

LSI INDUSTRIES INC  
Form 10-Q  
February 04, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD  
ENDED DECEMBER 31, 2012.

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

Commission File No. 0-13375

LSI Industries Inc.

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

10000 Alliance Road

Cincinnati, Ohio 45242

(513) 793-3200

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

Large accelerated filer  
 Accelerated filer

Non-accelerated filer  
 Smaller reporting company

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

As of February 1, 2013 there were 24,023,593 shares of the Registrant's common stock, no par value per share, outstanding.

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LSI INDUSTRIES INC.  
FORM 10-Q  
FOR THE QUARTER ENDED DECEMBER 31, 2012

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

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

risk factors that are identified herein. You are cautioned to not place undue reliance on these forward-looking statements. In addition to the factors described in this paragraph, the risk factors identified in our Form 10-K and other filings the Company may make with the SEC constitute risks and uncertainties that may affect the financial performance of the Company and are incorporated herein by reference. The Company does not undertake and hereby disclaims any duty to update any forward-looking statements to reflect subsequent events or circumstances.

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

(In thousands, except per share data)	Three Months Ended December 31		Six Months Ended December 31	
	2012	2011	2012	2011
Net sales	\$ 71,082	\$ 68,774	\$ 145,801	\$ 134,269
Cost of products and services sold	57,200	53,848	114,048	103,879
Gross profit	13,882	14,926	31,753	30,390
Selling and administrative expenses	14,450	13,707	29,294	26,735
Goodwill impairment	2,141	0	2,141	258
Operating income (loss)	(2,709)	1,219	318	3,397
Interest (income)	(11)	(11)	(31)	(12)
Interest expense	(7)	48	33	89
Income (loss) before income taxes	(2,691)	1,182	316	3,320
Income tax expense (benefit)	(241)	410	936	1,224
Net income (loss)	\$ (2,450)	\$ 772	\$ (620)	\$ 2,096
Earnings (loss) per common share (see Note 4)				
Basic	\$ (0.10)	\$ 0.03	\$ (0.03)	\$ 0.09
Diluted	\$ (0.10)	\$ 0.03	\$ (0.03)	\$ 0.09
Weighted average common shares outstanding				
Basic	24,307	24,298	24,306	24,295
Diluted	24,391	24,341	24,382	24,348

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



LSI INDUSTRIES INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In thousands, except shares)	December 31, 2012	June 30, 2012
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$14,499	\$15,255
Accounts receivable, less allowance for doubtful accounts of \$506 and \$385, respectively	36,804	44,412
Inventories	43,113	41,276
Refundable income taxes	1,496	227
Other current assets	6,086	5,453
<b>Total current assets</b>	<b>101,998</b>	<b>106,623</b>
<b>Property, Plant and Equipment, at cost</b>		
Land	7,015	6,947
Buildings	37,770	37,660
Machinery and equipment	70,208	68,964
Construction in progress	2,152	531
	117,145	114,102
Less accumulated depreciation	(73,843 )	(71,576 )
<b>Net property, plant and equipment</b>	<b>43,302</b>	<b>42,526</b>
Goodwill, net	10,780	12,921
Other Intangible Assets, net	9,733	11,074
Other Long-Term Assets, net	1,965	2,082
<b>Total assets</b>	<b>\$167,778</b>	<b>\$175,226</b>

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

## LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In thousands, except shares)	December 31, 2012	June 30, 2012
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$11,836	\$11,512
Accrued expenses	11,565	11,409
<b>Total current liabilities</b>	<b>23,401</b>	<b>22,921</b>
<b>Other Long-Term Liabilities (Note 12)</b>	<b>2,193</b>	<b>2,937</b>
<b>Commitments and Contingencies (Note 12)</b>	<b>—</b>	<b>—</b>
<b>Shareholders' Equity</b>		
Preferred shares, without par value; Authorized 1,000,000 shares, none issued	—	—
Common shares, without par value; Authorized 40,000,000 shares; Outstanding 24,308,883 and 24,047,485 shares, respectively	102,042	101,399
Retained earnings	40,142	47,969
<b>Total shareholders' equity</b>	<b>142,184</b>	<b>149,368</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>167,778</b>	<b>\$175,226</b>

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



## LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(In thousands)	Six Months Ended	
	December 31	
	2012	2011
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	\$ (620)	\$ 2,096
Non-cash items included in net income (loss)		
Depreciation and amortization	3,676	3,944
Goodwill impairment	2,141	258
Deferred income taxes	46	(17)
Deferred compensation plan	102	72
Stock option expense	638	228
Issuance of common shares as compensation	36	22
(Gain) on disposition of fixed assets	(9)	--
Allowance for doubtful accounts	121	(347)
Inventory obsolescence reserve	1,681	188
Changes in certain assets and liabilities		
Accounts receivable	7,487	4,261
Inventories	(3,518)	9,304
Refundable income taxes	(1,269)	1,175
Accounts payable	324	1,335
Accrued expenses and other	(784)	(2,495)
Customer prepayments	(366)	(76)
Net cash flows provided by operating activities	9,686	19,948
<b>Cash Flows from Investing Activities</b>		
Purchases of property, plant and equipment	(3,133)	(1,677)
Proceeds from sale of fixed assets	31	1
Net cash flows (used in) investing activities	(3,102)	(1,676)
<b>Cash Flows from Financing Activities</b>		
Payment of long-term debt	--	(17)
Cash dividends paid	(7,207)	(2,644)
Exercise of stock options	8	10
Purchase of treasury shares	(141)	(135)
Net cash flows (used in) financing activities	(7,340)	(2,786)
Increase (decrease) in cash and cash equivalents	(756)	15,486
Cash and cash equivalents at beginning of period	15,255	4,056
Cash and cash equivalents at end of period	\$ 14,499	\$ 19,542

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

LSI INDUSTRIES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1 - INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements are unaudited and are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of Management, the interim financial statements include all normal adjustments and disclosures necessary to present fairly the Company's financial position as of December 31, 2012, the results of its operations for the three and six month periods ended December 31, 2012 and 2011, and its cash flows for the six month periods ended December 31, 2012 and 2011. These statements should be read in conjunction with the financial statements and footnotes included in the fiscal 2012 Annual Report on Form 10-K. Financial information as of June 30, 2012 has been derived from the Company's audited consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation:

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

Revenue Recognition:

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

The Company has four sources of revenue: revenue from product sales; revenue from installation of products; service revenue generated from providing integrated design, project and construction management, site engineering and site permitting; and 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. Other than normal product warranties or the possibility of installation or post-shipment service, support and maintenance of certain solid state LED video screens, billboards, or active digital signage, the Company has no post-shipment responsibilities.

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 appropriately recognized when all products at each customer site have been installed.

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

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

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## 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.

	December 31, 2012	June 30, 2012
Accounts receivable	\$ 37,310	\$ 44,797
less Allowance for doubtful accounts	(506)	(385)
Accounts receivable, net	\$ 36,804	\$ 44,412

## 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 and Canada. The balances at financial institutions in Canada are not covered by insurance. As of December 31, 2012 and June 30, 2012, the Company had bank balances of \$1,745,000 and \$863,000, 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 on 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 (years)	28- 40
Machinery and equipment (years)	3- 10
Computer software (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 ASC Subtopic 350-40, "Intangibles – Goodwill and Other: Internal-Use Software." Leasehold improvements are amortized over the shorter of fifteen years or the remaining term of the lease.

The Company recorded \$1,174,000 and \$1,333,000 of depreciation expense in the second quarter of fiscal 2013 and 2012, respectively, and \$2,335,000 and \$2,652,000 of depreciation expense in the first half of fiscal 2013 and 2012, 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 two and twenty years. The Company periodically evaluates definite-lived intangible assets for permanent impairment. 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 long-term debt. The fair value of these financial instruments approximates carrying value because of their short-term maturity and/or variable, market-driven interest rates. The Company has no financial instruments with off-balance sheet risk.

Fair value measurements of nonfinancial assets and nonfinancial liabilities are primarily used in goodwill and other intangible asset impairment analyses, in the purchase price of acquired companies (if any), and in the valuation of the contingent earn-out. The fair value measurement of these nonfinancial assets and nonfinancial liabilities is based on significant inputs not observable in the market and thus represent Level 3 measurements as defined in ASC 820, "Fair Value Measurement."

