LSI INDUSTRIES INC
Form 10-Q
November 06, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017.

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

Commission File No. 0-13375

LSI Industries Inc.

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

10000 Alliance Road

Cincinnati, Ohio 45242

(513) 793-3200

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

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

YES __X__ NO ____

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

As of October 27, 2017 there were 25,791,814 shares of the Registrant's common stock, no par value per share, outstanding.

LSI INDUSTRIES INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30	
(In thousands, except per share data)	2017	2016
Net sales	$87,466	$84,159
Cost of products and services sold	63,763	62,821
Restructuring costs	--	503
Gross profit	23,703	20,835
Restructuring costs	--	153
Impairment of goodwill	28,000	--
Selling and administrative expenses	20,517	19,616
Operating (loss) income	(24,814)	1,066
Interest (income)	(8)	(27)
Interest expense	411	13
(Loss) Income before income taxes	(25,217)	1,080
Income tax (benefit) expense	(9,588)	251

Net (loss) Income	$(15,629)	$829
(Loss) Earnings per common share (see Note 4)		
Basic	$(0.61)	$0.03
Diluted	$(0.61)	$0.03
Weighted average common shares outstanding		
Basic	25,791	25,275
Diluted	25,791	25,912

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)	September 30, 2017	June 30, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 2,120	$ 3,039
Accounts receivable, less allowance for doubtful accounts of $436 and $293, respectively	54,252	48,880
Inventories	49,182	50,008
Refundable income taxes	--	775
Assets held for sale	--	1,463
Other current assets	3,420	2,964
Total current assets	108,974	107,129
Property, Plant and Equipment, at cost		
Land	6,469	6,429
Buildings	35,686	35,463
Machinery and equipment	81,790	78,804
Construction in progress	652	3,805
	124,597	124,501
Less accumulated depreciation	(78,615)	(77,147)
Net property, plant and equipment	45,982	47,354
Goodwill	30,538	58,538
Other Intangible Assets, net	37,479	38,169
Other Long-Term Assets, net	16,216	5,490

Total assets	$239,189	$256,680

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)	September 30, 2017	June 30, 2017
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 17,842	$ 19,356
Accrued expenses	23,504	26,069
Total current liabilities	41,346	45,425
Long-Term Debt	51,862	49,698
Other Long-Term Liabilities	1,587	1,479
Commitments and Contingencies (Note 12)		
Shareholders' Equity		
Preferred shares, without par value; Authorized 1,000,000 shares, none issued	—	—
Common shares, without par value; Authorized 40,000,000 shares; Outstanding 25,535,362 and 24,997,531 shares, respectively	121,490	120,259
Retained earnings	22,904	39,819
Total shareholders' equity	144,394	160,078
Total liabilities & shareholders' equity	$ 239,189	$ 256,680

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)	Three Months Ended September 30	
	2017	2016
Cash Flows from Operating Activities		
Net (loss) income	$(15,629)	$829
Non-cash items included in net income:		
Depreciation and amortization	2,572	1,835
Deferred income taxes	(10,815)	(825)
Impairment of goodwill	28,000	--
Deferred compensation plan	(413)	198
Stock compensation expense	984	1,741
Issuance of common shares as compensation	78	103
Loss on disposition of fixed assets	(31)	1
Fixed asset impairment	--	273
Allowance for doubtful accounts	49	113
Inventory obsolescence reserve	143	573
Changes in certain assets and liabilities – excluding sale of subsidiary		
Accounts receivable	(5,421)	628
Inventories	683	(32)
Refundable income taxes	775	--
Accounts payable	(1,559)	121
Accrued expenses and other	(3,243)	(5,487)
Customer prepayments	419	268
Net cash flows (used in) provided by operating activities	(3,408)	339
Cash Flows from Investing Activities		
Proceeds from the sale of assets	1,527	--
Purchases of property, plant and equipment	(498)	(1,960)
Net cash flows provided by (used in) investing activities	1,029	(1,960)
Cash Flows from Financing Activities		
Payments of long-term debt	(22,247)	--
Borrowings of long-term debt	24,411	--
Cash dividends paid	(1,286)	(1,256)

Proceeds and tax benefits from exercises of stock options	115	58
Purchase of treasury shares	(106)	(344)
Issuance of treasury shares	573	42
Net cash flows provided by (used in) financing activities	1,460	(1,500)
(Decrease) in cash and cash equivalents	(919)	(3,121)
Cash and cash equivalents at beginning of period	3,039	33,835
Cash and cash equivalents at end of period	$2,120	$30,714

