

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

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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  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  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 [  ]  
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

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

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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	
	2015	2014	2015	2014
<i>(In thousands, except per share data)</i>				
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

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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
<b>ASSETS</b>		
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)

<i>(In thousands, except shares)</i>	March 31, 2015	June 30, 2014
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
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)

<i>(In thousands)</i>	Nine Months Ended March 31	
	2015	2014
<b>Cash Flows from Operating Activities</b>		
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
<b>Changes in certain assets and liabilities:</b>		
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
<b>Cash Flows from Investing Activities</b>		
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 )
<b>Cash Flows from Financing Activities</b>		
Cash dividends paid	(2,172 )	(4,333 )
Proceeds and tax benefits from exercises of stock options	401	351

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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.

<i>(In thousands)</i>	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:

	Nine Months Ended March 31, 2015	Nine Months Ended March 31, 2014	Fiscal Year Ended June 30, 2014
<i>(In thousands)</i>			
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:

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	March 31		March 31	
	2015	2014	2015	2014
<b>Net Sales:</b>				
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
<b>Operating Income (Loss):</b>				
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
<b>Capital Expenditures:</b>				
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
<b>Depreciation and Amortization:</b>				
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:**

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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:

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	March 31 2015	March 31 2014	March 31 2015	March 31 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:

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	March 31 2015	March 31 2014	March 31 2015	March 31 2014
<b>Net Sales (a):</b>				
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
<b>Long-lived Assets (b):</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
<b><u>BASIC EARNINGS (LOSS) PER SHARE</u></b>				
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
<b><u>DILUTED EARNINGS (LOSS) PER SHARE</u></b>				
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.

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 (c) 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:

	March 31, (In thousands) 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:

	March 31, (In thousands) 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

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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

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	June 30, 2014		
	Gross		
<i>(In thousands)</i>	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

	Amortization Expense of	
<i>(In thousands)</i>	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:

<i>(In thousands)</i>	
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 March 31 2015	2014	Nine Months Ended March 31 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.

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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	\$ 1,674,010
Granted	713,323	\$ 6.76		
Forfeitures	(559,525 )	\$ 10.23		
Exercised	(103,875 )	\$ 6.01		
Outstanding at 3/31/15	2,727,387	\$ 8.84	6.3	\$ 2,519,836
Exercisable at 3/31/15	1,650,439	\$ 10.15	4.5	\$ 1,099,822

	Nine Months Ended March 31, 2014			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at 6/30/13	2,341,150	\$ 9.95	5.6	\$ 1,544,896
Granted	436,000	\$ 7.24		
Forfeitures	(25,550 )	\$ 10.71		
Exercised	(52,611 )	\$ 6.27		
Outstanding at 3/31/14	2,698,989	\$ 9.58	5.6	\$ 1,934,534

Exercisable at 3/31/14    1,893,351    \$ 10.75    4.3    \$ 840,740

The following table presents information related to unvested stock options:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at June 30, 2014	803,138	\$ 2.39
Granted	713,323	\$ 3.26
Vested	(339,763 )	\$ 2.29
Forfeited	(99,750 )	\$ 2.62
Non-vested at March 31, 2015	1,076,948	\$ 2.98

The weighted average grant date fair value of options granted during the nine months ended March 31, 2015 and March 31, 2014 were \$3.26 and \$2.67, respectively. The aggregate intrinsic value of options exercised during the nine months ended March 31, 2015 and 2014 were \$126,203 and \$127,104, respectively. The aggregate grant date fair value of options that vested during the nine months ended March 31, 2015 and 2014 was \$777,436 and \$775,937, respectively. The Company received \$624,248 and \$329,777 of cash from employees who exercised options in the nine month periods ended March 31, 2015 and 2014, respectively. In the first nine months of fiscal 2015 the Company recorded \$44,071 as a reduction of federal income taxes payable, \$223,003 as a decrease in common stock, \$18,473 as a reduction of income tax expense, and \$248,601 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. In the first nine months of fiscal 2014 the Company recorded \$43,283 as a reduction of federal income taxes payable, \$21,195 as an increase in common stock, \$23,621 as a reduction of income tax expense, and \$8,045 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.

**Stock Compensation Awards**

The Company awarded a total of 21,050 and 17,205 common shares in the nine months ended March 31, 2015 and 2014, respectively, as stock compensation awards. These common shares were valued at their approximate \$144,000 and \$144,000 fair market values based on their stock price at dates of issuance multiplied by the number of common shares awarded, respectively, pursuant to the compensation programs for non-employee directors who receive a portion of their compensation as an award of Company stock and for employees who received a nominal recognition award in the form of company stock. Stock compensation awards are made in the form of newly issued common shares of the Company.

**Deferred Compensation Plan**

The Company has a non-qualified deferred compensation plan providing for both Company contributions and participant deferrals of compensation. This plan is fully funded in a Rabbi Trust. All plan investments are in common shares of the Company. As of March 31, 2015 there were 30 participants, all with fully vested account balances. A total of 321,838 common shares with a cost of \$2,986,498, and 307,328 common shares with a cost of \$2,914,700 were held in the plan as of March 31, 2015 and June 30, 2014, respectively, and, accordingly, have been recorded as treasury shares. The change in the number of shares held by this plan is the net result of share purchases and sales on the open stock market for compensation deferred into the plan and for distributions to terminated employees. The Company does not issue new common shares for purposes of the non-qualified deferred compensation plan. The Company accounts for assets held in the non-qualified deferred compensation plan in accordance with Accounting Standards Codification Topic 710, Compensation — General. The Company used approximately \$165,100 and \$165,500 to purchase 23,519 and 22,011 common shares of the Company in the open stock market during the nine months ended March 31, 2015 and 2014, respectively, for either employee salary deferrals or Company contributions into the non-qualified deferred compensation plan. For fiscal year 2015, the Company estimates the Rabbi Trust for the Nonqualified Deferred Compensation Plan will make net repurchases in the range of 26,000 to 28,000 common shares of the Company. The Company does not currently repurchase its own common shares for any other purpose.

**NOTE 11 - SUPPLEMENTAL CASH FLOW INFORMATION**

<i>(In thousands)</i>	Nine Months Ended	
	March 31 2015	2014
Cash payments:		
Interest	\$37	\$57
Income taxes	\$811	\$1,136

Issuance of common shares as compensation \$144 \$144

**NOTE 12 - COMMITMENTS AND CONTINGENCIES**

As part of the acquisition of Virticus Corporation on March 19, 2012, a contingent Earn-Out liability of \$877,000 was recorded based on the fair value of estimated Earn-Out payments. This discounted liability is to be paid over a five year period, contingent upon reaching certain sales in each year over the five year period (fiscal year 2013 through fiscal year 2017). In fiscal 2013, as a result of modified sales forecasts for LSI Controls (fka, LSI Virticus), the fair value of the Earn-Out liability was adjusted to zero. The \$877,000 reversal of the Earn-Out liability was recorded in selling and administrative expenses in Corporate and Eliminations. As of March 31, 2015, the maximum potential undiscounted liability related to the Earn-Out is \$3 million. This would be based upon the achievement of a defined level of sales of lighting control systems in fiscal years 2015 through 2017. The likelihood of this occurring is not considered probable.