## Product Warranties:

The Company offers a limited warranty that its products are free of 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 from the date of shipment. The Company records warranty liabilities to cover the estimated future costs for repair or replacement of defective returned products as well as products that need to be repaired or replaced in the field after installation. The Company calculates its liability for warranty claims by applying estimates to cover unknown claims, as well as estimating the total amount to be incurred for known warranty issues. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

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

(In thousands)	Six Months Ended December 31, 2012	Six Months Ended December 31, 2011	Fiscal Year Ended June 30, 2012
Balance at beginning of the period	\$ 1,121	\$ 662	\$ 662
Additions charged to expense	640	680	2,645
Deductions for repairs and replacements	(558)	(610)	(2,186)
Balance at end of the period	\$ 1,203	\$ 732	\$ 1,121

## Research and Development Costs:

Research and development expenses are costs directly attributable to new product development, including the development of new technology for both existing and new products, and consist of salaries, payroll taxes, employee benefits, materials, supplies, depreciation and other administrative costs. The Company follows the requirements of ASC Subtopic 985-20, "Software: Costs of Software to be Sold, Leased, or Marketed," and expenses as research and development all costs associated with development of software used in solid-state LED products. All costs are expensed as incurred and are included in selling and administrative expenses. Research and development costs related to both product and software development totaled \$1,522,000 and \$1,454,000 for the three months ended December 31, 2012 and 2011, respectively, and \$3,174,000 and \$2,618,000 for the six months ended December 31, 2012 and

2011, respectively.

Earnings Per Common Share:

The computation of basic earnings per common share is based on the weighted average common shares outstanding for the period net of treasury shares held in the Company's non-qualified deferred compensation plan. The computation of diluted earnings per share is based on the weighted average common shares outstanding for the period and includes common share equivalents. Common share equivalents include the dilutive effect of stock options, contingently issuable shares and common shares to be issued under a deferred compensation plan, all of which totaled 370,000 shares and 307,000 shares for the three months ended December 31, 2012 and 2011, respectively, and 357,000 shares and 311,000 shares for the six months ended December 31, 2012 and 2011, respectively. See further discussion in Note 4.

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New Accounting Pronouncements:

In September 2011, the Financial Accounting Standards Board issued ASU 2011-08, "Intangibles – Goodwill and Other (Topic 350)." This amended guidance is intended to simplify the test of goodwill for impairment by allowing companies to first assess qualitative factors to determine whether or not it is more likely than not that the fair value of a reporting unit is less than its carrying value as the basis for determining whether it is necessary to perform the two-step goodwill impairment test. Guidance requires companies to perform an annual goodwill impairment test. The amended guidance is for annual reporting periods beginning on or after December 15, 2011, or the Company's fiscal year 2013, with early adoption permissible. The Company will follow this guidance with its fiscal year 2013 annual goodwill impairment test to be performed as of March 1, 2013.

Comprehensive Income:

The Company does not have any comprehensive income items other than net income (loss). The functional currency of the Company's Canadian operation is 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 — BUSINESS SEGMENT INFORMATION

ASC Topic 280, "Segment Reporting," establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information of those segments to be presented in interim 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) in making decisions on how to allocate resources and assess performance. While the Company has twelve operating segments, it has only three reportable operating business segments (Lighting, Graphics, and Electronic Components), an All Other Category, and Corporate and Eliminations.

The Lighting Segment includes outdoor, indoor, and landscape lighting that has been fabricated and assembled for the commercial, industrial and multi-site retail lighting markets, the Company's primary niche markets (petroleum / convenience store market, automotive dealership market, and quick service restaurant market), and LED solid state digital sports video screens. LED video screens are designed and manufactured by the Company's Lighting Segment and by LSI Saco in the All Other Category. The Lighting Segment includes the operations of LSI Ohio Operations, LSI Metal Fabrication, LSI MidWest Lighting and LSI Lightron. These operations have been integrated, have similar economic characteristics and meet the other requirements for aggregation in segment reporting.

The Graphics Segment designs, manufactures and installs exterior and interior visual image elements related to graphics. These products are used in visual image programs in several markets, including the petroleum / convenience store market and multi-site retail operations. The Graphics Segment includes the operations of Grady McCauley, LSI

Retail Graphics and LSI Integrated Graphic Systems, which have been aggregated as such facilities manufacture two-dimensional graphics with the use of screen and digital printing, fabricate three-dimensional structural graphics sold in the multi-site retail and petroleum / convenience store markets, and each exhibit similar economic characteristics and meet the other requirements for aggregation in segment reporting.

The Electronic Components Segment designs, engineers and manufactures custom designed electronic circuit boards, assemblies and sub-assemblies, and various products used in various applications including the control of solid-state LED lighting and metal halide lighting. Products produced by this segment may have applications in the Company's other LED product lines such as digital scoreboards, advertising ribbon boards and billboards. The Electronic Components Segment includes the operations of LSI ADL Technology and LSI Virticus.

The All Other Category includes the Company's operating segments that neither meet the aggregation criteria, nor the criteria to be a separate reportable segment. Operations of LSI Images (menu board systems) and LSI Adapt (implementation, installation and program management services related to products of the Graphics and Lighting Segments) are combined in the All Other Category. Additionally, operations of LSI Saco Technologies (designs and produces high-performance light engines, large format video screens using solid-state LED technology, and certain specialty LED lighting) are included in the All Other Category.

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, the Company's Board of Directors, stock option expense, certain consulting expenses, investor relations activities, and a portion of the Company's legal, auditing and professional fee expenses. Corporate identifiable assets primarily consist of cash, invested cash (if any), refundable income taxes (if applicable), and deferred income tax assets.

There was no concentration of consolidated net sales in the three or six months ended December 31, 2012 or 2011. There was no concentration of accounts receivable at December 31, 2012 or June 30, 2012.

Summarized financial information for the Company's reportable business segments is provided for the indicated periods and as of December 31, 2012 and June 30, 2012:

(In thousands)	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2012	2011	2012	2011
<b>Net Sales:</b>				
Lighting Segment	\$ 53,743	\$ 53,526	\$ 109,534	\$ 102,697
Graphics Segment	10,532	10,091	21,277	20,579
Electronic Components Segment	4,959	4,215	10,713	8,619
All Other Category	1,848	942	4,277	2,374
	\$ 71,082	\$ 68,774	\$ 145,801	\$ 134,269
<b>Operating Income (Loss):</b>				
Lighting Segment	\$ 2,477	\$ 2,832	\$ 6,990	\$ 6,136
Graphics Segment	(1,140)	(868)	(1,495)	(1,449)
Electronic Components Segment	(1,559)	689	(773)	1,754
All Other Category	(1,429)	(228)	(1,431)	(367)
Corporate and Eliminations	(1,058)	(1,206)	(2,973)	(2,677)
	\$ (2,709)	\$ 1,219	\$ 318	\$ 3,397
<b>Capital Expenditures:</b>				
Lighting Segment	\$ 578	\$ 470	\$ 894	\$ 939
Graphics Segment	145	337	363	446
Electronic Components Segment	196	14	329	111
All Other Category	27	27	57	134
Corporate and Eliminations	851	37	1,490	47
	\$ 1,797	\$ 885	\$ 3,133	\$ 1,677
<b>Depreciation and Amortization:</b>				
Lighting Segment	\$ 1,139	\$ 1,238	\$ 2,304	\$ 2,458
Graphics Segment	224	214	446	440

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Electronic Components Segment	333	267	653	530
All Other Category	46	56	93	110
Corporate and Eliminations	84	204	180	406
	\$ 1,826	\$ 1,979	\$ 3,676	\$ 3,944

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	December 31, 2012	June 30, 2012
<b>Identifiable Assets:</b>		
Lighting Segment	\$87,403	\$93,661
Graphics Segment	25,475	27,377
Electronic Components Segment	32,840	31,805
All Other Category	5,874	8,185
Corporate and Eliminations	16,186	14,198
	\$167,778	\$175,226

The segment net sales reported above represent sales to external customers. Segment operating income, which is used in management's evaluation of segment performance, represents net sales less all operating expenses including impairment of goodwill and intangible assets, but excluding interest expense and interest income. Identifiable assets are those assets used by each segment in its operations. Inter-segment revenues were eliminated in consolidation as follows:

(In thousands)	Three Months Ended December 31		Six Months Ended December 31	
	2012	2011	2012	2011
Lighting Segment inter-segment net sales	\$ 855	\$ 569	\$ 1,512	\$ 1,168
Graphics Segment inter-segment net sales	\$ 449	\$ 178	\$ 1,286	\$ 325
Electronic Components inter-segment net sales	\$ 7,283	\$ 4,919	\$ 13,619	\$ 9,737
All Other Category inter-segment net sales	\$ 1,388	\$ 2,446	\$ 2,254	\$ 3,491

The Company considers its geographic areas to be: 1) the United States, and 2) Canada. The majority of the Company's operations are in the United States, with one operation in Canada. The geographic distribution of the Company's net sales and long-lived assets are as follows:

(In thousands)	Three Months Ended December 31		Six Months Ended December 31	
	2012	2011	2012	2011
<b>Net Sales (a):</b>				
United States	\$ 70,964	\$ 68,688	\$ 145,653	\$ 133,667
Canada	118	86	148	602
	\$ 71,082	\$ 68,774	\$ 145,801	\$ 134,269
			December 31, 2012	June 30, 2012
<b>Long-lived Assets (b):</b>				
United States			\$ 44,939	\$ 44,286

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Canada	328	322
	\$ 45,267	\$ 44,608

- 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 December 31		Six Months Ended December 31	
	2012	2011	2012	2011
<b>BASIC EARNINGS PER SHARE</b>				
Net income (loss)	\$ (2,450)	\$ 772	\$ (620)	\$ 2,096
Weighted average shares outstanding during the period, net of treasury shares (a)	24,021	24,034	24,025	24,037
Weighted average shares outstanding in the Deferred Compensation Plan during the period	286	264	281	258
Weighted average shares outstanding	24,307	24,298	24,306	24,295
Basic earnings (loss) per share	\$ (0.10)	\$ 0.03	\$ (0.03)	\$ 0.09
<b>DILUTED EARNINGS PER SHARE</b>				
Net income (loss)	\$ (2,450)	\$ 772	\$ (620)	\$ 2,096
Weighted average shares outstanding				
Basic	24,307	24,298	24,306	24,295
Effect of dilutive securities (b):				
Impact of common shares to be issued under stock option plans, and contingently issuable shares, if any	84	43	76	53
Weighted average shares outstanding (c)	24,391	24,341	24,382	24,348
Diluted earnings (loss) per share	\$ (0.10)	\$ 0.03	\$ (0.03)	\$ 0.09

- (a) Includes shares accounted for like treasury stock in accordance with Accounting Standards Codification Topic 710, Compensation - General.
- (b) Calculated using the "Treasury Stock" method as if dilutive securities were exercised and the funds were used to purchase common shares at the average market price during the period.

