688	2,150
Issuance of common shares as compensation	228	113
Loss on disposition of fixed assets	53	1
Fixed asset impairment and accelerated depreciation	354	--
Allowance for doubtful accounts	205	131
Inventory obsolescence reserve	758	699
Changes in certain assets and liabilities:		
Accounts receivable	(2,771)	387
Inventories	979	(3,480)
Refundable income taxes	--	(475)
Accounts payable	(176)	(5,962)
Accrued expenses and other	(2,630)	920
Customer prepayments	216	438
Net cash flows provided by operating activities	4,619	5,490
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(2,744)	(3,384)
Proceeds from sale of fixed assets	1	4
Net cash flows (used in) investing activities	(2,743)	(3,380)
Cash Flows from Financing Activities		
Cash dividends paid	(2,513)	(1,721)
Exercise of stock options	171	2,195
Purchase of treasury shares	(390)	(277)
Issuance of treasury shares	44	47
Net cash flows provided by (used in) financing activities	(2,688)	244
Increase (decrease) in cash and cash equivalents	(812)	2,354

Cash and cash equivalents at beginning of period	33,835	26,409
Cash and cash equivalents at end of period	$33,023	$28,763

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, 2016, the results of its operations for the three and six month periods ended December 31, 2016 and 2015, and its cash flows for the six month periods ended December 31, 2016 and 2015. These statements should be read in conjunction with the financial statements and footnotes included in the fiscal 2016 Annual Report on Form 10-K. Financial information as of June 30, 2016 has been derived from the Company's audited consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation:

The 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. 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, and commissioning of lighting controls; 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. 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. 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.

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 a 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 one month to one year.

Shipping and handling revenue coincides with the recognition of revenue from 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 standards on software revenue recognition. Our solid-state LED video screens 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. Receivables deemed uncollectable are written-off against the allowance for doubtful accounts receivable after all reasonable collection efforts have been exhausted. 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, 2016	June 30, 2016
Accounts receivable	$ 49,922	$ 47,201
Less: Allowance for doubtful accounts	(381)	(226)
Accounts receivable, net	$ 49,541	$ 46,975

Cash and Cash Equivalents:

The cash balance includes cash and cash equivalents which have original maturities of less than three months. Cash and cash equivalents consist primarily of bank deposits and a bank money market account that is stated at cost, which approximates fair value. The Company maintains balances at financial institutions in the United States. In the United States, the FDIC limit for insurance coverage on non-interest bearing accounts is $250,000. As of December 31, 2016 and June 30, 2016, the Company had bank balances of $35,995,000 and $37,883,000, respectively, without insurance coverage.

Inventories and Inventory Reserves:

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 on material content. Cost is determined on the first-in, first-out basis.

The Company maintains an inventory reserve for obsolete and excess inventory. The Company first determines its obsolete inventory reserve by considering specific known obsolete items, and then by applying certain percentages to specific inventory categories based upon inventory turns. The Company uses various tools, in addition to inventory turns, to identify which inventory items have the potential to become obsolete. Judgment is used to establish excess and obsolete inventory reserves and management adjusts these reserves as more information becomes available about the ultimate disposition of the inventory item.

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. Leasehold improvements are depreciated over the shorter of fifteen years or the remaining term of the lease.

The Company recorded $1,669,000 and $1,471,000 of depreciation expense in the second quarter of fiscal 2017 and 2016, respectively, and $3,397,000 and $2,921,000 of depreciation expense in the first half of fiscal 2017 and 2016, respectively.

The Company is in the process of selling the facilities and certain machinery and equipment in Kansas City, Kansas and in Woonsocket, Rhode Island. Both of the facilities are expected to be sold at a gain. The facilities and machinery and equipment have been separately disclosed on the balance sheet as assets held for sale as of December 31, 2016. Assets held for sale were $1,713,000 in the Lighting segment and $1,463,000 in the Graphics segment as of December 31, 2016. Refer to Note 14 for more information regarding the closure of these facilities.

