

LSI INDUSTRIES INC
Form 10-Q
April 29, 2016
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016.

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

Commission File No. 0-13375

LSI Industries Inc.

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

10000 Alliance Road

Cincinnati, Ohio 45242

(513) 793-3200

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES X NO _____

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES X NO _____

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

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

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

As of April 26, 2016 there were 24,918,082 shares of the Registrant's common stock, no par value per share, outstanding.

LSI INDUSTRIES INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2016

INDEX

PART I. Financial Information	Begins on Page
ITEM 1. Financial Statements	
Condensed Consolidated Statements of Operations	3
Condensed Consolidated Balance Sheets	4
Condensed Consolidated Statements of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7
ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	23
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	37
ITEM 4. Controls and Procedures	37
PART II. Other Information	
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	38
ITEM 6. Exhibits	38
Signatures	39

“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		Nine Months Ended	
	March 31		March 31	
<i>(In thousands, except per share data)</i>	2016	2015	2016	2015
Net sales	\$70,740	\$68,603	\$241,352	\$231,784
Cost of products and services sold	54,191	52,298	177,528	176,316
Gross profit	16,549	16,305	63,824	55,468
Loss on sale of subsidiary (see Note 13)	--	--	--	565
(Gain) on sale of building	--	--	--	(343)
Selling and administrative expenses	15,817	15,723	51,949	49,906
Operating income	732	582	11,875	5,340
Interest (income)	(28)	(8)	(54)	(17)
Interest expense	9	11	27	34
Income before income taxes	751	579	11,902	5,323
Income tax expense	229	186	3,848	1,815

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

Net income	\$522	\$393	\$8,054	\$3,508
Earnings per common share (see Note 4)				
Basic	\$0.02	\$0.02	\$0.32	\$0.14
Diluted	\$0.02	\$0.02	\$0.32	\$0.14
Weighted average common shares outstanding				
Basic	25,080	24,528	24,918	24,470
Diluted	25,700	24,643	25,494	24,550

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, 2016	June 30, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$33,779	\$26,409
Accounts receivable, less allowance for doubtful accounts of \$326 and \$317, respectively	37,890	43,661
Inventories	46,193	43,083
Refundable income taxes	630	99
Other current assets	6,590	7,562
Total current assets	125,082	120,814
Property, Plant and Equipment, at cost		
Land	6,982	6,952
Buildings	38,614	37,706
Machinery and equipment	80,032	76,383
Construction in progress	3,108	588
	128,736	121,629
Less accumulated depreciation	(81,488)	(78,441)
Net property, plant and equipment	47,248	43,188
Goodwill	10,508	10,508
Other Intangible Assets, net	5,713	6,092
Other Long-Term Assets, net	1,711	1,777
Total assets	\$190,262	\$182,379

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

LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

<i>(In thousands, except shares)</i>	March 31, 2016	June 30, 2015
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 11,756	\$ 14,721
Accrued expenses	21,687	22,126
Total current liabilities	33,443	36,847
Other Long-Term Liabilities	2,365	2,580
Commitments and Contingencies (Note 12)		
Shareholders' Equity		
Preferred shares, without par value; Authorized 1,000,000 shares, none issued		
Common shares, without par value; Authorized 40,000,000 shares; Outstanding 24,902,319 and 24,392,938 shares, respectively	112,768	106,353
Retained earnings	41,686	36,599
Total shareholders' equity	154,454	142,952
Total liabilities & shareholders' equity	\$ 190,262	\$ 182,379

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

LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

<i>(In thousands)</i>	Nine Months Ended	
	March 31 2016	2015
Cash Flows from Operating Activities		
Net income	\$8,054	\$3,508
Non-cash items included in net income		
Depreciation and amortization	4,903	4,728
Deferred income taxes	(126)	(584)
Deferred compensation plan	328	62
Stock option expense	2,542	1,153
Issuance of common shares as compensation	168	144
(Gain) on disposition of building	--	(343)
(Gain) on disposition of fixed assets	(87)	(2)
Loss on sale of subsidiary	--	565
Allowance for doubtful accounts	162	268
Inventory obsolescence reserve	1,351	1,093
Changes in certain assets and liabilities:		
Accounts receivable	5,588	6,579
Inventories	(4,440)	901
Refundable income taxes	(531)	1,885
Accounts payable	(3,176)	(1,884)
Accrued expenses and other	812	4,340
Customer prepayments	(310)	(625)
Net cash flows provided by operating activities	15,238	21,788
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(8,410)	(3,439)
Proceeds from sale of subsidiary, net of cash sold	--	1,494
Proceeds from sale of fixed assets	124	953
Net cash flows (used in) investing activities	(8,286)	(992)
Cash Flows from Financing Activities		

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

Cash dividends paid	(2,959)	(2,172)
Exercise of stock options	3,604	401
Purchase of treasury shares	(317)	(165)
Issuance of treasury shares	90	93
Net cash flows provided by (used in) financing activities	418	(1,843)
Increase in cash and cash equivalents	7,370	18,953
Cash and cash equivalents at beginning of period	26,409	9,013
Cash and cash equivalents at end of period	\$33,779	\$27,966

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation:

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

Revenue Recognition:

Revenue is recognized when title to goods and risk of loss have passed to the customer, there is persuasive evidence of a purchase arrangement, delivery has occurred or services have been rendered, and collectability is reasonably

assured. Revenue is typically recognized at time of shipment. In certain arrangements with customers, as is the case with the sale of some of our solid-state LED video screens, revenue is recognized upon customer acceptance of the video screen at the job site. Sales are recorded net of estimated returns, rebates and discounts. Amounts received from customers prior to the recognition of revenue are accounted for as customer pre-payments and are included in accrued expenses.

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

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

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

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

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

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

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

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

Credit and Collections:

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

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

<i>(In thousands)</i>	March 31, 2016	June 30, 2015
Accounts receivable	\$38,216	\$43,978
Less: Allowance for doubtful accounts	(326)	(317)
Accounts receivable, net	\$37,890	\$43,661

Cash and Cash Equivalents:

The cash balance includes cash and cash equivalents which have original maturities of less than three months. The Company maintains balances at financial institutions in the United States. The FDIC limit for insurance coverage on non-interest bearing accounts is \$250,000. As of March 31, 2016 and June 30, 2015, the Company had bank balances of \$37,093,000 and \$28,494,000, respectively, without insurance coverage.

Inventories:

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

Property, Plant and Equipment and Related Depreciation:

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

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

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

The Company recorded \$1,603,000 and \$1,465,000 of depreciation expense in the third quarter of fiscal 2016 and 2015, respectively, and \$4,524,000 and \$4,328,000 of depreciation expense in the first nine months of fiscal 2016 and 2015, respectively.

Intangible Assets:

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

Fair Value:

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

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

Product Warranties:

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

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

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	Nine	Fiscal
	Months	Months	Year
	Ended	Ended	Ended
	March	March	June
	31,	31,	30,
	2016	2015	2015
<i>(In thousands)</i>			
Balance at beginning of the period	\$3,408	\$2,662	\$2,662
Additions charged to expense	4,018	2,588	3,185
Deductions for repairs and replacements	(2,606)	(1,802)	(2,439)
Balance at end of the period	\$4,820	\$3,448	\$3,408

Research and Development Costs:

Research and development expenses are costs directly attributable to new product development, including the development of new technology for both existing and new products, and consist of salaries, payroll taxes, employee benefits, materials, outside legal costs and filing fees related to obtaining patents, supplies, depreciation and other administrative costs. The Company expenses as research and development all costs associated with development of software used in solid-state LED products. All costs are expensed as incurred and are included in selling and administrative expenses. Research and development costs related to both product and software development totaled \$1,562,000 and \$1,096,000 for the three months ended March 31, 2016 and 2015, respectively, and \$4,193,000 and \$4,397,000 for the nine months ended March 31, 2016 and 2015, respectively.