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 September 30, 2017, the results of its operations for the three month periods ended September 30, 2017 and 2016, and its cash flows for the three month periods ended September 30, 2017 and 2016. These statements should be read in conjunction with the financial statements and footnotes included in the fiscal 2017 Annual Report on Form 10-K. Financial information as of June 30, 2017 has been derived from the Company’s audited consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation:

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

Revenue Recognition:

Revenue is recognized when title to goods and risk of loss have passed to the customer, there is persuasive evidence of a purchase arrangement, delivery has occurred or services have been rendered, and collectability is reasonably assured. Sales are recorded net of estimated returns, rebates and discounts. Amounts received from customers prior to the recognition of revenue are accounted for as customer pre-payments and are included in accrued expenses.

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

Product revenue is recognized on product-only orders upon passing of title and risk of loss, generally at time of shipment. In certain arrangements with customers, as is the case with the sale of some of our solid-state LED (light emitting diode) video screens, revenue is recognized upon customer acceptance of the video screen at the job site. Product revenue related to orders where the customer requires the Company to install the product is recognized when the product is installed. The Company provides product warranties and certain post-shipment service, support and maintenance of certain solid state LED video screens.

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

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

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

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

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

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

Credit and Collections:

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

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

(In thousands)	September 30, 2017	June 30, 2017
Accounts receivable	$ 54,688	$ 49,386
Less: Allowance for doubtful accounts	(436)	(506)
Accounts receivable, net	$ 54,252	$ 48,880

Cash and Cash Equivalents:

The cash balance includes cash and cash equivalents which have original maturities of less than three months. Cash and cash equivalents consist primarily of bank deposits and a bank money market account that is stated at cost, which approximates fair value. The Company maintains balances at financial institutions in the United States. In the United States, the FDIC limit for insurance coverage on non-interest bearing accounts is $250,000. As of September 30, 2017 and June 30, 2017, the Company had bank balances of $5,080,127 and $4,615,000, respectively, without insurance coverage.

Inventories and Inventory Reserves:

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

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

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

The Company recorded $1,882,000 and $1,728,000 of depreciation expense in the first quarter of fiscal 2018 and 2017, respectively.

Goodwill and Intangible Assets:

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

Fair Value:

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

Fair value measurements of nonfinancial assets and nonfinancial liabilities are primarily used in goodwill and other intangible asset impairment analyses, long-lived asset impairment analyses and in the purchase price of acquired companies. In certain circumstances, a triggering event occurs such that a non-financial asset such as goodwill is required to be evaluated for impairment and deemed impaired. The accounting guidance on fair value measurement was used to measure the fair value of these nonfinancial assets and nonfinancial liabilities. In accordance with FASB Codification Topic 350-20, Intangibles – Goodwill and Other, Lighting Segment goodwill with a carrying amount of $57,373,000 was written down to its implied fair value of $29,373,000, resulting in an impairment charge of $28,000,000, which was included in earnings for the period

		Fair Value Measurements Using			
Description	Quarter Ended 9/30/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable inputs (Level 2)	Significant Unobservable inputs (Level 3)	Total Gains (Losses)
Lighting Segment Goodwill	$29,373,000			$29,373,000	$(28,000,000)

Product Warranties:

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

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

(In thousands)	Three Months Ended September 30,	Three Months Ended September 30,	Fiscal Year Ended June 30,

	2017	2016	2017
Balance at beginning of the period	$ 7,560	$ 5,069	$5,069
Additions charged to expense	927	903	4,956
Addition for acquired company			907
Deductions for repairs and replacements	(1,818)	(624)	(3,372)
Balance at end of the period	$ 6,669	$ 5,348	$7,560

Research and Development Costs:

Research and development costs are directly attributable to new product development, including the development of new technology for both existing and new products, and consist of salaries, payroll taxes, employee benefits, materials, outside legal costs and filing fees related to obtaining patents, supplies, depreciation and other administrative costs. The Company expenses as research and development all costs associated with development of software used in solid-state LED products. All costs are expensed as incurred and are included in selling and administrative expenses. Research and development costs related to both product and software development totaled $1,562,000 and $1,401,000 for the three months ended September 30, 2017 and 2016, respectively.

Cost of Products and Services Sold:

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

Earnings Per Common Share:

The computation of basic earnings per common share is based on the weighted average common shares outstanding for the period net of treasury shares held in the Company's nonqualified deferred compensation plan. The computation of diluted earnings per share is based on the weighted average common shares outstanding for the period and includes common share equivalents. Common share equivalents include the dilutive effect of stock options, restricted stock units, stock warrants, contingently issuable shares and common shares to be issued under a deferred compensation plan, all of which totaled 286,000 and 914,000 shares for the three month ended September 30, 2017 and 2016, respectively. See further discussion of earnings per share in Note 4.