The Company is party to various negotiations, customer bankruptcies, and legal proceedings arising in the normal course of business. The Company provides reserves for these matters when a loss is probable and reasonably estimable. The Company does not disclose a range of potential loss because the likelihood of such a loss is remote. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, cash flows or liquidity.



The Company may occasionally issue a standby letter of credit in favor of third parties. As of March 31, 2015, there were no standby letter of credit agreements.

#### **NOTE 13 – SALE OF SUBSIDIARY**

On September 30, 2014, the Company sold the stock of its wholly owned subsidiary LSI Saco Technologies Inc., located in Montreal, Canada, for \$1.9 million cash. The sale resulted in a pre-tax loss of \$565,000. As a result of the sale, the Company terminated the \$5 million unsecured revolving line of credit for this Canadian operation. LSI Saco reported \$41,000 of net customer sales and a \$(183,000) operating loss in the first quarter of fiscal 2015 prior to the sale. LSI Saco was reported in the All Other Category. The sale of LSI Saco was not considered the sale of a discontinued operation because the Company migrated most of its manufacturing, research and development, and selling activities from LSI Saco to the Company's Cincinnati, Ohio location.

#### **NOTE 14 – SEVERANCE COSTS**

Pursuant to a management succession agreement entered into in fiscal 2004 as subsequently amended, the Company's former Chief Executive Officer, Robert J. Ready, relinquished this title and related management responsibilities when the Company hired and appointed a new Chief Executive Officer in October 2014. Mr. Ready remained on the Company's Board of Directors until his death in March 2015, but was no longer Chairman of the Board following the November 2014 Annual Meeting of Shareholders. The management succession agreement provided for 18 months of compensation to be paid to Mr. Ready, which resulted in a severance charge in the second quarter of fiscal 2015 of \$800,000. Severance payments totaling \$224,000 were made in the second and third quarters of fiscal 2015. The remaining \$576,000 severance liability was recognized as income when Mr. Ready died in March 2015. Pursuant to the management succession agreement a \$1 million self-insured death benefit was accrued in the third quarter of fiscal 2015 for a payment that is expected to be made in the fourth quarter of fiscal 2015 to Mr. Ready's beneficiary.

In January 2015, the Company initiated a reduction in force and recorded severance charges of \$340,000 and facility exit charges of \$21,200 in the third quarter of fiscal 2015. This reduction in force and employee retirements that occurred early in the third quarter of fiscal 2015 represented approximately 8.3% of the Company's total salaried workforce and approximately \$3.7 million of annual total compensation and benefit reductions.

The fiscal 2015 activity in the Company's Accrued Severance Liability is as follows for the nine months ended March 31, 2015:

*(In thousands)*

Balance at June 30, 2014	\$--
Accrual of expense	1,297
Payments	(530 )
Adjustments	(635 )
Balance at March 31, 2015	\$132

**NOTE 15 – INCOME TAXES**

The Company's effective income tax rate is based on expected income, statutory rates and tax planning opportunities available in the various jurisdictions in which it operates. For interim financial reporting, the Company estimates the annual income tax rate based on projected taxable income for the full year and records a quarterly income tax provision or benefit in accordance with the anticipated annual rate. The Company refines the estimates of the year's taxable income as new information becomes available, including actual year-to-date financial results. This continual estimation process often results in a change to the expected effective income tax rate for the year. When this occurs, the Company adjusts the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected income tax rate. Significant judgment is required in determining the effective tax rate and in evaluating tax positions.

	Three Months Ended March 31		Nine Months Ended March 31	
	2015	2014	2015	2014
<b>Reconciliation to effective tax rate:</b>				
Provision for income taxes at the anticipated annual tax rate	45.0 %	23.1 %	41.4%	42.2%
Impact of foreign operations	--	1.8	(0.2 )	(1.8 )
Enactment of tax law changes	--	--	(2.6 )	--
Valuation allowances	--	(37.6)	--	14.3
Uncertain tax positions	(0.9 )	6.2	(1.2 )	(5.5 )
Other	(12.0)	1.7	(3.3 )	(0.5 )
<b>Effective tax rate</b>	<b>32.1 %</b>	<b>(4.8 )%</b>	<b>34.1%</b>	<b>48.7%</b>

For the three month period ended March 31, 2015, a reconciling item to the effective tax rate described as "Other" directly relates to a tax benefit that was realized upon filing the fiscal year 2014 Federal income tax return.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The Company's condensed consolidated financial statements, accompanying notes and the "Safe Harbor" Statement, each as appearing earlier in this report, should be referred to in conjunction with this Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **Net Sales by Business Segment**

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	March 31		March 31	
	2015	2014	2015	2014
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) by Business Segment**

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	March 31		March 31	
	2015	2014	2015	2014
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

### **Summary Comments**

In the second quarter of fiscal 2015, the Company hired a new Chief Executive Officer ("CEO") to replace its previous CEO. With a new Chief Executive Officer who serves as the new chief operating decision maker ("CODM") 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 received by the CODM. This realignment of the operating segments occurred in the third quarter of fiscal 2015. 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 business segment information has been revised so as to be comparable with the new 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.

Also in the third quarter of fiscal 2015, the Company initiated a reduction in force. This reduction in force and employee retirements that occurred early in the third quarter of fiscal 2015 represented approximately 8.3% of the Company's total salaried workforce and approximately \$3.7 million of annual total compensation and benefit reductions.

Fiscal 2015 third quarter net sales of \$68,603,000 decreased \$0.4 million or 0.6% as compared to third quarter fiscal 2014. Net sales were favorably influenced by increased net sales of the Graphics Segment (up \$2.7 million or 25.6%) and increased net sales of the Technology Segment (up \$0.9 million or 15.5%). Net sales were unfavorably influenced by decreased net sales of the Lighting Segment (down \$3.7 million or 7.0%) and by decreased net sales of the All Other Category (down \$0.3 million to zero sales in fiscal 2015 due to the sale of Saco in the first quarter of fiscal 2015).

Fiscal 2015 nine month net sales of \$231,784,000 increased \$6.2 million or 2.7% as compared to the same period of fiscal 2014. Net sales were favorably influenced by increased net sales of the Graphics Segment (up \$9.3 million or 23.0%) and increased net sales of the Technology Segment (up \$1.2 million or 7.4%). Net sales were unfavorably influenced by decreased net sales of the Lighting Segment (down \$3.2 million or 1.9%) and by decreased net sales of the All Other Category (down \$1.1 million or 96.5% due to the sale of LSI Saco in the first quarter of fiscal 2015).

Fiscal 2015 third quarter operating income of \$582,000 increased \$1.5 million from an operating loss of \$ (946,000) in the same period the prior year. The \$1.5 million increase in operating income was the net result of decreased net sales, an increase in gross profit and an increase in gross profit as a percentage of net sales from 19.9% in the third quarter of fiscal 2014 to 23.8% in the third quarter of fiscal 2015, and an increase in selling and administrative expenses.