Cost of Products and Services Sold:

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

Earnings Per Common Share:

The computation of basic earnings per common share is based on the weighted average common shares outstanding for the period net of treasury shares held in the Company's non-qualified deferred compensation plan. The computation of diluted earnings per share is based on the weighted average of common shares outstanding for the period and includes common share equivalents. Common share equivalents include the dilutive effect of stock options, restricted stock units, contingently issuable shares and common shares to be issued under a deferred compensation plan, all of which totaled 893,000 shares and 440,000 shares for the three months ended March 31, 2016 and 2015, respectively, and 846,000 shares and 401,000 shares for the nine months ended March 31, 2016 and 2015, respectively. See further discussion of earnings per common share in Note 4.

New Accounting Pronouncements:

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

Comprehensive Income:

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

Subsequent Events:

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

Use of Estimates:

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

NOTE 3 - SEGMENT REPORTING INFORMATION

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

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

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

The Lighting Segment includes outdoor, indoor, and landscape lighting utilizing both traditional and LED light sources, that have been fabricated and assembled for several markets including 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, 2016 or in the three and nine months ended March 31, 2015. There was no concentration of accounts receivable at March 31, 2016 or June 30, 2015.

Summarized financial information for the Company's operating segments is provided for the indicated periods and as of March 31, 2016 and June 30, 2015:

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	March 31		March 31	
	2016	2015	2016	2015
Net Sales:				
Lighting Segment	\$49,331	\$48,865	\$168,007	\$164,382
Graphics Segment	17,162	13,363	59,949	49,656
Technology Segment	4,247	6,375	13,396	17,705
All Other Category	--	--	--	41
	\$70,740	\$68,603	\$241,352	\$231,784
Operating Income (Loss):				
Lighting Segment	\$1,106	\$2,913	\$11,970	\$11,230

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

Graphics Segment	1,174	(320)	5,370	798
Technology Segment	888	855	3,221	1,986
All Other Category	--	--	--	(183)
Corporate and Eliminations	(2,436)	(2,866)	(8,686)	(8,491)
	\$732	\$582	\$11,875	\$5,340

Capital Expenditures:

Lighting Segment	\$1,074	\$319	\$2,923	\$1,529
Graphics Segment	2,145	29	3,254	935
Technology Segment	1,626	97	1,850	448
All Other Category	--	--	--	4
Corporate and Eliminations	181	437	383	523
	\$5,026	\$882	\$8,410	\$3,439

Depreciation and Amortization:

Lighting Segment	\$730	\$778	\$2,152	\$2,229
Graphics Segment	293	262	721	768
Technology Segment	392	281	1,111	944
All Other Category	--	--	--	31
Corporate and Eliminations	314	269	919	756
	\$1,729	\$1,590	\$4,903	\$4,728

	March 31, 2016	June 30, 2015
Identifiable Assets:		
Lighting Segment	\$87,654	\$90,713
Graphics Segment	33,060	29,477
Technology Segment	30,140	28,423
All Other Category	--	--
Corporate and Eliminations	39,408	33,766
	\$190,262	\$182,379

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

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

	Three Months Ended		Nine Months Ended	
	March 31		March 31	
<i>(In thousands)</i>	2016	2015	2016	2015
Lighting Segment inter-segment net sales	\$715	\$533	\$2,143	\$2,030
Graphics Segment inter-segment net sales	\$275	\$132	\$1,281	\$388
Technology inter-segment net sales	\$8,920	\$6,788	\$27,236	\$21,735
All Other Category inter-segment net sales	\$--	\$--	\$--	\$308

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

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	March 31		March 31	
	2016	2015	2016	2015
Net Sales (a):				
United States	\$70,740	\$68,603	\$241,352	\$231,743
Canada	--	--	--	41
	\$70,740	\$68,603	\$241,352	\$231,784

	March 31,	June 30,
	2016	2015
Long-lived Assets (b):		
United States	\$48,959	\$44,965
Canada	--	--
	\$48,959	\$44,965

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

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

NOTE 4 - EARNINGS PER COMMON SHARE

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

	Three Months Ended		Nine Months Ended	
	March 31 2016	2015	March 31 2016	2015
<u>BASIC EARNINGS PER SHARE</u>				
Net income	\$522	\$393	\$8,054	\$3,508
Weighted average shares outstanding during the period, net of treasury shares (a)	24,807	24,203	24,648	24,149
Weighted average vested restricted stock units outstanding	22	--	25	--
Weighted average shares outstanding in the Deferred Compensation Plan during the period	251	325	245	321
Weighted average shares outstanding	25,080	24,528	24,918	24,470
Basic earnings per share	\$0.02	\$0.02	\$0.32	\$0.14
<u>DILUTED EARNINGS PER SHARE</u>				
Net income	\$522	\$393	\$8,054	\$3,508
Weighted average shares outstanding				
Basic	25,080	24,528	24,918	24,470
Effect of dilutive securities (b):				
Impact of common shares to be issued under stock option plans, and contingently issuable shares, if any	620	115	576	80
Weighted average shares outstanding (c)	25,700	24,643	25,494	24,550
Diluted earnings per share	\$0.02	\$0.02	\$0.32	\$0.14

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

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

Options to purchase 1,032,250 common shares and 1,729,273 common shares at March 31, 2016 and 2015, respectively, and options to purchase 1,391,300 common shares and 2,272,823 common shares at March 31, 2016 (c) and 2015, 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:

<i>(In thousands)</i>	March 31, 2016	June 30, 2015
Inventories:		
Raw materials	\$29,284	\$27,920
Work-in-process	3,971	4,658
Finished goods	12,938	10,505
Total Inventories	\$46,193	\$43,083

NOTE 6 - ACCRUED EXPENSES

The following information is provided as of the dates indicated:

<i>(In thousands)</i>	March 31, 2016	June 30, 2015
Accrued Expenses:		
Compensation and benefits	\$11,060	\$11,614
Customer prepayments	1,014	1,324
Accrued sales commissions	2,058	1,982
Accrued warranty	4,820	3,408
Other accrued expenses	2,735	3,798
Total Accrued Expenses	\$21,687	\$22,126

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

As of March 1, 2016, 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 \$89.0 million or 112% above the carrying value of this reporting unit including goodwill. 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 \$1.7 million or 183% above the carrying value of the reporting unit including goodwill. 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 \$15.4 million or 59% above the carrying value of this reporting unit including goodwill. The impairment test is expected to be completed in the fourth quarter of fiscal 2016. 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	Graphics	Technology	All Other	Total
----------------------------	----------	----------	------------	--------------	-------

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

	Segment	Segment	Segment	Category	
Balance as of June 30, 2015					
Goodwill	\$34,913	\$28,690	\$ 11,621	\$ --	\$75,224
Accumulated impairment losses	(34,778)	(27,525)	(2,413)	--	(64,716)
Goodwill, net as of June 30, 2015	\$135	\$1,165	\$ 9,208	\$ --	\$10,508
Balance as of March 31, 2016					
Goodwill	\$34,913	28,690	11,621	--	75,224
Accumulated impairment losses	(34,778)	(27,525)	(2,413)	--	(64,716)
Goodwill, net as of March 31, 2016	\$135	1,165	9,208	\$ --	\$10,508

The Company performed its annual review of indefinite-lived intangible assets as of March 1, 2016 and determined there was no impairment. The preliminary indefinite-lived intangible impairment test passed with a fair market value that was \$8.4 million or 245% above its carrying value. The impairment test is expected to be completed in the fourth quarter of fiscal 2016. 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, 2016		
	Gross		
	Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			
Customer relationships	\$9,316	7,509	1,807
Patents	338	145	193
LED technology firmware, software	11,228	10,969	259
Trade name	460	460	--
Non-compete agreements	710	678	32
Total Amortized Intangible Assets	22,052	19,761	2,291
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	19,761	5,713

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

(In thousands) Amortization
Expense of

Other
Intangible
Assets

March
March 31,
31, 2015
2016

Three Months Ended	\$ 126	\$ 125
Nine Months Ended	\$ 379	\$ 400

The Company expects to record annual amortization expense as follows:

(In thousands)

2016	\$ 505
2017	\$ 409
2018	\$ 400
2019	\$ 400
2020	\$ 327
After 2020	\$ 629

NOTE 8 - REVOLVING LINE OF CREDIT

In March 2016, the Company renewed its \$30 million unsecured revolving credit line. The line of credit expires in the third quarter of fiscal 2019. Interest on the revolving line of credit is charged based upon an increment over the LIBOR rate as periodically determined, or at the bank’s base lending rate, at the Company’s option. The increment over the LIBOR borrowing rate, as periodically determined, fluctuates between 150 and 190 basis points depending upon the ratio of indebtedness to earnings before interest, taxes, depreciation and amortization (“EBITDA”), as defined in the credit facility. The fee on the unused balance of the \$30 million committed line of credit is 12.5 basis points. Under the terms of this credit facility, the Company has agreed to a negative pledge of assets and is required to comply with financial covenants that limit the amount of debt obligations, require a minimum amount of tangible net worth, and limit the ratio of indebtedness to EBITDA. There are no borrowings against the line of credit as of March 31, 2016.