Income Taxes:

The Company accounts for income taxes in accordance with the accounting guidance for income taxes. Accordingly, deferred income taxes are provided on items that are reported as either income or expense in different time periods for financial reporting purposes than they are for income tax purposes. Deferred income tax assets are reported on the

Company’s balance sheet. Significant management judgment is required in developing the Company’s income tax provision, including the estimation of taxable income and the effective income tax rates in the multiple taxing jurisdictions in which the Company operates, the estimation of the liability for uncertain income tax positions, the determination of deferred tax assets and liabilities, and any valuation allowances that might be required against deferred tax assets.

New Accounting Pronouncements:

In June 2014, the Financial Accounting Standards Board issued ASU 2014-09, “Revenue from Contracts with Customers.” This amended guidance supersedes and replaces all existing U.S. GAAP revenue recognition guidance. The guidance established a new revenue recognition model, changes the basis for deciding when revenue is recognized, provides new and more detailed guidance on specific revenue topics, and expands and improves disclosures about revenue. In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing.” In May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers: Narrow Scope Improvements and Practical Expedients.” In December 2016, the FASB issued ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.” These three standards clarify or improve guidance from ASU 2014-09 and are effective for fiscal years and interim periods within those years, beginning after December 15, 2017, or the Company’s fiscal year 2019. The Company will adopt these standards no later than July 1, 2018. The Company is reviewing accounting policies and evaluating disclosures in the financial statements related to the new standard. The Company is also assessing potential changes to the business processes, internal controls, and information systems related to the adoption of the new standard. While the Company is currently assessing the impact of the new standard, the Company’s revenue is primarily generated from the sale of finished products to customers. Those sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks, and rewards transfer. The recognition of revenue from most product sales is largely unaffected by the new standard. However, with respect to certain product sales requiring installation, revenue is currently not recognized until the installation is complete. While the Company does not expect this new guidance to have a material impact on the amount of overall sales recognized, the timing of recognition of revenues from sales on certain projects may be affected. Our initial conclusions may change as we finalize our assessment and select a transition method during the next six to nine months.

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

In March 2016, the Financial Accounting Standards Board issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting.” This amended guidance simplifies several aspects of the accounting for share-based payment award transactions. The amended guidance is effective for financial statements issued for fiscal years and interim periods within those years, beginning after December 15, 2016, or the Company’s fiscal year 2018. We adopted this standard on July 1, 2017 and recognized excess tax benefits of $81,010 in income tax expense during the three months ended September 30, 2017. The amount may not necessarily be indicative of future amounts that may be recognized as any excess tax benefits recognized would be dependent on future stock price, employee exercise behavior and applicable tax rates. Prior to July 1, 2017, excess tax benefits were recognized in additional paid-in capital. Additionally, excess tax benefits are now included in net cash flows provided by operating activities rather than net cash flows provided by financing activities in the Company’s Consolidated Statement of Cash Flows. The treatment of forfeitures has not changed, as the Company is electing to continue the current process of estimating forfeiture at the time of grant. The Company has no unrecognized excess tax benefits from prior periods to record upon the adoption of this ASU.

In January 2017, the Financial Accounting Standards Board issued ASU 2017-04, “Simplifying the Test for Goodwill Impairment”, which simplifies the testing for goodwill impairment by eliminating a previously required step. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2019, or the Company’s fiscal year 2021. Early adoption of the accounting standard is permitted, and the Company has elected to early adopt this standard. (See Footnote 7)

Comprehensive Income:

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

Subsequent Events:

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

Use of Estimates:

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

NOTE 3 - SEGMENT REPORTING INFORMATION

The accounting guidance on Segment Reporting establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information of those segments to be presented in financial statements. Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision maker (the Company's Chief Executive Officer or "CODM") in making decisions on how to allocate resources and assess performance. In the first quarter of fiscal 2018, the Company merged its Technology Segment with the Lighting Segment to be in alignment with the financial information received by the Chief Executive Officer and how the business is managed. The Company's two operating segments are Lighting and Graphics, each of which has a president who is responsible for that business and reports to the CODM. Corporate and Eliminations, which captures the Company's corporate administrative activities, is also reported in the segment information.