Goodwill and 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 seven 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, accounts receivable, accounts payable, 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, long-lived asset impairment analyses, in the purchase price of acquired companies (if any), and in the valuation of the contingent earn-out. The accounting guidance on fair value measurement 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 based upon historical claims as a percentage of sales 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, 2016	Six Months Ended December 31, 2015	Fiscal Year Ended June 30, 2016
Balance at beginning of the period	$ 5,069	$ 3,408	$3,408
Additions charged to expense	2,243	2,259	5,069
Deductions for repairs and Replacements	(1,351)	(1,357)	(3,408)
Balance at end of the period	$ 5,961	$ 4,310	$5,069

Research and Development Costs:

Research and development costs are 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 $1,269,000 and $1,320,000 for the three months ended December 31, 2016 and 2015, respectively, and $2,670,000 and $2,631,000 for the six months ended December 31, 2016 and 2015, 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 nonqualified deferred compensation plan. The computation of diluted earnings per share is based on the weighted average 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 787,000 and 987,000 shares for the three month ended December 31, 2016 and 2015, respectively, and 852,000 shares and 836,000 shares for the six months ended December 31, 2016 and 2015, respectively. See further discussion of earnings per share in Note 4.

Income Taxes:

The Company accounts for income taxes in accordance with the accounting standards for income taxes. Accordingly, deferred income taxes are provided on items that are reported as either income or expense in different time periods for financial reporting purposes than they are for income tax purposes. Deferred income tax assets are reported on the Company's balance sheet. Significant management judgment is required in developing the Company's income tax provision, including the estimation of taxable income and the effective income tax rates in the multiple taxing jurisdictions in which the Company operates, the estimation of the liability for uncertain income tax positions, the determination of deferred tax assets and liabilities, and any valuation allowances that might be required against deferred tax assets.

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, provides new and more detailed guidance on specific revenue topics, and expands and improves disclosures about revenue. In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing.” In May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers: Narrow Scope Improvements and Practical Expedients.” In December 2016, the FASB issued ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.” These three standards clarify or improve guidance from ASU 2014-09 and are effective for fiscal years and interim periods within those years, beginning after December 15, 2017, or the Company’s fiscal year 2019. The Company will adopt these standards no later than July 1, 2018. While the Company is currently assessing the impact of the new standard, the Company’s revenue is primarily generated from the sale of finished products to customers. Those sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks, and rewards transfer. These are largely unaffected by the new standard. However, certain product sales require installation and revenue is currently not recognized until the installation is complete. The Company does not expect this new guidance to have a material impact on the amount of overall sales recognized, however, the timing of sales on certain projects may be affected. The Company has not yet quantified this potential impact.

In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes,” which eliminates the current requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts in the statement of financial position. This update requires that deferred tax liabilities and assets be classified as noncurrent. This update is effective for financial statements issued for fiscal years beginning April 1, 2017. This update may be applied either prospectively or retrospectively. However, early adoption is permitted and the Company has chosen to adopt the standard retrospectively as of June 30, 2016. As a result, prior periods have been adjusted to reflect this change. This update affected the presentation, but not the measurement of deferred tax liabilities and assets.

Comprehensive Income:

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

Subsequent Events:

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

Reclassifications:

Certain prior year balance sheet amounts have been reclassified to conform to new accounting guidance on balance sheet classification of deferred taxes. These reclassifications have no impact on net income, earnings per share, or operating cash flows.

Use of Estimates:

The preparation of 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 consolidated 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. 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. Corporate and Eliminations, which captures the Company’s corporate administrative activities, will also be reported in the segment information.

The Lighting Segment includes outdoor and indoor lighting utilizing both traditional and LED light sources that have been fabricated and assembled for the commercial, industrial market, the petroleum / convenience store market, the automotive dealership market, the quick service restaurant market, along with other markets the Company serves.

The Graphics Segment designs, manufactures and installs exterior and interior visual image elements such as traditional graphics, active digital signage along with the management of media content related to digital signage, LED video screens, 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.