- (c) Options to purchase 1,896,776 common shares and 1,821,210 common shares at December 31, 2012 and 2011, respectively, and options to purchase 1,852,451 common shares and 1,823,315 common shares at December 31, 2012 and 2011, respectively, were not included in the computation of the three month and six month, respectively, diluted earnings per share because the exercise price was greater than the average fair market value of the common shares.



## NOTE 5 — INVENTORIES

The following information is provided as of the dates indicated:

(In thousands)	December 31, 2012	June 30, 2012
<b>Inventories:</b>		
Raw materials	\$ 25,759	\$ 25,538
Work-in-process	6,391	6,623
Finished goods	10,963	9,115
<b>Total Inventories</b>	<b>\$ 43,113</b>	<b>\$ 41,276</b>

## NOTE 6 — ACCRUED EXPENSES

The following information is provided as of the dates indicated:

(In thousands)	December 31, 2012	June 30, 2012
<b>Accrued Expenses:</b>		
Compensation and benefits	\$6,401	\$5,102
Customer prepayments	616	982
Accrued sales commissions	1,233	1,409
Accrued income taxes	--	809
Other accrued expenses	3,315	3,107
<b>Total Accrued Expenses</b>	<b>\$ 11,565</b>	<b>\$ 11,409</b>

## NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

Carrying values of goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment in accordance with ASC Topic 350, "Intangibles – Goodwill and Other." The Company will first assess qualitative factors in order to determine if goodwill is impaired in accordance with ASU 2011 – 08, "Intangible – Goodwill and Other (Topic 350)." If through the qualitative assessment it is determined that it is more likely than not that goodwill is not impaired, no further testing is required. If it is determined more likely than not that goodwill is impaired, the Company's impairment testing continues with the estimation of the fair value of goodwill and indefinite-lived intangible assets using a combination of a market approach and an income (discounted cash flow) approach, at the reporting unit level, that requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease an impairment charge. Company management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as adverse business conditions, economic factors and technological change or competitive activities may signal that an asset has become impaired.

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

The Company performed an interim goodwill impairment test as of September 30, 2011. The continuing effects of the recession on some of the Company's markets, the decline in discounted cash flows associated with these markets, and the decline in the Company's stock price led management to believe that an other than annual goodwill impairment test was required for three of the four reporting units that contain goodwill. As a result of the test, it was determined that the goodwill associated with the Graphics Segment was fully impaired. It was also determined that the goodwill associated with the other reporting units tested was not impaired. Because the test was not complete, an estimate of the goodwill impairment was recorded in the first quarter of fiscal year 2012 totaling \$258,000. This goodwill impairment test was completed in the second quarter of fiscal 2012 with no change to the impairment that was recorded.

As of March 1, 2012, the Company performed its annual goodwill impairment test on the three reporting units that contain goodwill. The goodwill impairment test in the Electronic Components Segment passed with an estimated business enterprise value that was \$7.7 million or 33% above the carrying value of this reporting unit. The goodwill impairment test in the All Other Category passed with an estimated business enterprise value that was \$1.8 million or 155% above the carrying value of the reporting unit. The goodwill impairment test in the Lighting Segment passed with a margin in excess of \$28.8 million or 32% above the carrying value of this reporting unit.

The Company performed an interim goodwill impairment test as of December 31, 2012 on LSI Virticus, one of its reporting units that contains goodwill. (Virticus was acquired March 19, 2012 and is part of the Electronic Components Segment.) The reduction of the sales forecast that was originally used to value the Earn-Out liability related to the Virticus acquisition and which ultimately led to an adjustment to the earn-out liability in the second quarter of fiscal 2013 (see Note 12), led management to conclude that an interim goodwill impairment test was required on the Virticus reporting unit. As a result of the test, it was determined that goodwill associated with this reporting unit was impaired. Of the original goodwill of \$2,413,000, it was determined that \$2,141,000 or 89% of the original goodwill value was impaired. This reporting unit's goodwill will be tested again as of March 1, 2013 as part of the annual goodwill impairment test. A similar test was not performed on the three other reporting units that contain goodwill because the triggering events that indicate the potential impairment of goodwill did not exist.

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

## Goodwill

(In thousands)

	Lighting Segment	Graphics Segment	Electronic Components Segment	All Other Category	Total
<b>Balance as of June 30, 2012</b>					
Goodwill	\$ 34,913	\$ 24,959	\$ 11,621	\$ 6,850	\$ 78,343
Accumulated impairment losses	(34,778)	(24,959)	--	(5,685)	(65,422)
Goodwill, net as of June 30, 2012	135	--	11,621	1,165	12,921
<b>Fiscal 2013 Activity</b>					
Goodwill acquired during year	--	--	--	--	--
Impairment losses	--	--	(2,141)	--	(2,141)
<b>Balance as of December 31, 2012</b>					
Goodwill	34,913	24,959	11,621	6,850	78,343
Accumulated impairment losses	(34,778)	(24,959)	(2,141)	(5,685)	(67,563)
Goodwill, net as of December 31, 2012	\$ 135	\$ --	\$ 9,480	\$ 1,165	\$ 10,780

The Company performed its annual review of indefinite-lived intangible assets as of March 1, 2012 and determined there was no impairment.

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

## Other Intangible Assets

(In thousands)

	December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
<b>Amortized Intangible Assets</b>			
Customer relationships	\$ 10,352	\$ 6,897	\$ 3,455
Patents	70	53	17

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LED technology firmware, software	12,361	10,091	2,270
Trade name	460	316	144
Non-compete agreements	948	523	425
<b>Total Amortized Intangible Assets</b>	<b>24,191</b>	<b>17,880</b>	<b>6,311</b>
<b>Indefinite-lived Intangible Assets</b>			
Trademarks and trade names	3,422	--	3,422
<b>Total Indefinite-lived Intangible Assets</b>	<b>3,422</b>	<b>--</b>	<b>3,422</b>
<b>Total Other Intangible Assets</b>	<b>\$ 27,613</b>	<b>\$ 17,880</b>	<b>\$ 9,733</b>

(In thousands)	June 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
<b>Amortized Intangible Assets</b>			
Customer relationships	\$ 10,352	\$ 6,538	\$ 3,814
Patents	70	51	19
LED technology firmware, software	12,361	9,225	3,136
Trade name	460	270	190
Non-compete agreements	948	455	493
<b>Total Amortized Intangible Assets</b>	<b>24,191</b>	<b>16,539</b>	<b>7,652</b>
<b>Indefinite-lived Intangible Assets</b>			
Trademarks and trade names	3,422	--	3,422
<b>Total Indefinite-lived Intangible Assets</b>	<b>3,422</b>	<b>--</b>	<b>3,422</b>
<b>Total Other Intangible Assets</b>	<b>\$ 27,613</b>	<b>\$ 16,539</b>	<b>\$ 11,074</b>

(In thousands)	Amortization Expense of Other Intangible Assets	
	December 31, 2012	December 31, 2011
Three Months Ended	\$ 652	\$ 646
Six Months Ended	\$ 1,341	\$ 1,292

The Company expects to record amortization expense as follows:

(In thousands)	
2013	\$2,495
2014	\$791
2015	\$705
2016	\$699
2017	\$604
After 2017	\$2,358

#### NOTE 8 - REVOLVING LINES OF CREDIT

The Company has a \$30 million unsecured revolving line of credit with its bank group in the U.S., most of which, with the exception of a \$0.3 million standby letter of credit secured by the revolving line of credit, was available as of December 31, 2012. The line of credit expires in the third quarter of fiscal 2015. Annually in the third quarter, the credit facility is renewable with respect to adding an additional year of commitment, if the bank group so chooses, to replace the year just ended. Interest on the revolving lines 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 175 and 215 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 25 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.