Fiscal 2015 nine month operating income of \$5,340,000 increased \$1.9 million or 56.9% from operating income of \$3,404,000 in the same period the prior year. The \$1.9 million increase in operating income was the net result of increased net sales, an increase in gross profit and an increase in gross profit as a percentage of net sales from 22.0% in the first nine months of fiscal 2014 to 23.9% in the first nine months of fiscal 2015, an increase in selling and administrative expenses, and the net effect of the gain on the sale of a facility more than offset by the loss on the sale of a subsidiary in fiscal 2015 with no comparable events in fiscal 2014.

The Company's total net sales of products and services related to solid-state LED technology in light fixtures and video screens for sports, advertising and entertainment markets have been recorded as indicated in the table below. In addition, the Company sells certain elements of graphic identification programs that contain solid-state LED light sources.

<i>(In thousands)</i>	LED Net Sales		% Change	
	FY 2015	FY 2014		
First Quarter	\$30,922	\$25,293	22.3	%
Second Quarter	36,956	27,466	34.6	%
First Half	67,878	52,759	28.7	%
Third Quarter	29,524	25,452	16.0	%
Nine Months	97,402	78,211	24.5	%
Fourth Quarter		30,210		
Full Year		\$108,421		

LED net sales include sales of LED lighting products, certain graphics products containing LEDs, and LED video and sports screens. Third quarter fiscal 2015 LED net sales of \$29,524,000 were up \$4.1 million or 16.0% from the same period of the prior year. The \$29,524,000 total LED net sales and the \$4.1 million increase are primarily the net result

of Lighting Segment LED net sales of \$28.2 million (up \$3.7 million or 15.1%), which is comprised entirely of light fixtures having solid-state LED technology, Graphics Segment LED net sales of \$0.3 million (the same as \$0.3 million net sales in fiscal 2014), and Technology Segment sales of \$1.0 million (up \$0.6 million or 25.9%) related to Video Screens. There were no LED net sales made by All Other Category as a result of the sale of LSI Saco in the first nine months of fiscal 2015. First nine months of fiscal 2015 total LED net sales of \$97,402,000 were \$19.2 million or 24.5% higher than the same period of the prior year. The \$97,402,000 total LED net sales and the \$19.2 million increase are primarily the result of Lighting Segment LED net sales of \$94.4 million (up \$21.2 million or 28.9%), which is comprised entirely of light fixtures having solid-state LED technology, Graphics Segment LED net sales of \$1.1 million (down \$0.7 million or 36.6%), Technology Segment sales of \$1.9 million (down \$0.4 million or 16.7%) related to video screens. There are no longer LED net sales made by All Other Category as a result of the sale of LSI Saco in the first quarter of fiscal 2015.

### **Non-GAAP Financial Measures**

The Company believes it is appropriate to evaluate its performance after making adjustments to the as-reported U.S. GAAP operating income and net income. Adjusted operating income, net income and earnings per share, which exclude the impact of self-insured death benefit, severance costs, the sale of a manufacturing facility, the sale of a subsidiary, and the tax benefit of utilization of a portion of the related long-term capital loss are non-GAAP financial measures. We believe these are useful as a supplemental measure in assessing the operating performance of our business. The measures are used by our management, including our chief operating decision maker, to evaluate business results. We exclude these non-recurring items because they are not representative of the ongoing results of operations of our business. Below is a reconciliation of these non-GAAP measurements to operating income, net income, and earnings per share reported for the periods indicated.

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(in thousands, unaudited)	Third Quarter	
	FY	FY
	2015	2014
Reconciliation of operating income to adjusted operating income:		
Operating income (loss) as reported	\$582	\$(946)
Adjustment for severance costs	(295 )	--
Adjustment for self-insured death benefit expense	1,000	--
Adjusted operating income (loss)	\$1,287	\$(946)

(in thousands, except per share data; unaudited)	Third Quarter			
	FY	Diluted	FY	Diluted
		2015		EPS
Reconciliation of net income (loss) to adjusted net income (loss):				
Net income (loss) and earnings (loss) per share as reported	\$393	\$0.02	\$(1,009)	\$(0.04 )
Adjustment for self-insured death benefit expense, inclusive of the income tax effect	637 <sup>(1)</sup>	\$0.03	--	--
Adjustment for severance costs, inclusive of the income tax effect	(188) <sup>(2)</sup>	\$(0.01 )	--	--
Adjusted net income (loss) and earnings (loss) per share	\$842	\$0.03	\$(1,009)	\$(0.04 )

The income tax effects of the adjustments above were calculated using the U.S. effective income tax rates for the periods indicated. The income tax effects were as follows (in thousands):

<sup>(1)</sup> \$(363)

<sup>(2)</sup> \$107

(in thousands, unaudited)	Nine Months	
	FY	FY
	2015	2014
Reconciliation of operating income to adjusted operating income:		



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Operating income as reported	\$5,340	\$3,404
Adjustment for severance costs	662	--
Adjustment for self-insured death benefit expense	1,000	--
Adjustment for the gain on the sale of a manufacturing facility	(343 )	--
Adjustment for the loss on sale of a subsidiary	565	--
Adjusted operating income	\$7,224	\$3,404

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(in thousands, except per share data; unaudited)

	Nine Months			
	FY 2015	Diluted EPS	FY 2014	Diluted EPS
Reconciliation of net income to adjusted net income:				
Net income and earnings per share as reported	\$3,508	\$ 0.14	\$1,726	\$ 0.07
Adjustment for severance costs, inclusive of the income tax effect	422 <sup>(1)</sup>	0.02	--	--
Adjustment for the self-insured death benefit expense, inclusive of the income tax effect	637 <sup>(2)</sup>	0.03	--	--
Adjustment for the gain on the sale of a manufacturing facility, inclusive of the income tax effect	(224 ) <sup>(3)</sup>	(0.01 )	--	--
Adjustment for the loss on sale of a subsidiary	565 <sup>(4)</sup>	0.02	--	--
Income tax effect of utilization of a long-term capital loss	(101 )	0.00	--	--
Adjusted net income and earnings per share	\$4,807	\$ 0.20	\$1,726	\$ 0.07

The income tax effects of the adjustments above were calculated using the U.S. effective income tax rates for the periods indicated. The income tax effects were as follows (in thousands):

<sup>(1)</sup> \$(240)

<sup>(2)</sup> \$(363)

<sup>(3)</sup> \$119

<sup>(4)</sup> \$0

### **Results of Operations**

### **THREE MONTHS ENDED MARCH 31, 2015 COMPARED TO THREE MONTHS ENDED MARCH 31, 2014**

#### **Lighting Segment**

<i>(In thousands)</i>	Three Months	
	Ended	
	March 31	
	2015	2014
Net Sales	\$48,865	\$52,553
Gross Profit	\$11,930	\$11,252
Operating Income	\$2,913	\$2,219

Lighting Segment net sales of \$48,865,000 in the third quarter of fiscal 2015 decreased 7.0% from fiscal 2014 same period net sales of \$52,553,000. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled \$28.2 million in the third quarter of fiscal 2015, representing a \$3.7 million or 15.1% increase from fiscal 2014 third quarter net sales of solid-state LED light fixtures of \$24.5 million. There was a reduction in the Company's traditional lighting sales (metal halide and fluorescent light sources) from fiscal 2014 to fiscal 2015 as customers converted from traditional lighting to light fixtures having solid-state LED technology. While total sales have declined from the same period last fiscal year, some of the drop in sales can also be attributed to product mix as customers migrate to lower cost lighting fixtures.