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

NOTE 9 - CASH DIVIDENDS

The Company paid cash dividends of \$2,959,000 and \$2,172,000 in the nine months ended March 31, 2016 and 2015, respectively. Dividends on restricted stock units in the amount of \$7,965 were accrued in the nine months ended March 31, 2016. These dividends will be paid upon the vesting of the restricted stock units when shares are issued to the award recipients. In April 2016, the Board of Directors declared a regular quarterly cash dividend of \$0.05 per share payable May 10, 2016 to shareholders of record as of May 2, 2016. The new indicated annual cash dividend rate is \$0.20 per share.

NOTE 10 - EQUITY COMPENSATION

Stock Based Compensation

The Company has an equity compensation plan that was approved by shareholders in November 2012 and that covers all of its full-time employees, outside directors and certain advisors. This 2012 Stock Incentive Plan replaced all previous equity compensation plans of the Company. The options granted and stock awards made pursuant to this Plan are granted at fair market value at the date of grant or award. Service-based options granted to non-employee directors become exercisable 25% each ninety days (cumulative) from the date of grant and options granted to employees generally become exercisable 25% per year (cumulative) beginning one year after the date of grant. Performance-based options granted to employees become exercisable 33.3% per year (cumulative) beginning one year after the date of grant. The maximum contractual term of the Company's stock options is ten years. If a stock option holder's employment with the Company terminates by reason of death, disability or retirement, as defined in the Plan, the Plan generally provides for acceleration of vesting. The number of shares reserved for issuance is 1,603,993 shares, all of which were available for future grant or award as of March 31, 2016. This Plan allows for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted and unrestricted stock awards, performance stock awards, and other stock awards. Service based and performance based stock options were granted and restricted stock units ("RSUs") were awarded during the nine months ended March 31, 2016. As of March 31, 2016, a total of 3,043,565 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 1,362,810 options for common shares were vested and exercisable. As of March 31, 2016, the approximate unvested stock option expense that will be recorded as expense in future periods is \$2,797,019. The weighted average time over which this expense will be recorded is approximately 30 months. Additionally, as of March 31, 2016 a total of 65,500 RSUs were outstanding. The approximate unvested stock compensation expense that will be recorded as expense in future periods for the RSUs is \$291,620. The weighted average time over which this expense will be recorded is approximately 33 months.

Stock Options

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

	Three Months Ended		Nine Months Ended	
	March 31		March 31	
	2016	2015	2016	2015
Dividend yield	1.72%	0.83%	1.29%	1.11%
Expected volatility	43 %	53 %	44 %	56 %
Risk-free interest rate	1.46%	1.57%	1.66%	1.63%
Expected life (in years)	6.0	6.0	6.0	6.0

At March 31, 2016, the 1,026,800 options granted during the first nine months of fiscal 2016 to employees had exercise prices ranging from \$8.84 to \$11.87 per share, fair values ranging from \$3.28 to \$4.52 per share, and remaining contractual lives of between nine years, three months and nine years, eleven months.

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 \$2.19 to \$3.49 per share, and remaining contractual lives of between nine years, six months and nine years, eleven months.

The Company calculates stock option expense using the Black-Scholes model. Stock option expense is recorded on a straight line basis, or sooner if the grantee is retirement eligible as defined in the 2012 Stock Incentive Plan, with an estimated 3.3% forfeiture rate effective January 1, 2016. Previous estimated forfeiture rates were between 2.0% and 3.3% for the period January 1, 2013 through December 31, 2015. The expected volatility of the Company's stock was calculated based upon the historic monthly fluctuation in stock price for a period approximating the expected life of option grants. The risk-free interest rate is the rate of a five year Treasury security at constant, fixed maturity on the approximate date of the stock option grant. The expected life of outstanding options is determined to be less than the contractual term for a period equal to the aggregate group of option holders' estimated weighted average time within which options will be exercised. It is the Company's policy that when stock options are exercised, new common shares shall be issued. The Company recorded \$360,952 and \$271,669 of expense related to stock options in the three months ended March 31, 2016 and 2015, respectively, and \$2,191,659 and \$1,153,494 of expense related to stock options in the nine months ended March 31, 2016 and 2015, respectively. As of March 31, 2016, the Company had

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

2,998,087 stock options that were vested and that were expected to vest, with a weighted average exercise price of \$8.95 per share, an aggregate intrinsic value of \$10,304,852 and weighted average remaining contractual terms of 6.7 years.

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

Nine Months Ended March 31, 2016				
		Weighted	Average	Aggregate
Shares		Average	Remaining	Intrinsic
		Exercise	Contractual	Value
		Price	Term	
			(in years)	
Outstanding at 6/30/15	2,677,436	\$ 8.85	6.1	\$4,914,601
Granted	1,026,800	\$ 9.39		
Forfeitures	(150,800)	\$ 15.73		
Exercised	(509,871)	\$ 7.33		
Outstanding at 3/31/16	3,043,565	\$ 8.95	6.8	\$10,448,456
Exercisable at 3/31/16	1,362,810	\$ 9.67	4.3	\$4,741,694

	Nine Months Ended March 31, 2015			
		Weighted		
Shares	Weighted Average Exercise Price	Average Remaining Contractual Term (in years)	Average	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

The following table presents information related to unvested stock options:

	Shares	Weighted-Average	
		Grant Date	Fair Value
Non-vested at June 30, 2015	1,080,198	\$ 2.99	
Granted	1,026,800	\$ 3.64	
Vested	(390,443)	\$ 2.94	
Forfeited	(35,800)	\$ 3.31	
Non-vested at March 31, 2016	1,680,755	\$ 3.39	

The weighted average grant date fair value of options granted during the nine month periods ended March 31, 2016 and 2015 was \$3.64 and \$3.26, respectively. The aggregate intrinsic value of options exercised during the nine month periods ended March 31, 2016 and 2015 was \$1,474,444 and \$126,203, respectively. The aggregate grant date fair value of options that vested during the nine month periods ended March 31, 2016 and 2015 was \$1,149,022 and \$777,436, respectively. The Company received \$3,737,233 and \$624,248 of cash from employees who exercised options in the nine month periods ended March 31, 2016 and 2015, respectively. In the first nine months of fiscal 2016 the Company recorded \$518,515 as a reduction of federal income taxes payable, \$133,172 as a reduction in common stock, \$95,543 as a reduction of income tax expense, and \$556,144 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 2015 the Company recorded \$44,071 as a reduction of federal income taxes payable, \$223,003 as a reduction 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.