The Company also has a \$5 million line of credit for its Canadian subsidiary. The line of credit expires in the third quarter of fiscal 2015. Interest on the Canadian subsidiary's line of credit is charged based upon a 200 basis point increment over the LIBOR rate or based upon an increment over the United States base rate if funds borrowed are denominated in U.S. dollars or an increment over the Canadian prime rate if funds borrowed are denominated in Canadian dollars. There are no borrowings against this line of credit as of December 31, 2012.

The Company is in compliance with all of its loan covenants as of December 31, 2012.

#### NOTE 9 - CASH DIVIDENDS

The Company paid cash dividends of \$7,207,000 and \$2,644,000 in the six months ended December 31, 2012 and 2011, respectively. The Board of Directors took action in December 2012 to accelerate payment into December 2012 of the fiscal 2013 second quarter regular quarterly cash dividend of \$0.06 per share. Also, an additional cash dividend of \$0.12 per share was also paid in December 2012. The cash dividend indicated annual rate for fiscal 2013 is \$0.24 per share.

#### NOTE 10 - EQUITY COMPENSATION

##### Stock Options

The Company has an equity compensation plan that was approved by shareholders in November 2012 and that covers all of its full-time employees, outside directors and certain advisors. This 2012 Stock Incentive Plan replaces all previous equity compensation plans. The options granted or stock awards made pursuant to this Plan are granted at fair market value at date of grant or award. Options granted to non-employee directors become exercisable 25% each ninety days (cumulative) from date of grant and options granted to employees generally become exercisable 25% per year (cumulative) beginning one year after the date of grant. 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 1,081,923 shares (includes 281,923 shares transferred in from the previous plan), all of which were available for future grant or award as of December 31, 2012. This plan allows for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted and unrestricted stock awards, performance stock awards, and other stock awards. As of December 31, 2012, a total of 2,400,075 options for common shares were outstanding from this Plan as well as three previous stock option plans (each of which had also been approved by shareholders), and of these, a total of 1,668,975 options for common shares were vested and exercisable. The approximate unvested stock option expense as of December 31, 2012 that will be recorded as expense in future periods is \$664,848. The weighted average time over which this expense will be recorded is approximately 20 months.

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

	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2012	2011	2012	2011
Dividend yield	3.58	% 2.89	% 3.60	% 2.89
Expected volatility	51	% 55	% 51	% 55
Risk-free interest rate	0.67	% 0.89	% 0.66	% 0.89
Expected life (years)	4.7	4.6	4.7	4.5

At December 31, 2012, the 414,750 options granted during the first six months of fiscal 2013 to both employees and non-employee directors had a weighted average exercise price of \$6.58 per share, fair values ranging from \$2.00 to \$2.11 per share, and remaining contractual lives of between nine years eight months and nine years eleven months.

At December 31, 2011, the 6,000 options granted during the first six months of fiscal 2012 to non-employee directors had per share exercise prices of \$6.68, fair values of \$2.45 per share, and remaining contractual lives of 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 equity compensation plan, with an estimated 3.4% forfeiture rate effective October 1, 2012, with the previous estimated forfeiture rates having been a 4.1% forfeiture rate effective April 1, 2012, a 3.6% forfeiture rate effective April 1, 2011, a 3.0% effective July 1, 2010 and a 6.55% prior to July 1, 2010. 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 \$119,654 and \$100,100 of expense related to stock options in the three months ended December 31, 2012 and 2011, respectively, and \$638,047 and \$228,200 of expense related to stock options in the six months ended December 31, 2012 and 2011, respectively. As of December 31, 2012, the Company expects that approximately 703,116 outstanding stock options having a weighted average exercise price of \$6.68 per share, intrinsic value of \$431,814 and weighted average remaining contractual terms of 8.6 years will vest in the future.

Information related to all stock options for the periods ended December 31, 2012 and 2011 is shown in the table below:

	Six Months Ended December 31, 2012			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at 6/30/12	2,006,250	\$ 10.64	5.8	\$654,747
Granted	414,750	\$ 6.58		
Forfeitures/expiration	(19,425 )	\$ 16.57		
Exercised	(1,500 )	5.21		
Outstanding at 12/31/12	2,400,075	\$ 9.90	6.1	\$793,543
Exercisable at 12/31/12	1,668,975	\$ 11.31	5.0	\$347,904

	Six Months Ended December 31, 2011			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years) <sup>9</sup>	Aggregate Intrinsic Value
Outstanding at 6/30/11	2,123,939	\$ 10.80	6.3	\$955,401
Granted	6,000	\$ 6.68		
Forfeitures/expiration	(137,654 )	\$ 12.26		

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Exercised	(2,000 )	\$5.21		
Outstanding at 12/31/11	1,990,375	\$10.69	6.3	\$273,248
Exercisable at 12/31/11	1,402,575	\$12.17	5.6	\$90,695

The aggregate intrinsic value of options exercised during the six months ended December 31, 2012 was \$2,084. The aggregate intrinsic value of options exercised during the six months ended December 31, 2011 was \$1,960. The Company received \$7,815 and \$10,420 of cash from employees who exercised options in the six months ended December 31, 2012 and 2011, respectively.

#### Stock Compensation Awards

The Company awarded a total of 5,204 and 3,244 common shares, respectively, in the six months ended December 31, 2012 and 2011 as stock compensation awards. These common shares were valued at their approximate \$36,000 and \$22,000 fair market values on their dates of issuance, respectively, pursuant to the compensation programs for non-employee directors who receive a portion of their compensation as an award 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. The Plan is fully funded in a Rabbi Trust. All Plan investments are in common shares of the Company. As of December 31, 2012 there were 28 participants, all with fully vested account balances. A total of 287,537 common shares with a cost of \$2,782,000, and 266,615 common shares with a cost of \$2,641,000 were held in the Plan as of December 31, 2012 and June 30, 2012, respectively, and, accordingly, have been recorded as treasury shares. The change in the number of shares held by this plan is the net result of share purchases and sales on the open stock market for compensation deferred into the Plan and for distributions to terminated employees. The Company does not issue new common shares for purposes of the non-qualified deferred compensation plan. The Company accounts for assets held in the non-qualified deferred compensation plan in accordance with Accounting Standards Codification Topic 710, Compensation – General. For fiscal year 2013, the Company estimates the Rabbi Trust for the Nonqualified Deferred Compensation Plan will make net repurchases in the range of 22,000 to 24,000 common shares of the Company. During the six months ended December 31, 2012 and 2011, the Company used approximately \$140,900 and \$135,500, respectively, to purchase common shares of the Company in the open stock market for either employee salary deferrals or Company contributions into the non-qualified deferred compensation plan. The Company does not currently repurchase its own common shares for any other purpose.

## NOTE 11 - SUPPLEMENTAL CASH FLOW INFORMATION

(In thousands)	Six Months Ended	
	December 31	
	2012	2011
<b>Cash payments:</b>		
Interest	\$ 57	\$ 81
Income taxes	\$ 3,157	\$ 275
<b>Issuance of common shares as compensation</b>	<b>\$ 36</b>	<b>\$ 22</b>

## NOTE 12 – COMMITMENTS AND CONTINGENCIES

As part of the acquisition of Virticus Corporation on March 19, 2012, a contingent earn-out liability of \$877,000 was recorded based on the fair value of estimated earn-out payments. This liability is to be paid over a five year period, contingent upon reaching certain sales in each year over the five year period (fiscal year 2013 through fiscal year 2017). In December 2012, as a result of modified sales forecasts for LSI Virticus, the fair value of the earn-out liability was adjusted to \$218,000. In addition to the \$659,000 adjustment to the earn-out liability, which was recorded within selling and administrative expenses in Corporate and Eliminations, \$46,000 of accrued interest expense was also reversed. The earn-out liability, including related accrued interest expense, is \$233,000 as of December 31, 2012.

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 did 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 December 31, 2012, standby letter of credit agreements totaled \$0.3 million.

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  
(In thousands)

	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2012	2011	2012	2011
Lighting Segment	\$ 53,743	\$ 53,526	\$ 109,534	\$ 102,697
Graphics Segment	10,532	10,091	21,277	20,579
Electronic Components Segment	4,959	4,215	10,713	8,619
All Other Category	1,848	942	4,277	2,374
	\$ 71,082	\$ 68,774	\$ 145,801	\$ 134,269

Operating Income (Loss) by Business Segment  
(In thousands)

	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2012	2011	2012	2011
Lighting Segment	\$2,477	\$2,832	\$6,990	\$6,136
Graphics Segment	(1,140 )	(868 )	(1,495 )	(1,449 )
Electronic Components Segment	(1,559 )	689	(773 )	1,754
All Other Category	(1,429 )	(228 )	(1,431 )	(367 )
Corporate and Eliminations	(1,058 )	(1,206 )	(2,973 )	(2,677 )
	\$(2,709 )	\$1,219	\$318	\$3,397

Summary Comments

Fiscal 2013 second quarter net sales of \$71,082,000 increased \$2.3 million or 3.4% as compared to second quarter fiscal 2012. Net sales were favorably influenced by increased net sales of the Lighting Segment (up \$0.2 million or 0.4%), increased net sales of the Graphics Segment (up \$0.4 million or 4.4%), increased net sales of the Electronic Components Segment (up \$0.7 million or 17.7%) and increased net sales of the All Other Category (up \$0.9 million or 96.2%). Net sales to the petroleum / convenience store market, the Company's largest niche market, were \$21,865,000 or 31% of total net sales and \$20,791,000 or 30% of total net sales in the second quarter of fiscal 2013 and 2012, respectively.