Gross profit of \$11,930,000 in the third quarter of fiscal 2015 increased \$0.7 million or 6.0% from the same period of fiscal 2014, and increased from 21.2% to 24.2% as a percentage of Lighting Segment net sales (customer plus inter-segment net sales). The Company was able to offset the reduction in customer net sales with an increase in gross profit. The increase in the amount of gross profit along with a higher gross margin as a percentage of sales is due to the net effect of decreased net sales, effective management of material and labor costs, competitive pricing pressures, improved manufacturing efficiencies, decreased freight expense, decreased employee compensation and wage expense (\$0.1 million), decreased supplies expense (\$0.2 million), increased customer relations expense (\$0.4 million), and decreased warranty expense (\$0.2 million).

Selling and administrative expenses of \$9,017,000 in the third quarter of fiscal year 2015 was similar to the selling and administrative expenses in the same period of fiscal 2014 primarily as the net result of increased employee compensation and benefits expense (\$0.3 million), decreased outside service expense (\$0.1 million), increased bad debt expense (\$0.1 million), decreased research and development expense (\$0.3 million), decreased sales commission (\$0.2 million), and small increases in various other expenses.

The Lighting Segment third quarter fiscal 2015 operating income of \$2,913,000 increased \$0.7 million or 31.3% from operating income of \$2,219,000 in the same period of fiscal 2014. This increase of \$0.7 million was primarily the net result of decreased net sales and an increase in gross profit and an increase in gross margin as a percentage of sales.

### Graphics Segment

<i>(In thousands)</i>	Three Months	
	Ended	March 31
	2015	2014
Net Sales	\$ 13,363	\$ 10,638
Gross Profit	\$ 2,476	\$ 961
Operating (Loss)	\$ (320 )	\$ (1,577 )

Graphics Segment net sales of \$13,363,000 in the third quarter of fiscal 2015 increased \$2.7 million or 25.6% from fiscal 2014 same period net sales of \$10,638,000. The \$2.7 million increase in Graphics Segment net sales is the net result of image conversion programs and sales to several petroleum / convenience store customers (\$2.1 million net increase), one national drug store retailer (\$0.5 million decrease), five quick service restaurant chains (\$1.1 million net increase), two commercial market customers (\$0.2 million increase), and changes in volume or completion of several other graphics programs (\$0.2 million net decrease). The Graphics Segment net sales of graphic identification products that contain solid-state LED light sources and LED lighting for signage totaled \$0.3 million in the third quarter of fiscal 2015 and fiscal 2014.

Gross profit of \$2,476,000 in the third quarter of fiscal 2015 increased \$1.5 million or 158% from the same period of fiscal 2014. Gross profit as a percentage of Graphics Segment net sales (customer plus inter-segment net sales) increased from 8.6% in the third quarter of fiscal 2014 to 18.3% in the third quarter of fiscal 2015. The change in the amount of gross profit is due to the net effect of increased net sales, higher margins on installation net sales, increased freight costs (\$0.4 million), increased supplies expense (\$0.1 million), and increased employee compensation and benefit expense (\$0.2 million).

Selling and administrative expenses of \$2,796,000 in the third quarter of fiscal 2015 increased \$0.3 million or 10.2% from the same period of fiscal 2014 primarily as the net result of increased employee compensation and benefits

expense (\$0.2 million), and increased convention and show expense (\$0.1 million).

The Graphics Segment third quarter fiscal 2015 operating loss of \$(320,000) improved from an operating loss of \$(1,577,000) in the same period of fiscal 2014. The \$1.3 million improvement in the operating loss from fiscal 2014 to a fiscal 2015 was primarily the net result of increased net sales, an increase in gross profit, and increased selling and administrative expenses.

### Technology Segment

<i>(In thousands)</i>	Three Months	
	Ended	
	March 31	
	2015	2014
Net Sales	\$6,375	\$5,520
Gross Profit	\$1,906	\$1,665
Operating Income	\$855	\$108

Technology Segment net sales of \$6,375,000 in the third quarter of fiscal 2015 increased \$0.9 million or 15.5% from fiscal 2014 same period net sales of \$5,520,000. The \$0.9 million increase in Technology Segment net sales is primarily the net result of a \$0.5 million decrease in sales to the transportation market, a \$0.6 million increase in sales to original equipment manufacturers, a \$0.2 million increase in sales to the medical market, and a \$0.6 million increase in sales to the sports market. While the net customer sales increased, the Technology Segment inter-segment sales decreased \$1.3 million or 16.4% due to decreased intercompany sales of LED circuit board assemblies used in light fixtures having solid-state LED technology. The Company has chosen to outsource some of the components of its circuit board assembly in order to meet the growing demand for LED lighting and to make production capacity available for other LED component parts and assemblies. The Technology Segment's net sales of LED video screens were \$1.0 million in the third quarter of fiscal 2015, representing a \$0.6 million increase from fiscal 2014 third quarter net sales of \$0.5 million.

Gross profit of \$1,906,000 in the third quarter of fiscal 2015 increased \$0.2 million or 14.5% from the same period in fiscal 2014, and increased from 12.2% to 14.5% as a percentage of net sales (customer plus inter-segment net sales). The \$0.2 million increase in gross profit is due to the net effect of increased customer net sales more than offset by decreased inter-segment sales, decreased employee compensation and benefit expense (\$0.1 million) and decreased supplies expense (\$0.1 million).

Selling and administrative expenses of \$1,051,000 in the third quarter of fiscal 2015 decreased \$0.5 million or 32.5% from the same period of fiscal 2014, primarily as the net result of an increase in compensation and benefit expense (\$0.2 million), decrease in amortization expense (\$0.1 million), and a decrease in research and development expense (\$0.5 million).

The Technology Segment third quarter fiscal 2015 operating income of \$855,000 increased \$0.7 million or 692% from operating income of \$108,000 in the same period of fiscal 2014. The \$0.7 million increase in operating income was primarily the net result of increased net customer sales more than offset by decreased inter-segment sales and a decrease in operating expenses. Another factor positively impacting operating income is the implementation of the LSI Business System, which has the effect of adding value through process improvement and the elimination of waste. While in its early phases, the Company is beginning to see the effects of this through cost reduction and improved profits.