Restricted Stock Units

A total of 72,000 RSUs with a weighted average fair value of \$9.39 per share were awarded to employees during the nine months ended March 31, 2016. The Company determined the fair value of the awards based on the closing price of the Company's common stock on the date the RSUs were awarded. The RSUs have a four year ratable vesting period. The RSUs are non-voting, but accrue cash dividends at the same per share rate as those cash dividends declared and paid on LSI's common stock. Dividends on RSUs in the amount of \$7,965 were accrued as of March 31, 2016. Accrued dividends are paid to the holder upon vesting of the RSUs and issuance of shares. Of the 72,000 RSUs awarded, 5,000 were issued and 1,500 were forfeited during the first nine months of fiscal year 2016. As of March 31, 2016, the 65,500 restricted stock units outstanding had a remaining contractual life of 9 years, 3 months. Of the 65,500 RSUs outstanding as of March 31, 2016, 63,369 are expected to vest in the future. An estimated forfeiture rate of 3.3% was used in the calculation of expense related to the restricted stock units. The Company recorded \$30,837 and \$350,369 of expense related to RSUs in the three and nine month periods ended March 31, 2016. There were no RSUs awarded prior to July 1, 2015.

Director and Employee Stock Compensation Awards

The Company awarded a total of 17,240 and 21,050 common shares in the nine months ended March 31, 2016 and 2015, respectively, as stock compensation awards. These common shares were valued at their approximate \$168,000 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, 2016 there were 28 participants, all with fully vested account balances. A total of 249,330 common shares with a cost of \$2,372,257, and 321,838 common shares with a cost of \$2,986,498 were held in the plan as of March 31, 2016 and June 30, 2015, 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 according to accounting guidance. The Company used approximately \$316,900 and \$165,100 to purchase 32,696 and 23,519 common shares of the Company in the open stock market during the nine months ended March 31, 2016 and 2015, respectively, for either employee salary deferrals or Company contributions into the non-qualified deferred compensation plan. For fiscal year 2016, the Company estimates the Rabbi Trust for the Nonqualified Deferred Compensation Plan will make net repurchases in the range of 35,000 to 39,000 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	
	2016	2015
Cash payments:		
Interest	\$32	\$37
Income taxes	\$4,863	\$811

Issuance of common shares as compensation \$168 \$144

NOTE 12 - COMMITMENTS AND CONTINGENCIES

As part of the acquisition of Virticus Corporation on March 19, 2012, a contingent Earn-Out liability was established. This discounted liability was 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. As of March 31, 2016, the maximum potential undiscounted liability related to the Earn-Out is \$2 million. This would be based upon the achievement of a defined level of sales of lighting control systems in fiscal years 2016 through 2017. The likelihood of this occurring is considered not 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, 2016, there was an irrevocable letter of credit totaling \$0.4 million to a foreign supplier related to the purchase of inventory.

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 an \$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 paid to Mr. Ready's beneficiary in the fourth quarter of fiscal 2015.

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 Company recorded severance charges of \$223,000 and \$178,000 in the Graphics Segment in the second and third quarters of fiscal 2016, respectively.

The activity in the Company's Accrued Severance Liability is as follows for the periods indicated:

	Nine	Nine	Fiscal
	Months	Months	Year
	Ended	Ended	Ended
	March	March	June
	31,	31,	30,
	2016	2015	2015
<i>(In thousands)</i>			
Balance at beginning of the period	\$ 379	\$--	\$--
Accrual of expense	401	1,297	1,718
Payments	(544)	(530)	(704)
Adjustments	(67)	(635)	(635)
Balance at end of the period	\$ 169	\$ 132	\$ 379

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		Nine Months Ended	
	March 31		March 31	
	2016	2015	2016	2015

Reconciliation to effective tax rate:

Provision for income taxes at the anticipated annual tax rate	34.4%	45.0%	34.5%	41.4%
Impact of foreign operations	--	--	--	(0.2)
Enactment of tax law changes	--	--	(0.9)	(2.6)
Uncertain tax positions	(2.9)	(0.9)	(0.5)	(1.2)
Other	(1.0)	(12.0)	(0.8)	(3.3)
Effective tax rate	30.5%	32.1%	32.3%	34.1%

The Protecting Americans from Tax Hike Act of 2015 that made permanent the tax credit for research and development (“R&D”) retroactive back to January 1, 2015, was signed into law in December 2015. Therefore, the Company recorded an estimated R&D tax credit benefit of \$111,000 in December 2015 for the second half of fiscal year 2015, and estimated an R&D tax credit in its calculation of the estimated income tax rate for fiscal 2016. Other items in the December 2015 tax bill are expected to have an immaterial impact on the Company’s income tax expense.

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

	Three Months Ended		Nine Months Ended	
	March 31		March 31	
<i>(In thousands)</i>	2016	2015	2016	2015
Lighting Segment	\$49,331	\$48,865	\$168,007	\$164,382
Graphics Segment	17,162	13,363	59,949	49,656
Technology Segment	4,247	6,375	13,396	17,705
All Other Category	--	--	--	41

\$70,740 \$68,603 \$241,352 \$231,784

Operating Income (Loss) by Business Segment

<i>(In thousands)</i>	Three Months Ended		Nine Months Ended	
	March 31		March 31	
	2016	2015	2016	2015
Lighting Segment	\$1,106	\$2,913	\$11,970	\$11,230
Graphics Segment	1,174	(320)	5,370	798
Technology Segment	888	855	3,221	1,986
All Other Category	--	--	--	(183)
Corporate and Eliminations	(2,436)	(2,866)	(8,686)	(8,491)
	\$732	\$582	\$11,875	\$5,340

Summary Comments

Fiscal 2016 third quarter net sales of \$70,740,000 increased \$2.1 million or 3.1% as compared to third quarter fiscal 2015 net sales of \$68,603,000. Net sales were favorably influenced by increased net sales of the Lighting Segment (up \$0.5 million or 1.0%) and increased net sales of the Graphics Segment (up \$3.8 million or 28.4%). Net sales were unfavorably influenced by decreased net sales of the Technology Segment (down \$2.1 million or 33.4%).

Fiscal 2016 nine month net sales of \$241,352,000 increased \$9.6 million or 4.1% as compared to the same period of fiscal 2015. Net sales were favorably influenced by increased net sales of the Lighting Segment (up \$3.6 million or 2.2%) and increased net sales of the Graphics Segment (up \$10.3 million or 20.7%). Net sales were unfavorably influenced by decreased net sales of the Technology Segment (down \$4.3 million or 24.3%).

Fiscal 2016 third quarter operating income of \$732,000 increased \$150,000 or 25.8% from operating income of \$582,000 in the same period the prior year. The \$150,000 increase in operating income was the net result of increased net sales, an increase in gross profit, and a small increase in selling and administrative expenses.

Fiscal 2016 nine month operating income of \$11,875,000 increased \$6.5 million or 122% from operating income of \$5,340,000 in the same period the prior year. The \$6.5 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 23.9% in the first nine months of fiscal 2015 to 26.4% in the first nine months of fiscal 2016, 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 2016.

The Company's total net sales of products related to solid-state LED technology in light fixtures, in certain elements of graphics products, and video screens have been recorded as indicated in the table below.

<i>(In thousands)</i>	LED Net Sales		% Change	
	FY 2016	FY 2015		
First Quarter	\$38,911	\$30,898	25.9	%
Second Quarter	42,325	37,432	13.1	%
First Half	81,236	68,330	18.9	%
Third Quarter	33,755	30,878	9.3	%
Nine Months	114,991	99,208	15.9	%
Fourth Quarter		35,779		
Full Year		\$134,987		

Third quarter fiscal 2016 LED net sales of \$33,755,000 were up \$2.9 million or 9.3% from the same period of the prior year. The \$33,755,000 total LED net sales and the \$2.9 million increase are the net result of Lighting Segment LED net sales of \$33.7 million (up \$4.2 million or 14.1%), Graphics Segment LED net sales of less than \$0.1 million (down \$0.3 million or 90.1%), and Technology Segment LED net sales of LED video screens of \$0.1 million (down \$1.0 million or 95.1%). Fiscal 2016 first nine month total LED net sales of \$114,991,000 were \$15.8 million or 15.9% higher than the same period of the prior year. The \$114,991,000 total LED net sales and the \$15.8 million increase are primarily the net result of Lighting Segment LED net sales of \$112,675,000 million (up \$16.5 million or 17.2%), Graphics Segment LED net sales of \$1.7 million (up \$0.5 million or 47.9%), and Technology Segment LED net sales of \$0.6 (down \$1.3 million or 67.1%).