Fiscal 2013 first half net sales of \$145,801,000 increased \$11.5 million or 8.6% as compared to the same period of fiscal 2012. Net sales were favorably influenced by increased net sales of the Lighting Segment (up \$6.8 million or 6.7%), increased net sales of the Graphics Segment (up \$0.7 million or 3.4%), increased net sales of the Electronic Components Segment (up \$2.1 million or 24.3%) and increased net sales of the All Other Category (up \$1.9 million or 80.2%). Net sales to the petroleum / convenience store market, the Company's largest niche market, were \$41,542,000 or 28% of total net sales and \$37,569,000 or 28% of total net sales in the first half of fiscal 2013 and 2012, respectively.

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

LED Net Sales

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(In thousands)	FY 2013	FY 2012	% Change
First Quarter	\$ 23,809	\$ 15,842	50.3 %
Second Quarter	18,724	20,471	(8.5 )%
First Half	42,533	36,313	17.1 %
Third Quarter		17,285	
Nine Months		53,598	
Fourth Quarter		19,802	
Full Year		\$ 73,400	

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LED net sales include sales of LED lighting products, certain graphics products containing LEDs, and LED video and sports screens. Second quarter fiscal 2013 LED net sales of \$18,724,000 were down \$1.7 million or 8.5% from the same period of the prior year. The \$18,727,000 total LED net sales and the \$1.7 million decrease are primarily the net result of Lighting Segment LED net sales of \$18.2 million, which is comprised of \$17.5 million of light fixtures having solid-state LED technology and \$0.7 million related to video screens (down \$1.8 million or 9.0%), Graphics Segment LED net sales of \$0.3 million and All Other Category LED net sales of \$0.1 million (Graphics Segments LED net sales and LED net sales to the All Other Category remained flat when compared to fiscal 2012). First half fiscal 2013 total LED net sales of \$42,533,000 were \$6.2 million or 17.1% higher than the same period of the prior year. The \$42,533,000 total LED net sales and the \$6.2 million increase are primarily the net result of Lighting Segment LED net sales of \$41.9 million, which is comprised of \$36.9 million of light fixtures having solid-state LED technology and \$5.0 million related to video screens (up \$6.9 million or 19.6%), Graphics Segment LED net sales of \$0.5 million (down \$0.2 million or 29.9%), and All Other Category LED net sales of \$0.1 million (down \$0.4 million or 77.1%).

#### Non-GAAP Financial Measures

The Company believes it is appropriate to evaluate its performance after making adjustments to the as reported U.S. GAAP net income (loss). Adjusted net income (loss) and earnings (loss) per share, which exclude the impact of the reduction of a contingent earn-out liability and goodwill impairments, 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 this non-GAAP measure to net income (loss) for the periods indicated.

(In thousands, except per share data; unaudited)

	Second Quarter FY 2013		Second Quarter FY 2012	
	Amount	Diluted EPS	Amount	Diluted EPS
Reconciliation of net income (loss) to adjusted net income (loss):				
Net income (loss) and earnings (loss) per share as reported	\$ (2,450)	\$ (0.10)	\$ 772	\$ 0.03
Adjustment for the reduction of a contingent Earn-Out liability, inclusive of the income tax effect	(511)(1)	(0.02)	--	--
Adjustment for goodwill impairment, inclusive of the income tax effect	\$ 1,552(2)	\$ 0.06	\$ --	\$ --
Adjusted net income (loss) and earnings (loss) per share	\$ (1,409)	\$ (0.06)	\$ 772	\$ 0.03

(In thousands, except per share data; unaudited)

	First Half FY 2013		First Half FY 2012	
	Amount	Diluted EPS	Amount	Diluted EPS
Reconciliation of net income (loss) to adjusted net income (loss):				
Net income (loss) and earnings (loss) per share as reported	\$ (620)	\$ (0.03)	\$ 2,096	\$ 0.09
Adjustment for the reduction of a contingent Earn-Out liability, inclusive of the income tax effect	(511)(1)	(0.02)	--	--
Adjustment for goodwill impairment, inclusive of the income tax effect	\$ 1,552(2)	\$ 0.06	\$ 258(3)	\$ 0.01
Adjusted net income and earnings per share	\$ 421	\$ 0.02	\$ 2,354	\$ 0.10

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

- (1) \$194
- (2) \$(589)
- (3) 0

## Results of Operations

THREE MONTHS ENDED DECEMBER 31, 2012 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2011

### Lighting Segment (In thousands)

	Three Months Ended December 31	
	2012	2011
Net Sales	\$53,743	\$53,526
Gross Profit	\$12,105	\$11,807
Operating Income	\$2,477	\$2,832

Lighting Segment net sales of \$53,743,000 in the second quarter of fiscal 2013 increased 0.4% from fiscal 2012 same period net sales of \$53,526,000. The \$0.2 million increase in Lighting Segment net sales is primarily the net result of a \$0.5 million or 1.7% net increase in lighting sales to our niche and national accounts markets (petroleum / convenience store sales were down 2%, retail national net sales were down 53%, quick-service restaurant market sales were up 116%, and automotive market net sales were up 91%), a \$1.1 million or 33.2% increase in lighting sales to the international markets, and a \$0.9 million or 4% decrease in commissioned net sales to the commercial / industrial lighting market. Sales of lighting to the petroleum / convenience store market represented 32% and 33% of Lighting Segment net sales in the second quarter of fiscal years 2013 and 2012, respectively. Lighting Segment net sales of



lighting to this, the Company's largest niche market, were down 1.6% from last year to \$17,135,000. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled \$17.5 million in the second quarter of fiscal 2013, representing an 8% decrease from fiscal 2012 second quarter net sales of solid-state LED light fixtures of \$19.1 million. The Lighting Segment's net sales related to LED video screens totaled \$0.7 million in the second quarter of fiscal 2013, representing a \$0.5 million or 36.6% decrease from fiscal 2012 second quarter net sales of \$1.2 million.



a customer's image or brand program are reported in either the Lighting Segment, Graphics Segment, or the All Other Category depending upon the product and/or service provided.

Gross profit of \$1,203,000 in the second quarter of fiscal 2013 is similar to the gross profit of \$1,275,000 from the same period of fiscal 2012. Gross profit as a percentage of Segment net sales (customer plus inter-segment net sales) decreased from 12.4% in the second quarter of fiscal 2012 to 11.0% in the second quarter of fiscal 2013. The change in amount of gross profit is due to the net effect of increased overhead absorption, increased freight costs (\$0.2 million), and increased employee compensation and benefit expense (\$0.3 million).

Selling and administrative expenses of \$2,343,000 in the second quarter of fiscal 2013 increased \$0.2 million from the same period of fiscal 2012 primarily as a result of increased employee compensation and benefits (\$0.2 million).

The Graphics Segment second quarter fiscal 2013 operating loss of \$(1,140,000) increased \$0.3 million from an operating loss of \$(868,000) in the same period of fiscal 2012. The \$0.3 million increase in operating loss was primarily the result of decreased gross margin as a percentage of sales on similar sales and increased selling and administrative expenses.

Electronic Components Segment  
(In thousands)

Three Months Ended  
December 31  
2012                      2011

Net Sales	\$4,959	\$4,215
Gross Profit	\$1,493	\$1,121
Operating Income (Loss)	\$(1,559)	) \$689

Electronic Components Segment net sales of \$4,959,000 in the second quarter of fiscal 2013 increased 17.7% from fiscal 2012 same period net sales of \$4,215,000. The \$0.7 million increase in Electronic Components Segment net sales is primarily the result of a \$0.3 million increase in sales to the transportation market, a \$0.1 million increase in sale to the medical industry, a \$0.1 million increase in sales to original equipment manufacturers, and a \$0.2 million increase in sales to various other markets. In addition to this segment's increase in customer sales, its inter-segment net sales grew 48% in support of LED lighting sales.

Gross profit of \$1,493,000 in the second quarter of fiscal 2013 increased \$0.4 million or 33.2% from the same period in fiscal 2012, and decreased from 12.3% to 12.2% as a percentage of net sales (customer plus inter-segment net sales). The \$0.4 million increase in amount of gross profit is due to the net effect of increased customer net sales, a lower gross profit margin percentage due to increased inter-segment sales, decreased employee compensation and benefit expense (\$0.2 million), and increased warranty expense (\$0.2 million).