### All Other Category

<i>(In thousands)</i>	Three Months Ended March 31 2015	2014
Net Sales	\$--	\$285
Gross Profit (Loss)	\$--	\$(12 )
Operating Income (Loss)	\$--	\$(231)

Due to the sale of LSI Saco on September 30, 2014, there is no longer comparable data for the All Other Category.

### Corporate and Eliminations

<i>(In thousands)</i>	Three Months Ended March 31 2015	2014
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Gross Profit (Loss)	\$(7 )	\$(151 )
Operating (Loss)	\$(2,866)	\$(1,465)

The gross (loss) relates to the change in the intercompany profit in inventory elimination.

Administrative expenses of \$2,859,000 in the third quarter of fiscal 2015 increased \$1.5 million or 118% from the same period of the prior year. The \$1.5 million increase in expense is primarily the result of increased employee compensation and benefit expense (\$0.7 million), increased outside service expense (\$0.1 million), and \$0.3 million decrease in severance costs more than offset by a \$1.0 million increase in self-insured death benefits, both recorded in the third quarter of fiscal 2015, with no comparable net effect in fiscal 2014.

### **Consolidated Results**

The Company reported net interest expense of \$3,000 in the third quarter of fiscal 2015 as compared to net interest expense of \$17,000 in the same period of fiscal 2014. Commitment fees related to the unused portions of the Company's lines of credit and interest income on invested cash are included in both fiscal years.

The \$186,000 income tax expense in the third quarter of fiscal 2015 represents a consolidated effective tax rate of 32.1%. This is the net result of an income tax rate of 36.3% for the Company's U.S. operations influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income. The \$46,000 income tax expense in the third quarter of fiscal 2014 represents a consolidated tax expense compared to a pre-tax loss of \$(963,000). This is the net result of an income tax rate of 35.4% for the Company's U.S. operations influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income, an increase in the valuation reserve against New York State tax credits of \$362,000 resulting from changes to the New York tax code, Canadian income tax credits, a benefit related to uncertain income tax positions, and by a full valuation reserve on the Company's Canadian tax position.

The Company reported a net income of \$393,000 in the third quarter of fiscal 2015 as compared to a net loss of \$(1,009,000) in the same period of the prior year. The change from a net loss in fiscal 2014 to net income in fiscal 2015 is primarily the net result of decreased net sales, an increase in gross profit on lower sales, increased selling and administrative expense, and an increase in income tax expense. Diluted earnings per share of \$0.02 were reported in the third quarter of fiscal 2015 as compared to diluted loss per share of \$(0.04) in the same period of fiscal 2014. The weighted average common shares outstanding for purposes of computing diluted earnings per share in the third quarter of fiscal 2015 were 24,643,000 shares as compared to 24,401,000 shares in the same period last year.

#### NINE MONTHS ENDED MARCH 31, 2015 COMPARED TO NINE MONTHS ENDED MARCH 31, 2014

##### Lighting Segment

<i>(In thousands)</i>	Nine Months Ended	
	March 31	
	2015	2014
Net Sales	\$164,382	\$167,595
Gross Profit	\$40,748	\$37,696
Operating Income	\$11,230	\$8,680

Lighting Segment net sales of \$164,382,000 in the first nine months of fiscal 2015 decreased 1.9% from fiscal 2014 same period net sales of \$167,595,000. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled \$94.4 million in the first nine months of fiscal 2015, representing a 28.9% increase from the first nine months of fiscal 2014 net sales of solid-state LED light fixtures of \$73.2 million. There was a reduction in the Company's traditional lighting sales (metal halide and fluorescent light sources) from fiscal 2014 to fiscal 2015 as customers converted from traditional lighting to light fixtures having solid-state LED technology. While total sales have declined from the same period last fiscal year, some of the drop in sales can also be attributed to product mix as customers migrate to lower cost lighting fixtures.

Gross profit of \$40,748,000 in the first nine months of fiscal 2015 increased \$3.1 million or 8.1% from the same period of fiscal 2014, and increased from 22.2% to 24.5% as a percentage of Lighting Segment net sales (customer plus inter-segment net sales). The Company was able to offset the reduction in customer net sales with an increase in gross profit. The increase in amount of gross profit is due to the net effect of decreased net sales, effective management of material and labor costs, competitive pricing pressures, improved manufacturing efficiencies, decreased freight expense, decreased employee compensation and benefits expense (\$0.3 million), increased warranty costs (\$0.2 million), decreased repairs and maintenance expense (\$0.1 million), increased depreciation expense (\$0.1 million), decreased supplies expense (\$0.2 million), decreased utilities expense (\$0.1 million), increased outside service expense (\$0.3 million), and increased customer relations expense (\$0.1 million).



Selling and administrative expenses of \$29,518,000 in the first nine months of fiscal 2015 increased \$0.5 million or 1.7% from the same period of fiscal 2014 primarily as the net result of increased employee compensation and benefit expense (\$0.6 million), decreased research and development expense (\$1.5 million), increased convention and show expense (\$0.2 million), increased travel expenses (\$0.1 million), increased outside service expense (\$0.4 million), and small increases in other several expenses.

The Lighting Segment nine month fiscal 2015 operating income of \$11,230,000 increased \$2.6 million or 29.4% from operating income of \$8,680,000 in the same period of fiscal 2014. This increase of \$2.6 million was the net result of decreased net sales, an increase in gross profit and an increase in the gross margin as a percentage of sales, and increased selling and administrative expenses.

**Graphics Segment**

<i>(In thousands)</i>	Nine Months Ended March 31	
	2015	2014
Net Sales	\$49,656	\$40,367
Gross Profit	\$9,232	\$6,721
Operating Income (Loss)	\$798	\$(1,150)

Graphics Segment net sales of \$49,656,000 in the first nine months of fiscal 2015 increased 23.0% from fiscal 2014 same period net sales of \$40,367,000. The \$9.3 million increase in Graphics Segment net sales is primarily the net result of image conversion programs and sales to several petroleum / convenience store customers (\$2.7 million net increase), one grocery retailer (\$0.3 million increase), one national drug retailer (\$1.1 million decrease), several quick-service restaurant chains (\$5.8 million net increase), two commercial market customers (\$0.9 million increase), one banking customer (\$1.3 million increase), and changes in volume or completion of several other graphics programs (\$0.6 million net decrease). The Graphics Segment net sales of graphic identification products that contain solid-state LED light sources and LED lighting for signage totaled \$1.1 million in the first nine months of fiscal 2015, representing a 36.6% decrease from same period fiscal 2014 net sales of \$1.8 million.

Gross profit of \$9,232,000 in the first nine months of fiscal 2015 increased \$2.5 million or 37.4% from the same period in fiscal 2014, and increased from 16.3% to 18.4% as a percentage of Graphics Segment net sales (customer plus inter-segment net sales). The increase in the amount of gross profit is due to the net effect of increased net sales, lower margins on installation sales, increased freight expense, increased outside service expense (\$0.1 million), increased warranty expense (\$0.1 million), and increased compensation and benefit expense (\$0.4 million).