LED video screens that were previously reported in the Technology Segment in prior years' results have been reclassified to the Graphics Segment. The movement of the LED video screen product line was the result of a change in management responsibility of this product line to the Graphics Segment president during the first quarter of fiscal 2017. This movement aligns the product line with other digital visual image elements sold to graphics customers and is consistent with how the Company's CODM manages the business. The movement of the video screen product line resulted in a reclassification of $76,000 of operating loss from the Technology Segment to the Graphics Segment in the second quarter of fiscal 2016, and $3,000 of operating loss in the first half of fiscal 2016. The Company deemed that distribution channels and corresponding projected future cash flows that support a customer relationship intangible asset related to the LED video screen product line are adequate to support the asset. The net book value of the asset is $492,000 as of December 31, 2016 and future cash flows generated from this asset will continue to be monitored in future quarters.

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

The Company's corporate administration activities are reported in the Corporate and Eliminations line item. These activities primarily include 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 (if any), and deferred income tax assets.

There was no concentration of consolidated net sales in the three and six months ended December 31, 2016 or in the three months ended December 31, 2015. 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 accounts receivable at December 31, 2016 or June 30, 2016.

Summarized financial information for the Company’s operating segments is provided for the indicated periods and as of December 31, 2016 and December 31, 2015:

(In thousands)	Three Months Ended December 31		Six Months Ended December 31	
	2016	2015	2016	2015
Net Sales:				
Lighting Segment	$60,169	$59,601	$120,539	$118,676
Graphics Segment	20,582	21,206	39,476	43,536
Technology Segment	4,907	3,880	9,802	8,400
	$85,658	$84,687	$169,817	$170,612
Operating Income (Loss):				
Lighting Segment	$2,738	$5,182	$5,529	$10,864
Graphics Segment	1,174	1,959	2,191	4,193
Technology Segment	924	1,069	1,652	2,336
Corporate and Eliminations	(2,018)	(2,830)	(5,488)	(6,250)
	$2,818	$5,380	$3,884	$11,143
Capital Expenditures:				
Lighting Segment	$183	$1,160	$1,267	$1,849
Graphics Segment	459	604	825	1,192
Technology Segment	22	108	34	141
Corporate and Eliminations	120	150	618	202
	$784	$2,022	$2,744	$3,384
Depreciation and Amortization:				
Lighting Segment	$791	$717	$1,638	$1,422
Graphics Segment	376	237	736	471
Technology Segment	324	340	669	676
Corporate and Eliminations	279	304	562	605
	$1,770	$1,598	$3,605	$3,174

	December 31, 2016	June 30, 2016
Identifiable Assets:		
Lighting Segment	$91,010	$95,168
Graphics Segment	36,888	33,490
Technology Segment	28,206	28,348
Corporate and Eliminations	39,732	38,554

$195,836	$195,560

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. Identifiable assets are those assets used by each segment in its operations.

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)	2016	2015	2016	2015
Lighting Segment inter-segment net sales	$713	$814	$1,487	$1,428
Graphics Segment inter-segment net sales	$680	$562	$812	$1,006
Technology inter-segment net sales	$8,346	$8,932	$17,131	$18,316

The Company's operations are located solely within the United States. As a result, the geographic distribution of the Company's net sales and long-lived assets originate within the United States.

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 December 31		Six Months Ended December 31	
	2016	2015	2016	2015
BASIC EARNINGS PER SHARE				
Net income	$2,006	$3,782	$2,835	$7,532
Weighted average shares outstanding during the period, net of treasury shares (a)	25,016	24,637	25,007	24,569
Weighted average vested restricted stock units outstanding	37	25	37	26
Weighted average shares outstanding in the Deferred Compensation Plan during the period	261	249	250	243
Weighted average shares outstanding	25,314	24,911	25,294	24,838
Basic earnings per share	$0.08	$0.15	$0.11	$0.30
DILUTED EARNINGS PER SHARE				
Net income	$2,006	$3,782	$2,835	$7,532
Weighted average shares outstanding				
Basic	25,314	24,911	25,294	24,838
Effect of dilutive securities (b):				
Impact of common shares to be issued under stock option plans, and contingently issuable shares, if any	489	713	565	567
Weighted average shares outstanding (c)	25,803	25,624	25,859	25,405
Diluted earnings per share	$0.08	$0.15	$0.11	$0.30

(a) Includes shares accounted for like treasury stock included in the Company’s non-qualified deferred compensation plan. (See Note 10.)