Selling and administrative expenses of \$911,000 in the second quarter of fiscal 2013 increased \$0.5 million from the same period in fiscal 2012 primarily as the result of increased employee compensation and benefit expense (\$0.1 million) and increased research and development expense related to lighting controls (\$0.1 million). In the second quarter of fiscal 2013, the Electronic Components Segment recorded a goodwill impairment expense of \$2.1 million with no comparable expense in fiscal 2012.

The Electronic Components Segment second quarter fiscal 2013 operating loss of \$(1,559,000) decreased \$2.2 million from operating income of \$689,000 in the same period of fiscal 2012. The \$2.2 million decrease in operating income from income in fiscal 2012 to a loss in fiscal 2013 was the net result of increased net customer and inter-segment sales, increased employee compensation and benefit expense, and a goodwill impairment charge of \$2.1 million.

All Other Category  
(In thousands)

Three Months Ended  
December 31  
2012                      2011

Net Sales	\$1,848	\$942
Gross Profit (Loss)	\$(819)	) \$529
Operating (Loss)	\$(1,429)	) \$(228)

All Other Category net sales of \$1,848,000 in the second quarter of fiscal 2013 increased 96.2% from fiscal 2012 net sales of \$942,000. The \$0.9 million increase in the All Other Category net sales is primarily the net result of

increased sales of menu board systems (\$0.6 million) and increased project management net sales (\$0.4 million).

The gross loss of \$(819,000) in the second quarter of fiscal 2013 is a \$1.3 million decrease compared to the gross profit of \$529,000 in the same period of fiscal 2012. The \$1.3 million reduction in gross profit is the net result of increased gross profit from increased net sales which was more than offset by an increased inventory reserve of \$1.2 million against inventory deemed technologically obsolete and no longer useable at our Canadian operation.

Selling and administrative expenses of \$610,000 in the second quarter of fiscal 2013 decreased \$0.1 million from the same period in fiscal year 2012. The decrease of \$0.1 million is primarily the result of decreased research and development expense (\$0.2 million).

The All Other Category second quarter fiscal 2013 operating loss of \$(1,429,000) compares to an operating loss of \$(228,000) in the same period of fiscal 2012. This \$1.2 million increase in operating loss was the net result of increased customer sales, an increase in an obsolete inventory reserve, and decreased selling and administrative expenses.

#### Corporate and Eliminations

(In thousands)

Three Months Ended

December 31

2012

2011

Gross Profit (Loss)	\$ (100 )	\$ 194
Operating (Loss)	\$ (1,058 )	\$ (1,206 )

The gross profit relates to the intercompany profit in inventory elimination.

Administrative expenses of \$958,000 in the second quarter of fiscal 2013 decreased \$0.4 million or 31.6% from the same period of the prior year. The decrease in expense is the net result of increased employee compensation and benefit expense (\$0.2 million), decreased depreciation expense (\$0.1 million), and a reduction of the contingent earn-out liability related to the Virticus acquisition (\$0.7 million as further discussed in Note 12).

#### Consolidated Results

The Company reported net interest income of \$18,000 in the second quarter of fiscal 2013 as compared to net interest expense of \$37,000 in the same period of fiscal 2012. 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. Two factors contributed to this change: 1) the mortgage associated with the LSI ADL facility in Columbus, Ohio was paid off in fiscal 2012 and 2) the reduction of the accrued interest expense related to the reduction of the contingent earn-out liability associated with the Virticus acquisition.

The \$241,000 income tax benefit in the second quarter of fiscal 2013 represents a consolidated effective tax rate of 9.0%. This is the net result of an income tax rate of 41.4% for the Company's U.S. operations influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income, Canadian income tax credits, by a benefit related to uncertain income tax positions, and by a full valuation reserve on the Company's Canadian tax position. The \$410,000 income tax expense in the second quarter of fiscal 2012 represents a consolidated effective tax rate of 34.7%. This is the net result of an income tax rate of 35% 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 a benefit related to uncertain income tax positions, and by a full valuation reserve on the Company's Canadian tax position.

The Company reported a net loss of \$(2,450,000) in the second quarter of fiscal 2013 as compared to net income of \$772,000 in the same period of the prior year. The decrease in net income from the second quarter of fiscal 2012 to a net loss in the second quarter of fiscal 2013 is primarily the net result of increased net sales, decreased gross profit largely due to an increase in inventory reserves against inventory deemed obsolete and no longer useable, increased operating expenses, a 2013 goodwill impairment, and an income tax benefit in fiscal 2013 compared to income tax expense in fiscal 2012. A diluted loss per share of \$(0.10) was reported in the second quarter of fiscal 2013 as compared to diluted earnings per share of \$0.03 in the same period of fiscal 2012. The weighted average common shares outstanding for purposes of computing diluted loss per share in the second quarter of fiscal 2013 were

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24,391,000 shares as compared to 24,341,000 shares in the same period last year when computing earnings per share.

SIX MONTHS ENDED DECEMBER 31, 2012 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2011

Lighting Segment  
(In thousands)

Six Months Ended  
December 31  
2012                      2011

Net Sales	\$	109,534	\$	102,697
Gross Profit	\$	25,999	\$	23,548
Operating Income	\$	6,990	\$	6,136

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Lighting Segment net sales of \$109,534,000 in the first half of fiscal 2013 increased 6.7% from fiscal 2012 same period net sales of \$102,697,000. The \$6.8 million increase in Lighting Segment net sales is primarily the net result of a \$4.1 million or 8.4% net increase in lighting sales to our niche markets (petroleum / convenience store market net sales were up 7%, net sales to the automotive market were up 97%, net sales to the Quick Service Restaurant Market were up 116%, and retail national net sales were down 45%), a \$1.7 million or 27.8% increase in sales to the international markets, a \$3.7 million or 272.6% increase in LED video screens (consisting largely of the sale of a large LED sports video screen), and a \$2.7 million or 5.7% decrease in commissioned net sales to the commercial / industrial lighting market. Sales of lighting to the petroleum / convenience store market represented 30% of Lighting Segment net sales in the first half of both fiscal years 2013 and 2012. Lighting Segment net sales of lighting to this, the Company's largest niche market, were up 7% from last year to \$32,768,000. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled \$36.9 million in the first half of fiscal 2013, representing a 9% increase from first half fiscal 2012 net sales of solid-state LED light fixtures of \$33.8 million. The Lighting Segment's net sales related to LED video screens totaled \$5.0 million in the first half of fiscal 2013, representing a 272% increase from first half fiscal 2012 net sales of \$1.3 million.

Gross profit of \$25,999,000 in the first half of fiscal 2013 increased \$2.5 million or 10.4% from the same period of fiscal 2012, and increased from 22.7% to 23.4% as a percentage of Lighting Segment net sales (customer plus inter-segment net sales). The increase in amount of gross profit is due to the net effect of increased net sales at increased margins, increased overhead absorption, an increase in inventory reserves against inventory deemed obsolete and no longer useable (\$0.5 million), increased benefits and compensation (\$0.9 million), decreased warranty costs (\$0.3 million), increased supplies (\$0.2 million), decreased outside services (\$0.2 million), decreased depreciation expense (\$0.2 million), and increased customer relations expense (\$0.6 million).

Selling and administrative expenses of \$19,009,000 in the first half of fiscal 2013 increased \$1.6 million or 9.2% from the same period of fiscal 2012 primarily as the net result of increased benefit and compensation expense (\$0.7 million), increased sales commission expense (\$1.0 million), increased research and development expense (\$0.4 million), and decreased customer relations expense (\$0.2 million).

The Lighting Segment first half fiscal 2013 operating income of \$6,990,000 increased \$0.9 million or 13.9% from operating income of \$6,136,000 in the same period of fiscal 2012. This increase of \$0.9 million was the net result of increased net sales, increased gross profit, and increased selling and administrative expenses.

Graphics Segment  
(In thousands)

	Six Months Ended December 31	
	2012	2011
Net Sales	\$ 21,277	\$ 20,579
Gross Profit	\$ 3,061	\$ 3,136
Operating (Loss)	\$ (1,495)	\$ (1,449)

Graphics Segment net sales of \$21,277,000 in the first half of fiscal 2013 increased 3.4% from fiscal 2012 same period net sales of \$20,579,000. The \$0.7 million increase in Graphics Segment net sales is primarily the net result of image conversion programs and sales to nine petroleum / convenience store customers (\$0.5 million increase), two grocery retailers (\$2.7 million increase), two national drug retailers (\$1.0 million decrease), the net result of two quick-service restaurant chains (\$1.4 million decrease), and changes in volume or completion of several other graphics programs. Sales of graphics products and services to the petroleum / convenience store market represented 41% and 33% of Graphics Segment net sales in the first half of fiscal years 2013 and 2012, respectively. Graphics Segment net



sales of graphics to this, the Company's largest niche market, were up 28% from last year to \$8,774,000. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Graphics Segment net sales of graphic identification products that contain solid-state LED light sources and LED lighting for signage totaled \$0.5 million in the first half of fiscal 2013 as compared to \$0.8 million in the same period of the prior year.