The Lighting Segment includes outdoor and indoor lighting utilizing both traditional and LED light sources that have been fabricated and assembled for the commercial/industrial market, the petroleum / convenience store market, the automotive dealership market, the quick service restaurant market, along with other markets the Company serves. The Lighting Segment also includes the design, engineering, and manufacturing of electronic circuit boards, assemblies and sub-assemblies used to manufacture certain LED light fixtures and sold directly to customers.

The Graphics Segment designs, manufactures and installs exterior and interior visual image elements such as traditional graphics, interior branding, electrical and architectural signage, active digital signage along with the management of media content related to digital signage, LED video screens, and menu board systems that are either digital or traditional by design. These products are used in visual image programs in several markets including, but not limited to the petroleum / convenience store market, multi-site retail operations, banking, and restaurants. The Graphics Segment implements, installs and provides program management services related to products sold by the Graphics Segment and by the Lighting Segment.

The Company's corporate administration activities are reported in the Corporate and Eliminations line item. These activities primarily include intercompany profit in inventory eliminations, expense related to certain corporate officers and support staff, the Company's internal audit staff, expense related to the Company's Board of Directors, stock option expense for options granted to corporate administration employees, certain consulting expenses, investor relations activities, and a portion of the Company's legal, auditing and professional fee expenses. Corporate identifiable assets primarily consist of cash, invested cash (if any), refundable income taxes (if any), and deferred income taxes.

There was no concentration of consolidated net sales in the three months ended September 30, 2017 or 2016. There was no concentration of accounts receivable at September 30, 2017 or June 30, 2017.

Summarized financial information for the Company's operating segments is provided for the indicated periods and as of September 30, 2017 and September 30, 2016:

(*In thousands*)	Three Months Ended September 30	
	2017	2016
Net Sales:		
Lighting Segment	$68,428	$65,265
Graphics Segment	19,038	18,894
	$87,466	$84,159
Operating Income (Loss):		
Lighting Segment	$(22,930)	$3,091
Graphics Segment	1,476	1,017
Corporate and Eliminations	(3,360)	(3,042)
	$(24,814)	$1,066
Capital Expenditures:		
Lighting Segment	$261	$1,096
Graphics Segment	182	366
Corporate and Eliminations	55	498
	$498	$1,960
Depreciation and Amortization:		
Lighting Segment	$1,901	$1,192
Graphics Segment	379	360
Corporate and Eliminations	292	283
	$2,572	$1,835

	September 30, 2017	June 30, 2017
Identifiable Assets:		
Lighting Segment	$ 182,796	$ 214,070
Graphics Segment	35,315	33,144
Corporate and Eliminations	21,078	9,466
	$ 239,189	$ 256,680

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

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

	Three Months Ended September 30	
(In thousands)	2017	2016
Lighting Segment inter-segment net sales	$715	$753
Graphics Segment inter-segment net sales	$31	$132

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

NOTE 4 - EARNINGS PER COMMON SHARE

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

	Three Months Ended September 30	
	2017	2016
BASIC EARNINGS (LOSS) PER SHARE		
Net income (loss)	$(15,629)	$829
Weighted average shares outstanding, net of treasury shares (a)	25,505	24,998
Weighted average vested restricted stock units outstanding	41	37
Weighted average shares outstanding in the Deferred Compensation Plan	245	240
Weighted average shares outstanding	25,791	25,275

Basic earnings (loss) per share	$(0.61)	$0.03
DILUTED EARNINGS (LOSS) PER SHARE		
Net income (loss)	$(15,629)	$829
Weighted average shares outstanding		
Basic	25,791	25,275
Effect of dilutive securities (b): Impact of common shares to be issued under stock option plans, and contingently issuable shares, if any	--	637
Weighted average shares outstanding (c)	25,791	25,912
Diluted earnings (loss) per share	$(0.61)	$0.03

(a) Includes shares accounted for like treasury stock.

(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 3,791,936 common shares and 1,654,450 common shares at September 30, 2017 and 2016, respectively, were not included in the computation of the three month period for diluted earnings (loss) per share, respectively, because the exercise price was greater than the average fair market value of the common shares. For the three months ended September 30, 2017, the effect of dilutive securities was not included in the calculation of diluted earnings (loss) per share because there was a net operating loss for the period.