(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 1,682,270 common shares and 1,115,250 common shares at December 31, 2016 and 2015, respectively, and options to purchase 1,626,770 common shares and 1,506,800 common shares at December 31, 2016 and 2015, respectively were not included in the computation of the three month and six month period 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, 2016	June 30, 2016
Inventories:		
Raw materials	$ 27,638	$ 28,979
Work-in-process	4,108	4,418
Finished goods	10,658	10,744
Total Inventories	$ 42,404	$ 44,141

NOTE 6 - ACCRUED EXPENSES

The following information is provided as of the dates indicated:

(In thousands)	December 31, 2016	June 30, 2016
Accrued Expenses:		
Compensation and benefits	$ 7,494	$ 11,983
Customer prepayments	1,269	1,053
Accrued sales commissions	2,695	2,792
Accrued warranty	5,961	5,069
Other accrued expenses	5,561	4,444
Total Accrued Expenses	$ 22,980	$ 25,341

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. 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. The estimation of the fair value of goodwill and intangible assets 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 including, but not limited to operating results, forecasts, anticipated future cash flows and marketplace data. 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	Total
Balance as of June 30, 2016				
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, 2016	$135	$1,165	$ 9,208	$10,508
Balance as of December 31, 2016				
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, 2016	$135	$1,165	$ 9,208	$10,508

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

Other Intangible Assets *(In thousands)*	December 31, 2016 Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			
Customer relationships	$9,316	$ 7,727	$ 1,589
Patents	338	172	166
LED technology firmware, software	11,228	11,027	201
Trade name	460	460	--
Non-compete agreements	710	710	--
Total Amortized Intangible Assets	22,052	20,096	1,956
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	$ 20,096	$ 5,378

Other Intangible Assets *(In thousands)*	June 30, 2016 Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			

Customer relationships	$9,316	$ 7,581	$ 1,735
Patents	338	154	184
LED technology firmware, software	11,228	10,989	239
Trade name	460	460	--
Non-compete agreements	710	704	6
Total Amortized Intangible Assets	22,052	19,888	2,164
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	$ 19,888	$ 5,586

(In thousands)	Amortization Expense of Other Intangible Assets	
	December 31, 2016	December 31, 2015
Three Months Ended	$101	$ 127
Six Months Ended	$208	$ 253

The Company expects to record annual amortization expense as follows:

(In thousands)	
2017	$419
2018	$401
2019	$401
2020	$327
2021	$323
After 2021	$293

NOTE 8 - REVOLVING LINE OF CREDIT

In March 2016, the Company renewed its $30 million unsecured revolving credit line. The line of credit expires in the third quarter of fiscal 2019. 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, 2016.

The Company is in compliance with all of its loan covenants as of December 31, 2016.

NOTE 9 - CASH DIVIDENDS

The Company paid cash dividends of $2,513,000 and $1,721,000 in the six months ended December 31, 2016 and 2015, respectively. Dividends on restricted stock units in the amount of $19,826 and $4,690 were accrued as of December 31, 2016 and 2015, respectively. These dividends will be paid upon the vesting of the restricted stock units when shares are issued to the award recipients. In January 2017, the Board of Directors declared a regular quarterly cash dividend of $0.05 per share payable February 14, 2017 to shareholders of record as of February 6, 2017. The 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. The Company's shareholders approved an amendment to the 2012 Stock Incentive Plan that added 1,600,000 shares to the plan and implemented the use of a fungible share ratio that consumes 2.5 available shares for every 1 full value share awarded by the Company as stock compensation. The options granted or 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 2,364,601 shares, all of which were available for future grant or award as of December 31, 2016. 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 ("RSU's") were awarded during the six months ended December 31, 2016. As of December 31, 2016, a total of 3,625,372 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 1,700,025 options for common shares were vested and exercisable. As of December 31, 2016, the approximate unvested stock option expense that will be recorded as expense in future periods is $2,622,788. The weighted average time over which this expense will be recorded is approximately 27 months. Additionally, as of December 31, 2016, a total of 118,575 RSU's were outstanding. The approximate unvested stock compensation expense that will be recorded as expense in future periods for the RSU's is $608,468. The weighted average time over which this expense will be recorded is approximately 33 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	
	2016	2015	2016	2015
Dividend yield	2.07%	1.33%	1.81%	1.28%
Expected volatility	41 %	43 %	43 %	44 %
Risk-free interest rate	2.06%	1.38%	1.00%	1.67%
Expected life (in years)	6.0	6.0	6.0	6.0