Image and brand programs, whether full conversions or enhancements, are important to the Company's strategic direction. Image programs include situations where our customers refurbish their retail sites around the country by replacing some or all of the lighting, graphic elements, menu board systems and possibly other items they may source from other suppliers. These image programs often take several quarters to complete and involve both our customers' corporate-owned sites as well as their franchisee-owned sites, the latter of which involve separate sales efforts by the Company with each franchisee. Some of these Image and Brand programs can be relatively large and are significant to the Company's operating results when comparing period-over-period results. The Company may not always be able to replace net sales immediately when a large image conversion program has concluded. Further, during periods where customers remain hesitant to initiate large image programs due to economic constraints, the period of time between such programs is lengthened. In the current economy, many of the Company's customers have held off on image programs, thereby providing limited opportunities to replace completed programs with new programs. Sales related to a customer's image or brand program are reported in either the Lighting Segment, Graphics Segment, or the All Other Category depending upon the product and/or service provided.

Gross profit of \$3,061,000 in the first half of fiscal 2013 decreased slightly from the same period in fiscal 2012, and decreased from 15.0% to 13.6% as a percentage of Graphics Segment net sales (customer plus inter-segment net sales). The decrease in amount of gross profit is due to the net effect of increased net sales at decreased margins, increased overhead absorption, and increased benefits and compensation (\$0.6 million).

Selling and administrative expenses of \$4,556,000 in the first half of fiscal 2013 increased 5.3% from the same period of fiscal 2012 primarily as a result of increased benefits and compensation expense (\$0.2 million). In the first half of fiscal 2012, the Graphics Segment recorded a goodwill impairment expense of \$0.3 million with no comparable expense in fiscal 2013.

The Graphics Segment first half fiscal 2013 operating loss of \$(1,495,000) is comparable to the operating loss of \$(1,449,000) in the same period of fiscal 2012 and is the net result of increased sales at decreased margins.

Electronic Components Segment  
(In thousands)

Six Months Ended  
December 31  
2012                      2011

Net Sales	\$	10,713	\$	8,619
Gross Profit	\$	3,237	\$	2,599
Operating Income (Loss)	\$	(773)	\$	1,754

Electronic Components Segment net sales of \$10,713,000 in the first half of fiscal 2013 increased 24.3% from fiscal 2012 same period net sales of \$8,619,000. The \$2.1 million increase in Electronic Components Segment net sales is primarily the result of a \$0.1 million increase in sales to the telecommunications market, a \$1.2 million increase in sales to the transportation market, a \$0.2 million increase in sales to the medical market and a \$0.5 million increase in sales to various other markets.

Gross profit of \$3,237,000 in the first half of fiscal 2013 increased \$0.6 million or 24.5% from the same period of fiscal 2012, and decreased from 14.2% to 13.3% as a percentage of Electronic Components Segment net sales (customer plus inter-segment net sales). The \$0.6 million increase in amount of gross profit is due to the net effect of increased customer net sales, a lower gross profit margin percentage on increased inter-segment sales, and increased warranty expense (\$0.3 million).

Selling and administrative expenses of \$1,869,000 in the first half of fiscal 2013 increased \$1.0 million from the same period of fiscal 2012 primarily as the result of increased employee compensation and benefits expense (\$0.3 million), increased research and development expense related to lighting controls (\$0.3 million). In the first half of fiscal 2013, the Electronic Component Segment recorded a goodwill impairment expense of \$2.1 million with no comparable expense in fiscal 2012.

The Electronic Components Segment first half fiscal 2013 operating loss of \$(773,000) decreased \$2.5 million from operating income of \$1,754,000 in the same period of fiscal 2012. The \$2.5 million decrease from operating income in fiscal 2012 to a loss in fiscal 2013 was the net result of increased net sales, increased gross profit and decreased gross profit as a percentage of sales, increased selling and administrative expenses, primarily the fiscal 2013 goodwill impairment expense of \$2.1 million.

All Other Category  
(In thousands)

Six Months Ended  
December 31

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	2012	2011
Net Sales	\$ 4,277	\$ 2,374
Gross Profit	\$ (294)	\$ 1,071
Operating (Loss)	\$ (1,431)	\$ (367)

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All Other Category net sales of \$4,277,000 in the first half of fiscal 2013 increased \$1.9 million or 80.2% from fiscal 2012 net sales of \$2,374,000. The \$1.9 million increase in the All Other Category net sales is primarily the net result of net increased sales of menu board systems (\$1.7 million), increased project management net sales (\$1.0 million), and decreased net sales of specialty LED lighting (\$0.5 million).

The gross loss of \$(294,000) in the first half of fiscal 2013 is a \$1.4 million decrease compared to the gross profit of \$1,071,000 in the same period of fiscal 2012. The change in gross profit between the first half of fiscal 2013 and first half of fiscal 2012 is the result of increased net customer sales offset by an inventory reserve \$1.2 million against inventory deemed technologically obsolete and no longer useable at our Canadian operation.

Selling and administrative expenses of \$1,137,000 in the first half of fiscal 2013 decreased \$0.3 million or 20.9% as compared to the same period of the prior year. The decrease in selling and administrative expense is primarily the result of lower research and development expense (\$0.3 million).

The All Other Category first half fiscal 2013 operating loss of \$(1,431,000) compares to an operating loss of \$(367,000) in the same period of fiscal 2012. This \$1.1 million increase in operating loss was the net result of increased net sales, an increase in obsolete inventory reserves, and decreased selling and administrative expenses.

Corporate and Eliminations  
(In thousands)

	Six Months Ended December 31	
	2012	2011
Gross Profit	\$ (250)	\$ 36
Operating Income (Loss)	\$ (2,973)	\$ (2,677)

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

Selling and administrative expenses of \$2,723,000 in the first half of fiscal 2013 were comparable to fiscal 2012 selling and administrative expenses of \$2,713,000. The small change in expense is the net result of increased employee compensation and benefit expense (\$0.8 million), decreased depreciation expense (\$0.2 million) and a reduction of the contingent earn-out liability related to the Virticus acquisition (\$0.7 million as further discussed in Note 12).

Consolidated Results

The Company reported net interest expense of \$2,000 in the first half of fiscal 2013 as compared to net interest expense of \$77,000 in the same period of fiscal 2012. 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. Two factors that are contributing to the decrease in net interest expense from the first half of fiscal 2012 to the first half of fiscal 2013: 1) the mortgage associated with the LSI ADL facility in Columbus, Ohio was paid off in fiscal 2012 and 2) the reversal of the accrued interest expense related to the reduction of the contingent earn-out liability associated with the Virticus acquisition.

The \$936,000 income tax expense in the first half of fiscal 2013 represents a consolidated effective tax rate greater than 100%. This is the net result of an income tax rate of 41.4% for the Company's U.S. operations, influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income, by certain U.S. federal and Canadian income tax credits, by a benefit related to uncertain income tax positions, and most notably by a

full valuation reserve on the Company's Canadian tax position. Losses on the Company's Canadian operation were greater than the profits recognized on the Company's U.S operations thereby contributing to the effective tax rate in excess of 100%. The \$1,224,000 income tax expense in the first half of fiscal 2012 represents a consolidated effective tax rate of 36.9%. This is the net result of an income tax rate of 35.0% 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 the goodwill impairment of \$258,000 for which there was no tax effect, by certain U.S. federal and Canadian income tax credits, by a benefit related to uncertain income tax positions, and by a full valuation reserve on the Company's Canadian tax position.

The Company reported a net loss of \$(620,000) in the first half of fiscal 2013 as compared to net income of \$2,096,000 in the same period of the prior year. The decreased net income is primarily the net result of increased net sales, increased gross profit, increased operating expenses, increased goodwill impairment and decreased income tax expense. Diluted loss per share was \$(0.03) in the first half of fiscal 2013 as compared to diluted earnings per share of \$0.09 in the same period of fiscal 2012. The weighted average common shares outstanding for purposes of computing the diluted loss per share in the first half of fiscal 2013 was 24,382,000 shares as compared to 24,348,000 shares when computing earnings per share 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 December 31, 2012, the Company had working capital of \$78.6 million, compared to \$83.7 million at June 30, 2012. The ratio of current assets to current liabilities was 4.36 to 1 as compared to a ratio of 4.65 to 1 at June 30, 2012. The \$5.1 million decrease in working capital from June 30, 2012 to December 31, 2012 was primarily related to the net effect of decreased cash and cash equivalents (\$0.8 million), decreased net accounts receivable (\$7.6 million), and increased accrued expenses (\$0.5 million), partially offset by increased net inventory (\$1.8 million), increased refundable income taxes (\$1.3 million), and increased other current assets (\$0.6 million). The Company has a strategy of aggressively managing working capital, including reduction of the accounts receivable days sales outstanding (DSO) and reduction of inventory levels, without reducing service to its customers.