Selling and administrative expenses of \$8,777,000 in the first nine months of fiscal 2015 increased \$0.9 million or 11.5% from the same period of fiscal 2014 primarily as a result of increased compensation and benefit expense (\$0.5 million), increased outside service expense (\$0.2 million), decreased commission expense (\$0.1 million), increased convention and show expense (\$0.1 million), and several small increases in other expenses. In fiscal 2015, the Graphics Segment recorded a gain on the sale of one of its facilities in Woonsocket, Rhode Island of \$343,000 with no comparable event in fiscal 2014.

The Graphics Segment nine month fiscal 2015 operating income of \$798,000 increased from an operating loss of \$(1,150,000) in the same period of fiscal 2014 and is the net result of increased gross profit from higher net sales, increased selling and administrative expenses, and a gain on the sale of a facility.

**Technology  
Segment**

<i>(In thousands)</i>	Nine Months Ended March 31	
	2015	2014
Net Sales	\$17,705	\$16,482
Gross Profit	\$5,464	\$5,776
Operating Income	\$1,986	\$1,628

Technology Segment net sales of \$17,705,000 in the first nine months of fiscal 2015 increased 7.4% from fiscal 2014 same period net sales of \$16,482,000. The \$1.2 million increase in Technology Segment net sales is primarily the net result of a \$0.5 million decrease in sales to the telecommunications market, a \$0.2 million increase in sales to the transportation market, a \$1.2 million increase in sales to original equipment manufacturers, a \$0.2 million increase in sales to the medical market, a \$0.4 million decrease in sales to the sports market, and a \$0.5 million increase in sales to various other markets. While the net customer sales increased, the Technology Segment inter-segment sales decreased \$4.3 million or 16.6% due to decreased intercompany sales of LED circuit board assemblies used in light fixtures having solid-state LED technology. The Company has chosen to outsource some of the components of its circuit board assembly in order to meet the growing demand for LED lighting and to make production capacity available for other LED component parts and assemblies. The Technology Segment's net sales related to LED video screens totaled \$1.9 million in the first nine months of fiscal 2015, representing a 16.7% decrease from fiscal 2014 same period net sales of \$2.3 million.

Gross profit of \$5,464,000 in the first nine months of fiscal 2015 decreased \$0.3 million or 5.4% from the same period of fiscal 2014, and increased from 13.6% to 13.9% as a percentage of Technology Segment net sales (customer plus inter-segment net sales). The \$0.3 million decrease in amount of gross profit is due to the net effect of increased customer net sales, decreased inter-segment sales, increased employee compensation and benefits expense (\$0.1 million), decreased supplies expense (\$0.2 million), increased repairs and maintenance expense (\$0.1 million), and increased outside service expense (\$0.1 million).

Selling and administrative expenses of \$3,478,000 in the first nine months of fiscal 2015 decreased \$0.7 million or 16.2% from the same period of fiscal 2014 primarily as the net result of an increase in employee compensation and benefit expense (\$0.3 million), a decrease in outside service expense (\$0.4 million), a decrease in research and development expense (\$0.3 million), and a decrease in amortization expense (\$0.2 million).

The Technology Segment nine month fiscal 2015 operating income of \$1,986,000 increased \$0.4 million or 22.0% from operating income of \$1,628,000 in the same period of fiscal 2014. The increase of \$0.4 million was the net result of increased net customer sales, decreased inter-segment sales, decreased gross profit, and decreased selling and administrative expenses. Another factor positively impacting operating income is the implementation of the LSI Business System, which has the effect of adding value through process improvement and the elimination of waste. While in its early phases, the Company is beginning to see the effects of this through cost reduction and improved profits.

#### All Other Category

<i>(In thousands)</i>	Nine Months	
	Ended	
	March 31	
	2015	2014
Net Sales	\$41	\$1,161
Gross Profit (Loss)	\$21	\$(122 )
Operating Income (Loss)	\$(183)	\$(642 )

Due to the sale of LSI Saco on September 30, 2014, there is no longer comparable data for the All Other Category. Fiscal 2015 results represent only the first quarter of the fiscal year whereas fiscal 2014 results represent nine months.

#### Corporate and Eliminations

<i>(In thousands)</i>	Nine Months	
	Ended	
	March 31	
	2015	2014
Gross Profit (Loss)	\$3	\$(477 )
Operating (Loss)	\$(8,491)	\$(5,112)

The gross profit (loss) relates to the change in the intercompany profit in inventory elimination.

Administrative expenses of \$7,929,000 in the first nine months of fiscal 2015 increased \$3.3 million or 71.1% from the same period of the prior year. The increase in expense is primarily the result of increased employee compensation and benefit expense (\$0.7 million), an increase in legal fee expense (\$0.3 million), increased outside service expense (\$0.6 million), increased depreciation expense (\$0.2 million), increased research and development expense (\$0.2 million), and a \$0.7 million increase in severance costs and a \$1.0 million increase in self-insured death benefits, both recorded in the first nine months of fiscal 2015, with no comparable net effect in fiscal 2014. In fiscal 2015, the Company recognized a \$565,000 loss on the sale of its Montreal subsidiary, LSI Saco, with no corresponding event in fiscal 2014.

### Consolidated Results

The Company reported net interest expense of \$17,000 in the first nine months of fiscal 2015 as compared to net interest expense of \$41,000 in the same period of fiscal 2014. Commitment fees related to the unused portions of the Company's lines of credit and interest income on invested cash are included in both fiscal years.

The \$1,815,000 income tax expense in the first nine months of fiscal 2015 represents a consolidated effective tax rate of 34.1%. This is the net result of an income tax rate of 36.3% for the Company's U.S. operations, influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income, by certain U.S. federal tax credits, by a benefit related to uncertain income tax positions, by a full valuation reserve on the Company's Canadian tax position and certain Canadian tax credits both occurring in the first quarter, and a \$136,000 tax benefit related to the retroactive reinstatement of the R&D tax credit. The \$1,637,000 income tax expense in the first nine months of fiscal 2014 represents a consolidated effective tax rate of 48.7%. This is the net result of an income tax rate of 35.4% for the Company's U.S. operations, influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income, an increase in the valuation reserve against New York State tax credits of \$362,000 resulting from changes to the New York tax code, by certain U.S. federal and Canadian income tax credits, by a benefit related to uncertain income tax positions, and by a full valuation reserve on the Company's Canadian tax position.



The Company reported net income of \$3,508,000 in the first nine months of fiscal 2015 compared to net income of \$1,726,000 in the same period of the prior year. The \$1.8 million increase in net income is primarily the net result of increased net sales, increased gross profit, increased operating expenses, the gain on the sale of a facility more than offset by the loss on the sale of a subsidiary in fiscal 2015 with no comparable events in fiscal 2014, and increased income tax expense. Diluted earnings per share of \$0.14 were reported in the first nine months of fiscal 2015 as compared to diluted earnings per share of \$0.07 in the same period of fiscal 2014. The weighted average common shares outstanding for purposes of computing diluted earnings per share in the first nine months of fiscal 2015 was 24,550,000 shares as compared to 24,545,000 shares in the same period last year.