At December 31, 2016, the 834,320 options granted during the first six months of fiscal 2017 to employees had exercise prices ranging from $9.65 to $11.06 per share, fair values ranging from of $3.29 to $3.83 per share, and remaining contractual lives of between 9.5 and 10 years.

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 of $3.28 to $4.48 per share, and remaining contractual lives of between 9.5 and 9.9 years.

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 3.51% forfeiture rate effective October 1, 2016. Previous estimated forfeiture rates were between 2.0% and 3.4% between the periods January 1, 2013 through September 30, 2016. 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 a reduction of expense of $142,434 in the three months ended December 31, 2016 and recorded $342,134 of expense in the three months ended December 31, 2015, related to stock options. The reduction of stock option expense in the three months ended December 31, 2016 was the result of expectations that the performance criteria related to incentive based options will not be met. The Company recorded $1,296,009 and $1,830,707 of expense related to stock options in the six months ended December 31, 2016 and 2015, respectively. As of December 31, 2016, the Company had 3,159,692 stock options that were vested and that were expected to vest, with a weighted average exercise price of $8.92 per share, an aggregate intrinsic value of $4,620,655 and weighted average remaining contractual terms of 6.7 years.

Information related to all stock options for the six months ended December 31, 2016 and 2015 is shown in the following tables:

	Six Months Ended December 31, 2016			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at 6/30/16	2,976,490	$ 8.97	6.6	$8,338,974
Granted	834,320	$ 11.05		
Forfeitures	(147,375)	$ 16.03		
Exercised	(38,063)	$ 7.75		
Outstanding at 12/31/16	3,625,372	$ 9.18	7.1	$4,648,729
Exercisable at 12/31/16	1,700,025	$ 8.73	5.1	$3,216,899

	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

The following table presents information related to unvested stock options:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at June 30, 2016	1,663,505	$ 3.39
Granted	834,320	$ 3.83
Vested	(546,978)	$ 3.25
Forfeited	(25,500)	$ 3.50
Unvested at December 31, 2016	1,925,347	$ 3.62

The weighted average grant date fair value of options granted during the six month periods ended December 31, 2016 and 2015 was $3.83 and $3.63, respectively. The aggregate intrinsic value of options exercised during the six months ended December 31, 2016 and 2015 was $99,883 and $852,596, respectively. The aggregate grant date fair value of options that vested during the six months ended December 31, 2016 and 2015 was $1,779,490 and $1,035,041, respectively. The Company received $295,030 and $2,149,606 of cash from employees who exercised options in the six month periods ended December 31, 2016 and 2015, respectively. In the first six months of fiscal 2017 the Company recorded $95,443 as a reduction of federal income taxes payable, $124,056 as a decrease in common stock, $22,073 as a reduction of income tax expense, and $197,427 as a reduction of the deferred tax asset related to the issuance of RSU's and the exercises of stock options in which the employees sold the common shares prior to the passage of twelve months from the date of exercise. In the first six months of fiscal 2016 the Company recorded $300,868 as a reduction of federal income taxes payable, $46,066 as an increase in common stock, $84,781 as a reduction of income tax expense, and $170,021 as a reduction of the deferred tax asset related to the exercises of stock options in which the employees sold the common shares prior to the passage of twelve months from the date of exercise.

Restricted Stock Units

A total of 71,700 restricted stock units with a fair value of $11.06 per share were awarded to employees during the six months ended December 31, 2016. A total of 72,000 RSU’s with a fair value of $9.39 per share were awarded to employees during the six months ended December 31, 2015. The Company determined the fair value of the awards based on the closing price of the Company stock on the date the RSU’s were awarded. The RSU’s have a four year ratable vesting period.