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, net income, and earnings per share. Adjusted operating income, net income and earnings per share, which exclude the impact of severance costs, the gain on the sale of the manufacturing facility, the loss on the sale of the subsidiary, and the income tax effect of the utilization of a long-term capital loss are non-GAAP financial measures. We believe that these adjusted supplemental measures are useful in assessing the operating performance of our business. These supplemental measures are used by our management, including our chief operating decision maker, to evaluate business results. We exclude these items because they are not representative of the ongoing results of operations of our business. Below is a reconciliation of these non-GAAP measures to operating income, net income, and earnings per share for the periods indicated.

(in thousands, unaudited)	Third Quarter	
	FY	FY
	2016	2015
Reconciliation of operating income to adjusted operating income:		
Operating income as reported	\$732	\$582
Adjustment for severance costs	178	(295)
Adjustment of self-insured death benefit expense	--	1,000
Adjusted Operating Income	\$910	\$1,287

(in thousands, except per share data; unaudited)	Third Quarter			
	FY 2016	Diluted	FY 2015	Diluted
		EPS		EPS
Reconciliation of net income to adjusted net income:				
Net income and earnings per share as reported	\$522	\$ 0.02	\$393	\$ 0.02
Adjustment for severance costs, inclusive of the income tax effect	117 ⁽¹⁾	--	(188) ⁽²⁾	(0.01)
Adjustment for self-insured death benefit expense, Inclusive of the income tax effect	--	--	637 ⁽³⁾	0.03
Adjusted net income and earnings per share	\$639	\$ 0.02	\$842	\$ 0.03

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

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

(1) \$61

(2) \$107

(3) \$(363)

(in thousands, unaudited)

	Nine Months	
	FY 2016	FY 2015
Reconciliation of operating income to adjusted operating income:		
Operating Income as reported	\$11,875	\$5,340
Adjustment for severance costs	401	662
Adjustment of 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	\$12,276	\$7,224

(in thousands, except per share data; unaudited)

	Nine Months			
	FY 2016	Diluted EPS	FY 2015	Diluted EPS
Reconciliation of net income to adjusted net income:				
Net income and earnings per share as reported	\$8,054	\$ 0.32	\$3,508	\$ 0.14
Adjustment for severance costs, inclusive of the income tax effect	263 (1)	0.01	422 (2)	0.02
Adjustment for self-insured death benefit expense, Inclusive of the income tax effect	--	--	637 (3)	0.03
Adjustment for the gain on the sale of a manufacturing facility, inclusive of the income tax effect	--	--	(224) (4)	(0.01)
Adjustment for the loss on sale of a subsidiary	--	--	565 (5)	0.02
Income tax effect of utilization of a long-term capital loss	--	--	(101) (6)	0.00
Adjusted net income and earnings per share	\$8,317	\$ 0.33	\$4,807	\$ 0.20

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

(1) \$138

(2) \$(240)

(3) \$(363)

(4) \$119

(5) 0

(6) 0

Results of Operations**THREE MONTHS ENDED MARCH 31, 2016 COMPARED TO THREE MONTHS ENDED MARCH 31, 2015****Lighting Segment***(In thousands)***Lighting Segment**

<i>(In thousands)</i>	Three Months Ended	
	March 31	
	2016	2015
Net Sales	\$49,331	\$48,865
Gross Profit	\$10,563	\$11,930
Operating Income	\$1,106	\$2,913

Lighting Segment net sales of \$49,331,000 in the third quarter of fiscal 2016 increased \$0.5 million or 1% from fiscal 2015 same period net sales of \$48,865,000. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled \$33.7 million in the third quarter of fiscal 2016, representing a \$4.2 million or 14.1% increase from fiscal 2015 third quarter net sales of solid-state LED light fixtures of \$29.5 million. Net sales of light fixtures having solid-state LED technology accounted for 68% of total Lighting Segment net sales. There was a reduction in the Company's traditional lighting sales (metal halide and fluorescent light sources) from third quarter fiscal 2015 to third quarter fiscal 2016 as customers converted from traditional lighting to light fixtures having solid-state LED technology.

Gross profit of \$10,563,000 in the third quarter of fiscal 2016 decreased \$1.4 million or 11.5% from the same period of fiscal 2015, and decreased from 24.2% to 21.1% as a percentage of Lighting Segment net sales (customer plus inter-segment net sales). The \$1.4 million decrease in the amount of gross profit is due to the net effect of competitive pricing pressures, improved manufacturing efficiencies as a result of the Company's lean initiatives, increased supplies expense (\$0.2 million), increased outside service expense (\$0.1 million), increased repairs and maintenance expense (\$0.1 million), increased rent expense (\$0.1 million), increased sales concession expense (\$0.3 million), and increased warranty expense (\$0.7 million). The Company experienced a higher than normal level of warranty claims in the third quarter of fiscal 2016, primarily driven by older generation LED drivers.

Selling and administrative expenses of \$9,457,000 in the third quarter of fiscal year 2016 increased \$0.4 million or 4.9% from the same period of fiscal 2015 primarily as the net result of increased employee compensation and benefits expense (\$0.3 million), increased sample expense (\$0.1 million), decreased bad debt expense (\$0.1 million), decreased commission expense (\$0.1 million), increased travel costs (\$0.1 million), decreased research and development expense (\$0.1 million), and an increase in corporate shared service costs (\$0.5 million).

The Lighting Segment third quarter fiscal 2016 operating income of \$1,106,000 decreased \$1.8 million or 62.0% from operating income of \$2,913,000 in the same period of fiscal 2015. This decrease of \$1.8 million was primarily the net result of an increase in net sales, a decrease in the gross profit mostly driven by an increase in warranty expense, and increased selling and administrative expenses.

Graphics Segment

(In thousands)

Graphics Segment

<i>(In thousands)</i>	Three Months Ended	
	March 31 2016	March 31 2015
Net Sales	\$17,162	\$13,363
Gross Profit	\$4,280	\$2,476
Operating Income (Loss)	\$1,174	\$(320)

Graphics Segment net sales of \$17,162,000 in the third quarter of fiscal 2016 increased \$3.8 million or 28.4% from fiscal 2015 same period net sales of \$13,363,000. The \$3.8 million increase in Graphics Segment net sales is the net result of image conversion programs and sales to the petroleum / convenience store market (\$3.1 million net increase), sales to the grocery retailer market (\$0.5 million increase), sales to the national drug store retailer market (\$0.3 million increase), sales to the commercial market (\$0.2 million net increase), and changes in sales to other markets (\$0.3 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 less than \$0.1 million in the third quarter of fiscal 2016, representing a 90.1% decrease from fiscal 2015 net sales of \$0.3 million.

Gross profit of \$4,280,000 in the third quarter of fiscal 2016 increased \$1.8 million or 72.9% from the same period of fiscal 2015. Gross profit as a percentage of Graphics Segment net sales (customer plus inter-segment net sales) increased from 18.3% in the third quarter of fiscal 2015 to 24.5% in the third quarter of fiscal 2016. The change in the amount of gross profit is due to the net effect of increased net sales, a slightly lower gross profit margin on installation net sales, an increase in gross profit on product net sales, similar freight costs on increased product sales, increased property tax expense (\$0.2 million), an increase in corporate shared service costs (\$0.1 million), and increased employee compensation and benefit expense (\$0.1 million).

Selling and administrative expenses of \$3,106,000 in the third quarter of fiscal 2016 increased \$0.3 million or 11.1% from the same period of fiscal 2015 primarily as the result of increased travel expenses (\$0.1 million) and increased convention and show expenses (\$0.1 million).

The Graphics Segment third quarter fiscal 2016 operating profit of \$1,174,000 increased \$1.5 million from a third quarter fiscal 2015 operating loss of (\$320,000). The \$1.5 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, and increased selling and administrative expenses.