The Company generated \$9.7 million of cash from operating activities in the first half of fiscal 2013 as compared to a generation of cash of \$19.9 million in the same period of the prior year. This \$10.2 million decrease in net cash flows from operating activities is primarily the net result of an increase rather a decrease in inventory (unfavorable change of \$12.8 million), an increase rather a decrease in refundable income tax (unfavorable change of \$2.4 million), a greater decrease in accounts receivable (favorable change of \$3.2 million), and a smaller decrease in accrued expenses and other (favorable change of \$1.7 million).

Net accounts receivable were \$36.8 million and \$44.4 million at December 31, 2012 and June 30, 2012, respectively. The decrease of \$7.6 million in net receivables is primarily due to combined effects of a lower amount of net sales in the latter two months of the second quarter of fiscal 2013 as compared to the latter two months of the fourth quarter of fiscal 2012 and by a lower DSO. The DSO decreased to 54 days at December 31, 2012 from 55 days at June 30, 2012. The Company believes that its receivables are ultimately collectible or recoverable, net of certain reserves, and that aggregate allowances for doubtful accounts are adequate.

Net inventories at December 31, 2012 increased \$1.8 million from June 30, 2012 levels. Based on a strategy of balancing inventory reductions with customer service and the timing of shipments, net inventory increases occurring in the first half of fiscal 2013 in the Electronic Component Segment of approximately \$3.6 million and in the Graphics Segment of approximately \$0.6 million partially offset net inventory decreases in the Lighting Segment of approximately \$1.1 million and in the All Other Category of approximately \$1.1 million. The drop in net inventory in the All Other Category was primarily the result of the establishment of obsolete inventory reserves against inventory deemed non-usable.

Cash generated from operations and borrowing capacity under two line of credit facilities are the Company's primary source of liquidity. The Company has an unsecured \$30 million revolving line of credit with its U.S. bank group, with most of \$30 million of the credit line available as of January 24, 2013 (\$0.3 million of credit line is consumed by a standby letter of credit). This line of credit is a \$30 million three year committed credit facility expiring in the third quarter of fiscal 2015. Additionally, the Company has a separate \$5 million line of credit, renewable annually in the third fiscal quarter, for the working capital needs of its Canadian subsidiary, LSI Saco Technologies. As of January 24, 2013, all \$5 million of this line of credit is available. The Company believes that \$35 million total lines of credit plus cash flows from operating activities are adequate for the Company's fiscal 2013 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants.

The Company used \$3.1 million of cash related to investing activities in the first half of fiscal 2013 as compared to a use of \$1.7 million in the same period of the prior year, resulting in an unfavorable change of \$1.4 million. The primary change between years relates to an upgrade of the company's ERP software in fiscal 2013. Other than the upgrade to the Company's ERP software, capital spending in both periods is primarily for tooling and equipment. The Company expects fiscal 2013 capital expenditures to be approximately \$10.0 million, exclusive of business acquisitions, if any.

The Company used \$7.3 million of cash related to financing activities in the first half of fiscal 2013 as compared to a use of cash of \$2.8 million in the same period of the prior year. The change between years is attributed to an increased dividend payment. In December 2012, the Board of Directors took action to accelerate the payment of the fiscal 2013 second quarter regular quarterly cash dividend and the board approved an additional cash dividend above and beyond the regular quarterly dividend.

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 December 2012, the Board of Directors took action to accelerate the regular quarterly cash dividend of \$0.06 per share (approximately \$1,441,000) usually payable in February 2013, into December 2012. Accordingly, the cash dividend indicated annual rate for fiscal 2013 is \$0.24 per share. An additional cash dividend of \$0.12 per share was also paid in December 2012. The Company's cash dividend policy is that the indicated annual dividend rate will be set between 50% and 70% of the expected net income for the current fiscal year. Consideration will also be given by the Board to special year-end cash or stock dividends. The declaration and amount of any cash and stock dividends will be determined by the Company's Board of Directors, in its discretion, based upon its evaluation of earnings, cash flow, capital requirements and future business developments and opportunities, including acquisitions.

#### 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 collectibility 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 four sources of revenue: revenue from product sales; revenue from installation of products; service revenue generated from providing integrated design, project and construction management, site engineering and site permitting; and 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. Other than normal product warranties or the possibility of installation or



post-shipment service, support and maintenance of certain solid state LED video screens, billboards, or active digital signage, the Company has no post-shipment responsibilities.

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 have been installed at each individual retail site of the customer on a proportional performance basis.

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

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

#### Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, “Income Taxes.” Accordingly, deferred income taxes are provided on items that are reported as either income or expense in different time periods for financial reporting purposes than they are for income tax purposes. Deferred income tax assets and liabilities are reported on the Company’s balance sheet. Significant management judgment is required in developing the Company’s income tax provision, including the estimation of taxable income and the effective income tax rates in the multiple taxing jurisdictions in which the Company operates, the estimation of the liability for uncertain income tax positions, the determination of deferred tax assets and liabilities, and any valuation allowances that might be required against deferred tax assets.

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

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

#### Asset Impairment

Carrying values of goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment in accordance with ASC Topic 350, “Intangibles – Goodwill and Other.” The Company will first assess qualitative factors in order to determine if goodwill is impaired in accordance with ASU 2011 – 08, “Intangible – Goodwill and Other (Topic 350).” If through the qualitative assessment it is determined that it is more likely than not that goodwill is not impaired, no further testing is required. If it is determined more likely than not that goodwill is impaired, the Company’s impairment testing continues with the estimation of the fair value of goodwill and indefinite-lived intangible assets using a combination of a market approach and an income (discounted cash flow) approach, at the reporting unit level, that requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease an impairment charge. Company management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as adverse business conditions, economic factors and technological change or competitive activities may signal that an asset has become impaired.

Carrying values for long-lived tangible assets and definite-lived intangible assets, excluding goodwill and indefinite-lived intangible assets, are reviewed for possible impairment as circumstances warrant as required by ASC Topic 360, “Property, Plant, and Equipment.” Impairment reviews are conducted at the judgment of Company management when it believes that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the

forecast for a product, changes in technology or in the way an asset is being used, a history of negative operating cash flow, or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review. The Company's initial impairment review to determine if a potential impairment charge is required is based on an undiscounted cash flow analysis at the lowest level for which identifiable cash flows exist. The analysis requires judgment with respect to changes in technology, the continued success of product lines and future volume, revenue and expense growth rates, and discount rates.

#### Credit and Collections

The Company maintains allowances for doubtful accounts receivable for probable estimated losses resulting from either customer disputes or the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in their inability to make the required payments, the Company may be required to record additional allowances or charges against income. The Company determines its allowance for doubtful accounts by first considering all known collectibility 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 or it is repaired in the field. The warranty reserve is first determined based upon known claims or issues, and then by the application of a specific percentage of sales to cover general claims. The percentage applied to sales to calculate general claims is based upon historical claims as a percentage of sales. Management addresses the adequacy of its warranty reserves on a quarterly basis to ensure the reserve is accurate based upon the most current information.

#### Inventory Reserves

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

#### New Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board issued ASU 2012-02, "Intangibles – Goodwill and Other (Topic 350): Testing Long-Lived Intangible Assets for Impairment." This amended guidance is intended to simplify the test of indefinite-lived intangible assets for impairment by allowing companies to first assess qualitative factors to determine whether or not it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value as the basis for determining whether it is necessary to perform the two-step impairment test. Current guidance requires companies to perform an annual indefinite-lived intangible asset impairment test. The amended guidance is effective for annual and interim tests performed for fiscal years beginning after September 15, 2012, or the Company's fiscal year 2014, with early adoption permissible. The Company will follow this guidance when it is adopted.

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

There have been no material changes in the Registrant's exposure to market risk since June 30, 2012. Additional information can be found in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, which appears on page 14 of the Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

### ITEM 4. CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

An evaluation was performed as of December 31, 2012 under the supervision and with the participation of the Registrant's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Registrant's disclosure controls and procedures pursuant to Rule 13a-15(b) and 15d-15(b) promulgated under the Securities Exchange Act of 1934. Based upon this evaluation, the Registrant's Chief Executive Officer and Chief Financial Officer concluded that the Registrant's disclosure controls and procedures were effective as of December 31, 2012, in all material respects, to ensure that information required to be disclosed in the reports the Registrant files and submits under the Exchange Act are recorded, processed, summarized and reported as and when

required.

#### 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 December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II. OTHER INFORMATION

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

- (c) 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 second quarter of fiscal 2013 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
10/1/12 to 10/31/12	780	6.88	780	(1 )
11/1/12 to 11/30/12	1,284	6.86	1,284	(1 )
12/1/12 to 12/31/12	758	7.00	758	(1 )
Total	2,822	6.88	2,822	(1 )

- (1) All acquisitions of shares reflected above have been made in connection with the Company's Non-Qualified Deferred Compensation Plan, which has been authorized for 475,000 shares of the Company to be held in and distributed by the Plan. At December 31, 2012, the Plan held 287,537 common shares of the Company and had distributed 128,292 common shares.

## ITEM 6. EXHIBITS

## Exhibits

- 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

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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/ Robert J. Ready  
Robert J. Ready  
President and Chief Executive  
Officer  
(Principal Executive Officer)

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

February 4, 2013

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