### **Liquidity and Capital Resources**

The Company considers its level of cash on hand, borrowing capacity, current ratio and working capital levels to be its most important measures of short-term liquidity. For long-term liquidity indicators, the Company believes its ratio of long-term debt to equity and its historical levels of net cash flows from operating activities to be the most important measures.

At March 31, 2015, the Company had working capital of \$81.1 million, compared to \$76.8 million at June 30, 2014. The ratio of current assets to current liabilities was 3.60 to 1 as compared to a ratio of 3.62 to 1 at June 30, 2014. The \$4.3 million increase in working capital from June 30, 2014 to March 31, 2015 was primarily related to the net effect of increased cash and cash equivalents (\$19.0 million) and decreased accounts payable (\$1.8 million) partially offset by decreased net accounts receivable (\$7.4 million), an increase in accrued expenses (\$3.6 million), a decrease in net inventory (\$2.8 million), a decrease in refundable income taxes (\$1.9 million), and a decrease in other current assets (\$0.6 million). The Company has a strategy of aggressively managing working capital, including reduction of the accounts receivable days sales outstanding (DSO) and reduction of inventory levels, without reducing service to its customers.

The Company provided \$21.8 million of cash from operating activities in the first nine months of fiscal 2015 as compared to a generation of cash of \$10.8 million in the same period of the prior year. This \$11.0 million increase in net cash flows from operating activities is primarily the net result of a decrease rather than an increase in net inventory (favorable change of \$6.5 million), a greater decrease in refundable income tax (favorable change of \$1.5 million), a decrease rather than an increase in customer prepayments (unfavorable change of \$1.7 million), an increase rather than a decrease in accrued expenses and other (favorable change of \$6.1 million), an increase rather than a decrease in deferred tax assets (unfavorable change of \$0.9 million), a larger decrease in accounts payable (unfavorable change of \$1.4), a smaller decrease in net accounts receivable (unfavorable change of \$1.7 million), an increase in depreciation and amortization expense (favorable change of \$0.1 million), an increase in net income (favorable change of \$1.8 million), a loss on the sale of a subsidiary (favorable change of \$0.6 million), and an increase in the gain recognized on the sale of fixed assets, which includes the sale of a facility (unfavorable change of \$0.3 million) and increased stock option expense (favorable change of \$0.3 million)..

Net accounts receivable were \$35.4 million and \$42.8 million at March 31, 2015 and June 30, 2014, respectively. The decrease of \$7.4 million in net receivables is due to lower net sales in the latter two months of the third quarter of fiscal 2015 as compared to the latter two months of the fourth quarter of fiscal 2014. DSO decreased to 48 days at March 31, 2015 from 51 days at June 30, 2014, which also contributed to a reduction in accounts receivable. The Company believes that its receivables are ultimately collectible or recoverable, net of certain reserves, and that aggregate allowances for doubtful accounts are adequate.

Net inventories of \$42.6 million at March 31, 2015 decreased \$2.8 million from June 30, 2014 levels. Based on a strategy of balancing inventory reductions with customer service and the timing of shipments, net inventory decreases occurred in the first nine months of fiscal 2015 in the Lighting Segment of approximately \$2.5 million and the Technology Segment of approximately \$1.0 million. A net inventory increase occurred in the first nine months of fiscal 2015 in the Graphics Segment of approximately \$0.8 million. A decrease of \$0.5 million in net inventory in the All Other Category occurred due to the operation of and sale of LSI Saco in the first quarter of fiscal 2015.



Cash generated from operations and borrowing capacity under the Company's line of credit facility is the Company's primary source of liquidity. The Company has an unsecured \$30 million revolving line of credit with its bank group, with all of the \$30 million of the credit line available as of April 24, 2015. This line of credit is a \$30 million three year committed credit facility expiring in the third quarter of fiscal 2018. The Company believes that its \$30 million line of credit plus cash flows from operating activities are adequate for the Company's fiscal 2015 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants.

The Company used \$1.0 million in cash for investing activities in the first nine months of fiscal 2015 as compared to a use of \$4.3 million in the same period of the prior year, resulting in a favorable change of \$3.3 million. Capital expenditures for the first nine months of fiscal 2015 decreased \$1.1 million to \$3.4 million from the same period in fiscal 2014. The largest components of the fiscal 2015 capital expenditures are tooling and equipment related to the Company's Lighting and Graphics Segments. The Company also recorded proceeds from the sale of one of its Woonsocket, Rhode Island facilities along with proceeds from the sale of small miscellaneous fixed assets of \$953,000 in fiscal 2015 compared to proceeds of \$250,000 from the sale of various fixed assets in fiscal 2014. The Company also recorded net proceeds from the sale of its LSI Saco subsidiary of \$1.5 million with no comparable transaction in fiscal 2014.

The Company used \$1.8 million of cash related to financing activities in the first nine months of fiscal 2015 and \$4.1 million in the first nine months of fiscal 2014. Dividends paid to shareholders represent most of the cash used in financing activities and represents most of the \$2.2 million difference in cash used between the two fiscal years. The Company has paid cash dividends of \$0.09 per share in the first nine months of fiscal 2015 as compared to \$0.18 per share in the same period of fiscal 2014.

The Company has, or could have, on its balance sheet financial instruments consisting primarily of cash and cash equivalents, short-term investments, revolving lines of credit, and 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.

### **Off-Balance Sheet Arrangements**

The Company has no financial instruments with off-balance sheet risk and has no off-balance sheet arrangements.

### **Cash Dividends**

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 as of May 5, 2015. The indicated annual cash dividend rate is now \$0.12 per share. The Board of Directors has adopted a policy regarding dividends which indicates that dividends will be determined by the Board of Directors in its discretion based upon its evaluation of earnings, cash flow requirements, financial condition, debt levels, stock repurchases, future business developments and opportunities, and other factors deemed relevant.

### **Critical Accounting Policies and Estimates**

The Company is required to make estimates and judgments in the preparation of its financial statements that affect the reported amounts of assets, liabilities, revenues and expenses, and related footnote disclosures. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The Company continually reviews these estimates and their underlying assumptions to ensure they remain appropriate. The Company believes the items discussed below are among its most significant accounting policies because they utilize estimates about the effect of matters that are inherently uncertain and therefore are based on management's judgment. Significant changes in the estimates or assumptions related to any of the following critical accounting policies could possibly have a material impact on the financial statements.

#### ***Revenue Recognition***

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

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

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

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

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

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

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

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.

### *Income Taxes*

The Company accounts for income taxes in accordance with ASC Topic 740, "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 and liabilities 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.

The Company operates in multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Internal Revenue Service and other tax authorities routinely review the Company's tax returns. These audits can involve complex issues which may require an extended period of time to resolve. In management's opinion, adequate provision has been made for potential adjustments arising from these examinations.

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, although taxpayers may choose to apply them in taxable years beginning on or after January 1, 2012. The Company has reviewed the impact of the final regulations and the anticipated impact to the financial statements is immaterial.