Technology Segment

(In thousands)

Technology Segment

<i>(In thousands)</i>	Three Months Ended	
	March 31 2016	2015
Net Sales	\$4,247	\$6,375

Gross Profit	\$1,880	\$1,906
Operating Income	\$888	\$855

Technology Segment net sales of \$4,247,000 in the third quarter of fiscal 2016 decreased \$2.1 million or 33.4% from fiscal 2015 same period net sales of \$6,375,000. The \$2.1 million decrease in Technology Segment net sales is primarily the net result of a \$0.4 million decrease in sales to the transportation market, a \$0.1 million decrease in sales to the telecommunication market, a \$0.3 million decrease in sales to the medical market, a \$0.9 million decrease in sales to the sports market, a \$0.8 million decrease in sales to original equipment manufacturers, and a \$0.4 million increase in sales to various other markets. While net customer sales decreased, the Technology Segment inter-segment sales increased \$2.1 million or 31.4%. The increase in inter-segment sales is the direct result of the Lighting Segment's increase in net sales of light fixtures having solid-state LED technology along with light fixtures with integrated controls. The Technology Segment's intercompany support of electronic circuit boards and lighting control systems to the Lighting Segment is core to the strategic growth of the Company. The Technology Segment's net sales of LED video screens were less than \$0.1 million in the third quarter of fiscal 2016 compared to \$1.0 million net sales of video screens in the third quarter of fiscal 2015.

Gross profit of \$1,880,000 in the third quarter of fiscal 2016 decreased slightly from the same period in fiscal 2015, and decreased from 14.5% to 14.3% as a percentage of net sales (customer plus inter-segment net sales). The small decrease in gross profit is due to the net effect of decreased customer net sales offset by increased inter-segment sales, decreased supplies expense (\$0.1 million), increased depreciation expense (\$0.1 million), and decreased repairs and maintenance expense (\$0.1 million).

Selling and administrative expenses of \$992,000 in the third quarter of fiscal 2016 decreased \$59,000 or 5.6% from fiscal 2015 selling and administrative expenses of \$1,051,000. The \$59,000 decrease in selling and administrative expenses is the net result of several small changes in various expenses.

The Technology Segment third quarter fiscal 2016 operating income of \$888,000 increased slightly from operating income of \$855,000 in the same period of fiscal 2015. The small increase in operating income was primarily the net result of decreased customer net sales offset by increased inter-segment sales along with a small decrease in gross profit and a small decrease in selling and administrative expenses.

Corporate and Eliminations

(In thousands)

Corporate and Eliminations

<i>(In thousands)</i>	Three Months Ended March 31	
	2016	2015
Gross Profit (Loss)	\$(174)	\$(7)
Operating (Loss)	\$(2,436)	\$(2,866)

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

Administrative expenses of \$2,262,000 in the third quarter of fiscal 2016 decreased \$0.6 million or 20.9% from the same period of the prior year. The \$0.6 million decrease in expense is primarily the net result of decreased employee compensation and benefit expense (\$0.9 million), increased outside service expense (\$0.3 million), an increase in research and development costs (\$0.6 million), and an increase in corporate shared services which are allocated to the reportable segments (favorable change of \$0.7 million).

Consolidated Results

The Company reported net interest income of \$19,000 in the third quarter of fiscal 2016 as compared to net interest expense of \$3,000 in the same period of fiscal 2015. 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 change from net interest expense in the third quarter of fiscal year 2015 to net interest income in the third quarter of fiscal 2016 is directly related to the increase in invested cash.

The \$229,000 income tax expense in the third quarter of fiscal 2016 and the \$186,000 income tax expense in the third quarter of fiscal 2015 represent a consolidated effective tax rate of 30.5% and 32.1%, respectively, both influenced by certain permanent book-tax differences and by tax benefits related to uncertain income tax positions.

The Company reported net income of \$522,000 in the third quarter of fiscal 2016 as compared to net income of \$393,000 in the same period of the prior year. The change in net income is primarily the net result of increased net sales, a small increase in gross profit, a small reduction in gross profit as a percentage of net sales, a small increase in selling and administrative expense, and a lower effective tax rate in fiscal 2016 compared to fiscal 2015. Diluted earnings per share of \$0.02 were reported in the third quarter of fiscal 2016 as compared to diluted earnings per share of \$0.02 in the same period of fiscal 2015. The weighted average common shares outstanding for purposes of computing diluted earnings per share in the third quarter of fiscal 2016 were 25,700,000 shares as compared to 24,643,000 shares in the same period last year.

NINE MONTHS ENDED MARCH 31, 2016 COMPARED TO NINE MONTHS ENDED MARCH 31, 2015**Lighting Segment**

<i>(In thousands)</i>	Nine Months Ended March 31	
	2016	2015
Net Sales	\$ 168,007	\$ 164,382
Gross Profit	\$ 41,904	\$ 40,748
Operating Income	\$ 11,970	\$ 11,230

Lighting Segment net sales of \$168,007,000 in the first nine months of fiscal 2016 increased \$3.6 million or 2.2% from fiscal 2015 same period net sales of \$164,382,000. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled \$112.7 million in the first nine months of fiscal 2016, representing an 17.2% increase from the first nine months of fiscal 2015 net sales of solid-state LED light fixtures of \$96.2 million. Net sales of light fixtures having solid-state LED technology accounted for 67% of total Lighting Segment net sales. There was a reduction in the Company's traditional lighting sales (metal halide and fluorescent light sources) from fiscal 2015 to fiscal 2016 as customers converted from traditional lighting to light fixtures having solid-state LED technology.

Gross profit of \$41,904,000 in the first nine months of fiscal 2016 increased \$1.2 million or 2.8% from the same period of fiscal 2015, and increased from 24.5% to 24.6% as a percentage of Lighting Segment net sales (customer plus inter-segment net sales). The increase in gross profit is due primarily to the net effect of increased net sales, the improved procurement of material, competitive pricing pressures, and improved manufacturing efficiencies as a result of the Company's lean initiatives. Also contributing to the change in gross profit is increased freight expense, increased employee compensation and benefits expense (\$0.7 million), increased customer relations expense (\$0.3 million), increased repairs and maintenance expense (\$0.2 million), increased supplies expense (\$0.2 million), increased travel expenses (\$0.1 million), decreased utilities expense (\$0.1 million), increased depreciation expense (\$0.1 million), increased rent expense (\$0.1 million), decreased outside service expense (\$0.1 million), an increase in corporate shared services costs (0.5 million), and increased warranty costs (\$1.5 million). The Company experienced a higher than normal level of warranty claims in the third quarter of fiscal 2016, primarily driven by older generation LED drivers.

Selling and administrative expenses of \$29,934,000 in the first nine months of fiscal 2016 increased \$0.4 million or 1.4% compared to selling and administrative expenses for the same period of fiscal 2015 primarily as the net result of increased employee compensation and benefit expense (\$0.2 million), increased travel expense (\$0.3 million), increased samples expense (\$0.1 million), decreased literature expense (\$0.1 million), decreased convention and trade show expense (\$0.2 million), decreased depreciation expense (\$0.1 million), decrease bad debt expense (\$0.1 million), increased sales commission expense (\$0.3 million), decreased rent expense (\$0.1 million), decreased research and development expense (\$1.1 million), decreased outside service expense (\$0.2 million), and an increase in corporate shared service costs (\$1.4 million).

The Lighting Segment nine month fiscal 2016 operating income of \$11,970,000 increased \$0.7 million or 6.6% from operating income of \$11,230,000 in the same period of fiscal 2015. This increase of \$0.7 million was the net result of increased net sales, an increase in gross profit, and an increase in the gross margin as a percentage of sales.

Graphics Segment

<i>(In thousands)</i>	Nine Months	
	Ended	
	March 31	
	2016	2015
Net Sales	\$59,949	\$49,656
Gross Profit	\$15,836	\$9,232
Operating Income	\$5,370	\$798

Graphics Segment net sales of \$59,949,000 in the first nine months of fiscal 2016 increased 20.7% from fiscal 2015 same period net sales of \$49,656,000. The \$10.3 million increase in Graphics Segment net sales is primarily the net result of image conversion programs and sales to the petroleum / convenience store market (\$12.3 million net increase), sales to the grocery retailer market (\$1.4 million increase), sales to the national drug retailer market (\$0.2 million increase), sales to the quick-service restaurant market (\$2.1 million net decrease), sales to the commercial market (\$0.2 million net decrease), sales to the banking market (\$0.3 million decrease), and changes in sales to other markets (\$1.0 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 \$1.7 million in the first nine months of fiscal 2016, representing a 47.9% increase from first nine months 2015 net sales of \$1.1 million.

Gross profit of \$15,836,000 in the first nine months of fiscal 2016 increased \$6.6 million or 71.5% from the same period in fiscal 2015, and increased from 18.4% to 25.9% 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, an overall improvement in gross profit as a percentage of net sales, lower margins on installation sales, increased freight expense, increased supplies expense (\$0.1 million), increased outside service expense (\$0.1 million), increased customer relations expense (\$0.1 million), an increase in corporate shared service costs (\$0.2 million), increased property tax expense (\$0.2 million), and increased employee compensation and benefits expense (\$0.7 million).

Selling and administrative expenses of \$10,466,000 in the first nine months of fiscal 2016 increased \$1.7 million or 19.2% from the same period of fiscal 2015 primarily as a result of increased employee compensation and benefits expense (\$1.3 million), an increased travel expenses (\$0.1 million), and several small increases in other expenses (\$0.3 million). 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 2016.

Graphics Segment nine month fiscal 2016 operating income of \$5,370,000 increased \$4.6 million or 573% from the same period of fiscal 2015 and is the net result of increased net sales, increased gross profit as a percentage of net sales, increased selling and administrative expenses, and a gain on the sale of a facility in fiscal 2015 with no corresponding event in fiscal 2016.

Technology Segment

<i>(In thousands)</i>	Nine Months	
	Ended	
	March 31	
	2016	2015
Net Sales	\$13,396	\$17,705
Gross Profit	\$6,354	\$5,464
Operating Income	\$3,221	\$1,986

Technology Segment net sales of \$13,396,000 in the first nine months of fiscal 2016 decreased \$4.3 million or 24.3% from fiscal 2015 same period net sales of \$17,705,000. The \$4.3 million decrease in Technology Segment net sales is primarily the net result of a \$0.8 million decrease in sales to the medical market, a \$2.3 million decrease in sales to the transportation market, a \$0.4 million decrease in sales to original equipment manufacturers, a \$1.1 million decrease in sales to the sports market, and a \$0.3 million increase in sales to various other markets. While net customer sales decreased, Technology Segment inter-segment sales increased \$5.5 million or 25.3%. The increase in inter-segment sales is the direct result of the Lighting Segment's increase in net sales of light fixtures having solid-state LED technology and light fixtures with integrated controls. The Technology Segment's intercompany support of electronic circuit boards and lighting control systems to the Lighting Segment is core to the strategic growth of the Company. The Technology Segment's net sales related to LED video screens totaled \$0.6 million in the first nine months of

fiscal 2016, representing a 67.1% decrease from fiscal 2015 same period net sales of \$1.9 million.

Gross profit of \$6,354,000 in the first nine months of fiscal 2016 increased \$0.9 million or 16.3% from the same period of fiscal 2015, and increased from 13.9% to 15.6% as a percentage of Technology Segment net sales (customer plus inter-segment net sales). The \$0.9 million increase in amount of gross profit is due to the net effect of decreased customer net sales more than offset by increased inter-segment sales, an improvement in operational efficiencies, decreased employee compensation and benefits expense (\$0.4 million), increased outside service expense (\$0.1 million), and increased depreciation expense (\$0.1 million).

Selling and administrative expenses of \$3,133,000 in the first nine months of fiscal 2016 decreased \$0.3 million or 9.9% from the same period of fiscal 2015 as the net result of an increase in employee compensation and benefits expense (\$0.2 million), a decrease in research and development expense (\$0.4 million), and several small decreases in other expenses (\$0.1 million).

Technology Segment nine month fiscal 2016 operating income of \$3,221,000 increased \$1.2 million or 62.2% from operating income of \$1,986,000 in the same period of fiscal 2015. The increase of \$1.2 million was the net result of decreased net customer sales more than offset by increased inter-segment sales, increased gross profit from the net increase in total net sales (customer and intersegment net sales), and decreased selling and administrative expenses.

All Other Category

	Nine Months Ended March 31 20162015	
<i>(In thousands)</i>		
Net Sales	\$--	\$41
Gross Profit	\$--	\$21
Operating (Loss)	\$--	\$(183)

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

	Nine Months Ended March 31 2016 2015	
<i>(In thousands)</i>		
Gross Profit (Loss)	\$(270)	\$3
Operating (Loss)	\$(8,686)	\$(8,491)

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

Administrative expenses of \$8,416,000 in the first nine months of fiscal 2016 increased \$0.5 million or 6.1% from the same period of the prior year. The increase in expense is primarily the net result of increased employee compensation and benefits expense (\$0.4 million), a decrease in legal fee expense (\$0.2 million), increased outside service expense (\$0.3 million), increased depreciation expense (\$0.2 million), increased research and development expense (\$1.4 million), an increase in travel expenses (\$0.1 million), an increase in repair and maintenance expense (\$0.1 million), an increase in corporate shared service costs allocated to the segments (favorable change of \$2.0 million), and small increases in several other expenses (\$0.2 million). The increase in research and development spending is the result of the creation of a corporate research and development department with its sole purpose to develop leading edge products utilizing: 1) the latest energy saving controls; 2) LED light source technology; 3) the “internet of things”

connectivity; and 4) beacons and new display technology to enhance the retail experience. 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 2016.

Consolidated Results

The Company reported net interest income of \$27,000 in the first nine months of fiscal 2016 as compared to net interest expense of \$17,000 in the same period of fiscal 2015. 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 change from net interest expense in the first nine months of fiscal year 2015 to net interest income in the first nine months of fiscal 2016 is directly related to the increase in invested cash.

The \$3,848,000 income tax expense in the first nine months of fiscal 2016 represents a consolidated effective tax rate of 32.3%. This is the net result of an income tax rate of 34.5% influenced by certain permanent book-tax differences, an \$111,000 tax benefit related to the retroactive reinstatement of the R&D tax credit, and by a tax benefit related to uncertain income tax positions. 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 Company reported net income of \$8,054,000 in the first nine months of fiscal 2016 compared to net income of \$3,508,000 in the same period of the prior year. The \$4.5 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 2016, and increased income tax expense. Diluted earnings per share of \$0.32 were reported in the first nine months of fiscal 2016 as compared to diluted earnings per share of \$0.14 in the same period of fiscal 2015. The weighted average common shares outstanding for purposes of computing diluted earnings per share in the first nine months of fiscal 2016 was 25,494,000 shares as compared to 24,550,000 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, 2016, the Company had working capital of \$91.6 million, compared to \$84.0 million at June 30, 2015. The ratio of current assets to current liabilities was 3.74 to 1 as compared to a ratio of 3.28 to 1 at June 30, 2015. The \$7.7 million increase in working capital from June 30, 2015 to March 31, 2016 was primarily related to the net effect of increased cash and cash equivalents (\$7.4 million), an increase in net inventory (\$3.1 million), an increase in refundable income taxes (\$0.5 million), and decreased accounts payable (\$3.0 million), partially offset by an increase in accrued expenses (\$0.4 million), a decrease in net accounts receivable (\$5.8 million), and a decrease in other current assets (\$1.0 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 \$15.2 million of cash from operating activities in the first nine months of fiscal 2016 as compared to a generation of cash of \$21.8 million in the same period of the prior year. This \$6.6 million decrease in net cash flows from operating activities is primarily the net result of an increase rather than a decrease in inventory (unfavorable change of \$5.1 million), an increase rather than a decrease in refundable income tax (unfavorable change of \$2.4 million), a smaller decrease in customer prepayments (favorable change of \$0.3 million), a smaller increase in accrued expenses and other (unfavorable change of \$3.5 million), a larger decrease in accounts payable (unfavorable change of \$1.3), a smaller decrease in accounts receivable (unfavorable change of \$1.1 million), an increase in net income (favorable change of \$4.5 million), an increase in stock option expense (favorable change of \$1.4 million), a loss on the sale of a subsidiary in fiscal 2015 with no comparable event in fiscal 2016 (unfavorable change of \$0.6 million), a larger increase in the deferred compensation liability (favorable change of \$0.3 million), a smaller increase in net deferred tax assets (favorable change of \$0.5 million), and a decrease in the gain recognized on the sale of fixed assets, which includes the sale of a facility (favorable change of \$0.3 million).