The Company is recording estimated interest and penalties related to potential underpayment of income taxes as a component of tax expense in the Condensed Consolidated Statements of Operations. The reserve for uncertain tax positions is not expected to change significantly in the next twelve months.

### ***Asset Impairment***

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 is impaired in accordance with ASU 2011 – 08, “Intangible – Goodwill and Other (Topic 350).” If through the qualitative assessment it is determined that it is more likely than not that goodwill is not impaired, no further testing is required. If it is determined that it is more likely than not that goodwill is 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.

Carrying values for long-lived tangible assets and definite-lived intangible assets, excluding goodwill and indefinite-lived intangible assets, are reviewed for possible impairment as circumstances warrant as required by ASC Topic 360, “Property, Plant, and Equipment.” Impairment reviews are conducted at the judgment of Company management when it believes that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the forecast for a product, changes in technology or in the way an asset is being used, a history of negative operating cash flow, or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review. The Company’s initial impairment review to determine if a potential impairment charge is required is based on an undiscounted cash flow analysis at the lowest level for which identifiable cash flows exist. The analysis requires judgment with respect to changes in technology, the continued success of product lines and future volume, revenue and expense growth rates, and discount rates.

### ***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 amount ultimately not collected may differ from the reserve

established, particularly in the case where percentages are applied against aging categories. In all cases, it is management's goal to carry a reserve against the Company's accounts receivable which is adequate based upon the information available at that time so that net accounts receivable is properly stated. The Company also establishes allowances, at the time revenue is recognized, for returns and allowances, discounts, pricing and other possible customer deductions. These allowances are based upon historical trends.

### ***Warranty Reserves***

The Company maintains a warranty reserve which is reflective of its limited warranty policy. The warranty reserve covers the estimated future costs to repair or replace defective product or installation services, whether the product is returned, scrapped or repaired in the field. The warranty reserve is first determined based upon known claims or issues, and then by the application of a specific percentage of sales to cover general claims. The percentage applied to sales to calculate general claims is based upon historical claims as a percentage of sales. Management addresses the adequacy of its warranty reserves on a quarterly basis to ensure the reserve is accurate based upon the most current information.

### ***Inventory Reserves***

The Company maintains an inventory reserve for probable obsolescence of its 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. Significant judgment is used to establish obsolescence reserves and management adjusts these reserves as more information becomes available about the ultimate disposition of the inventory item. Management values inventory at lower of cost or market.

### **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 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.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in the Company's exposure to market risk since June 30, 2014. Additional information can be found in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, which appears on page 14 of the Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures (as such term is defined Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We conducted, under the supervision of our management, including the Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2015, our disclosure controls and procedures were effective. Management believes that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q are fairly presented in all material respects in accordance with GAAP for interim financial statements, and the Company's Chief Executive Officer and Chief Financial Officer have certified that, based on their knowledge, the condensed consolidated financial statements included in this report fairly present in all material respects the Company's financial condition, results of operations and cash flows for each of the periods presented in this report.

#### **Remediation of Material Weakness**

As disclosed in Item 4 of our reports on Form 10-Q for the quarters ended September 30, 2014 and December 31, 2014, we identified a material weakness in our internal control over financial reporting as of September 30, 2014 and December 31, 2014. A material weakness in internal control over financial reporting is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Management identified the following material weakness in the Company's internal control over financial reporting as of September 30, 2014 and December 31, 2014:

Communication of special customer terms of sale: The Company concluded that controls pertaining to the internal communication of certain terms of sale related to product warranty that could materially impact financial reporting were not operating effectively because of the lack of communication of such terms to the Accounting Department. Because of this material weakness, a reasonable possibility existed that a material misstatement in the Company's condensed consolidated financial statements would not be prevented or detected on a timely basis.



The Company remediated the underlying causes of the material weakness by taking several actions and instituting appropriate control procedures. Among other things, the Company has:

Identified all customers who had been given extended warranty programs

Established communication requirements between the sales department, customer service personnel and the Lighting Segment Controller to continually identify extended warranty programs

Required that all extended warranty programs be approved by either the President of the Lighting Segment or the Lighting Segment Vice President of Customer Service, and that the extended warranty programs be evidenced in writing on an extended warranty registration form with the customer's signature included

Required the Lighting Customer Service Department to maintain an extended warranty register for all programs

Required the Lighting Segment Controller to evaluate all data on customer shipments with extended warranty to appropriately calculate the warranty liability at the balance sheet date

The new internal controls have been in operation for a sufficient period of time, management has tested these new internal controls, and our management has concluded that the material weakness has been fully remediated.

In addition, with the oversight of the Audit Committee of the Company's Board of Directors, management took additional steps and measures to conduct further review of the Company's internal control over financial reporting in selected areas to ensure the following: 1) the Company's internal controls are complete and suitably designed to address the relevant control objectives for all significant financial statement assertions, 2) the Company's internal controls are designed at an appropriate level of precision such that they would detect a material misstatement in the consolidated financial statements, and 3) appropriate evidence is maintained to support the operating effectiveness of internal controls. We incurred additional costs in the second and third fiscal quarters to conduct this review and implement new policies and procedures, and to remediate the previously identified material weakness, including testing of the new controls.

#### **Changes in Internal Control**

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as otherwise described in this Item 4.



**PART II. OTHER INFORMATION****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The Company does not purchase into treasury its own common shares for general purposes. However, the Company does purchase its own common shares, through a Rabbi Trust, in connection with investments of (c) employee/participants of the LSI Industries Inc. Non-Qualified Deferred Compensation Plan. Purchases of Company common shares for this Plan in the third quarter of fiscal 2015 were as follows:

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
1/1/15 to 1/31/15	1,309	\$6.50	1,309	(1)
2/1/15 to 2/28/15	1,046	\$8.05	1,046	(1)
3/1/15 to 3/31/15	1,130	\$8.03	1,130	(1)
Total	3,485	\$7.46	3,485	(1)

(1) All acquisitions of shares reflected above have been made in connection with the Company's Non-Qualified Deferred Compensation Plan, which has been authorized for 575,000 shares of the Company to be held in and distributed by the Plan. At March 31, 2015, the Plan held 321,838 common shares of the Company and had distributed 146,352 common shares.

**ITEM 6. EXHIBITS**

Exhibits:

10.1 Amendment to Loan Documents dated March 23, 2015 by and between the Registrant and PNC Bank, National Association.

31.1 Certification of Principal Executive Officer required by Rule 13a-14(a)

31.2 Certification of Principal Financial Officer required by Rule 13a-14(a)

32.1 Section 1350 Certification of Principal Executive Officer

32.2 Section 1350 Certification of Principal Financial Officer

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**LSI Industries Inc.**

By: /s/ Dennis W. Wells  
Dennis W. Wells  
Chief Executive Officer and President  
(Principal Executive Officer)

By: /s/ Ronald S. Stowell  
Ronald S. Stowell  
Vice President, Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

May 1, 2015