Net accounts receivable were \$37.9 million and \$43.7 million at March 31, 2016 and June 30, 2015, respectively. DSO decreased to 45 days at March 31, 2016 from 49 days at June 30, 2015. The Company believes that its receivables are ultimately collectable or recoverable, net of certain reserves, and that aggregate allowances for doubtful accounts are adequate.

Net inventories of \$46.2 million at March 31, 2015 increased \$3.1 million from June 30, 2015 levels. Based on a strategy of balancing inventory reductions with customer service and the timing of shipments, net inventory increases occurred in the first nine months of fiscal 2016 in the Lighting Segment of approximately \$2.1 million, in the Graphics Segment of approximately \$1.1 million, and in the Technology Segment of approximately \$0.2 million.

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, with all of the \$30 million of the credit line available as of April 27, 2016. This line of credit is a \$30 million three year committed credit facility expiring in the third quarter of fiscal 2019. The Company believes that its \$30 million line of credit plus cash flows from operating activities are adequate for the Company's fiscal 2016 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants.

The Company used cash of \$8.3 million related to investing activities in the first nine months of fiscal 2016 as compared to a use of cash of \$1.0 million in the same period of the prior year, resulting in an unfavorable change of \$7.3 million. Capital expenditures for the first nine months of fiscal 2016 increased \$5.0 million to \$8.4 million from the same period in fiscal 2015. The largest components of the first nine months of fiscal 2016 capital expenditures are tooling and equipment related to the Company's Lighting, Graphics and Technology Segments. The Company recorded proceeds from the sale of one of its Woonsocket, Rhode Island facilities of \$950,000 in the first nine months of fiscal 2015 with no proceeds from the sale of fixed assets in the first nine months of fiscal 2016. The Company also recorded net proceeds from the sale of its subsidiary in Montreal of \$1.5 million in the first half of fiscal 2015 with no comparable transaction in the first half of fiscal 2016.

The Company generated \$0.4 million of cash related to financing activities in the first nine months of fiscal 2016 compared to a use of cash of \$1.8 million in the first nine months of fiscal 2015. The favorable change in cash flow was primarily the result of a \$3.2 million increase in the exercise of stock options in the first nine months of fiscal 2016 compared to the exercise of stock options in first nine months of fiscal 2015. The Company increased its annual cash dividend from \$2.1 million in fiscal 2015 to \$3.0 million in fiscal 2016, which partially offset the favorable cash flow impact from the exercise of stock options.

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 2016, the Board of Directors declared a regular quarterly cash dividend of \$0.05 per share payable May 10, 2016 to shareholders of record as of May 2, 2016. The indicated annual cash dividend rate for fiscal 2016 is \$0.20 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.

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

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

Income Taxes

The Company accounts for income taxes in accordance with the accounting guidance for income taxes. Accordingly, deferred income taxes are provided on items that are reported as either income or expense in different time periods for financial reporting purposes than they are for income tax purposes. Deferred income tax assets 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 were effective in taxable years beginning on or after January 1, 2014, or the Company's fiscal year 2015. The impact to the Company's financial statements was 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 reporting units with goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment in accordance with the accounting standard on goodwill and intangible assets. The Company may first assess qualitative factors in order to determine if goodwill is impaired. 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 reporting units and indefinite-lived intangible assets using a combination of a market approach and an income (discounted cash flow) approach 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. 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 June 2014, the Financial Accounting Standards Board issued ASU 2014-09, “Revenue from Contracts with Customers.” This amended guidance supersedes and replaces all existing U.S. GAAP revenue recognition guidance. The guidance established a new revenue recognition model, changes the basis for deciding when revenue is recognized over a point in time, provides new and more detailed guidance on specific revenue topics, and expands and improves disclosures about revenue. The amended guidance is effective for fiscal years and interim periods within those years, beginning after December 15, 2017, or the Company’s fiscal year 2019. The Company has not yet determined the impact the amended guidance will have on its financial statements.

In July 2015, the Financial Accounting Standards Board issued ASU 2015-11, “Simplifying the Measurement of Inventory.” The amended guidance requires an entity to measure in scope inventory at lower of cost and net realizable value. The amended guidance is effective for fiscal years beginning after December 15, 2016, or the Company’s fiscal year 2018, with early adoption permitted. The Company has not yet determined the impact the amended guidance will have on its financial statements.

In December 2015, the Financial Accounting Standards Board issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes.” The amended guidance eliminates the requirements for organizations to present deferred tax liabilities and assets as current and noncurrent. Instead, all deferred tax assets and liabilities will be classified as noncurrent. The amended guidance is effective for financial statements issued for fiscal years and interim periods within those years, beginning after December 15, 2016, or the Company’s fiscal year 2018, with early adoption permitted. The Company has not yet determined the impact the amended guidance will have on its financial statements.

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, “Leases.” The amended guidance requires an entity to recognize assets and liabilities that arise from leases. The amended guidance is effective for financial statements issued for fiscal years and interim periods within those years, beginning after December 15, 2018, or the Company’s fiscal year 2020, with early adoption permitted. The Company has not yet determined the impact the amended guidance will have on its financial statements.

In March 2016, the Financial Accounting Standards Board issued ASU 2016-08, “Principal versus Agent Considerations.” The amendment is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The amended guidance is effective for financial statements issued for fiscal years and interim periods within those years, beginning after December 15, 2017, or the Company’s fiscal year 2019, with early adoption permitted in fiscal years beginning after December 15, 2016. The Company has not yet determined the impact the amended guidance will have on its financial statements.

In March 2016, the Financial Accounting Standards Board issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting.” This amended guidance simplifies several aspects of the accounting for share-based payment award transactions. The amended guidance is effective for financial statements issued for fiscal years and interim periods within those years, beginning after December 15, 2016, or the Company’s fiscal year 2018, with early adoption permitted. 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, 2015. Additional information can be found in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, which appears on page 13 of the Annual Report on Form 10-K for the fiscal year ended June 30, 2015.

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, 2016, 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.

Control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that control objectives are met. Because of inherent limitations in all control systems, no evaluation of controls can provide assurance that all control issues and instances of fraud, if any, within a company will be detected. Additionally, controls can be circumvented by individuals, by collusion of two or more people, or by management override. Over time, controls can become inadequate because of changes in conditions or the degree of compliance may deteriorate. Further, the design of any system of controls is based in part upon assumptions about the likelihood of future events. There can be no assurance that any design will succeed in achieving its stated goals under all future conditions. Because of the inherent limitations in any cost-effective control system, misstatements due to errors or fraud may occur and not be detected.

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, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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 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 2016 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
1/1/16 to 1/31/16	1,276	\$10.66	1,276	(1)
2/1/16 to 2/29/116	1,193	\$11.29	1,193	(1)
3/1/16 to 3/31/16	1,189	\$11.01	1,189	(1)
Total	3,658	\$10.98	3,658	(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, 2016, the Plan held 249,330 common shares of the Company and had distributed 256,002 common shares.

ITEM 6. EXHIBITS

Exhibits:

10.1 Second Amendment to Loan Documents dated as of March 31, 2016 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)

April 29, 2016

Page 39