NOTE 5 - INVENTORIES

The following information is provided as of the dates indicated:

(In thousands)	September 30, 2017	June 30, 2017
Inventories:		
Raw materials	$ 31,332	$32,421
Work-in-process	3,449	3,527
Finished goods	14,401	14,060
Total Inventories	$ 49,182	$50,008

NOTE 6 - ACCRUED EXPENSES

The following information is provided as of the dates indicated:

(In thousands)	September 30, 2017	June 30, 2017
Accrued Expenses:		
Compensation and benefits	$ 6,867	$9,759
Customer prepayments	1,480	1,061
Accrued sales commissions	1,986	2,314
Accrued warranty	6,669	7,560
Other accrued expenses	6,502	5,375
Total Accrued Expenses	$ 23,504	$26,069

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

Carrying values of goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment. The Company may first assess qualitative factors in order to determine if goodwill and indefinite-lived intangible assets are impaired. If through the qualitative assessment it is determined that it is more likely than not that goodwill and indefinite-lived assets are not impaired, no further testing is required. If it is determined more likely than not that goodwill and indefinite-lived assets are impaired, or if the Company elects not to first assess qualitative factors, the Company’s impairment testing continues with the estimation of the fair value of reporting units and indefinite-lived intangible assets using a combination of a market approach and an income (discounted cash flow) approach, at the reporting unit level. The estimation of the fair value of reporting units and intangible assets requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease an impairment charge. Company management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as adverse business conditions, a sustained significant drop in the Company's stock price, economic factors, 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 has a total of three reporting units that contain goodwill. There are two reporting units within the Lighting Segment and one reporting unit within the Graphics Segment. One reporting unit previously reported in the Technology Segment has been transferred to the Lighting Segment as a result of the merge of the Technology Segment with the Lighting Segment (See Note 3). The Company relies upon a number of factors, judgments and estimates when conducting its impairment testing including, but not limited to, the Company's stock price, operating results, forecasts, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and judgments in applying them to the analysis of goodwill impairment.

A sustained and significant decline in the Company's stock price in the first quarter of fiscal 2018 led management to believe that a triggering event occurred and that an interim goodwill impairment test was required for one the reporting units in the Lighting Segment that contains goodwill, as of September 30, 2017. Because the Company has elected to early adopt ASU 2017-04, "Simplifying the Test for Goodwill Impairment", the requirement to perform step 2 in the impairment test was not required. The result of the impairment test on the reporting unit in the Lighting Segment indicated that goodwill was impaired by $28,000,000.

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	Total
Balance as of June 30, 2017			
Goodwill	$94,564	$28,690	$123,254
Accumulated impairment losses	(37,191)	(27,525)	(64,716)
Goodwill, net as of June 30, 2017	$57,373	$1,165	$58,538
Goodwill Impairment	(28,000)	--	(28,000)
Balance as of September 30, 2017			
Goodwill	$94,564	28,690	123,254
Accumulated impairment losses	(65,191)	(27,525)	(92,716)
Goodwill, net as of September 30, 2017	$29,373	$1,165	$30,538

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

Other Intangible Assets *(In thousands)*	September 30, 2017 Gross Carrying Amount	Accumulated Amortization	Net Amount

Amortized Intangible Assets			
Customer relationships	$35,563	$ 8,471	$27,092
Patents	338	193	145
LED technology firmware, software	16,066	11,378	4,688
Trade name	2,658	526	2,132
Non-compete agreements	710	710	--
Total Amortized Intangible Assets	55,335	21,278	34,057
Indefinite-lived Intangible Assets			
Trademarks and trade names	3,422	--	3,422
Total Indefinite-lived Intangible Assets	3,422	--	3,422
Total Other Intangible Assets	$58,757	$ 21,278	$37,479

Other Intangible Assets *(In thousands)*	June 30, 2017 Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			
Customer relationships	$35,563	$ 7,956	$27,607
Patents	338	186	152
LED technology firmware, software	16,066	11,237	4,829
Trade name	2,658	499	2,159
Non-compete agreements	710	710	-
Total Amortized Intangible Assets	55,335	20,588	34,747
Indefinite-lived Intangible Assets			
Trademarks and trade names	3,422	--	3,422
Total Indefinite-lived Intangible Assets	3,422	--	3,422
Total Other Intangible Assets	$58,757	$ 20,588	$38,169

(In thousands)	Amortization Expense of Other Intangible Assets	
	September 30, 2017	September 30, 2016
Three Months Ended	$690	$ 107

The Company expects to record annual amortization expense as follows:

(In thousands)	
2018	$2,760
2019	$2,760
2020	$2,687
2021	$2,682
2022	$2,461

After 2022	$21,397

NOTE 8 - REVOLVING LINE OF CREDIT

In February, 2017 the Company amended its secured line of credit to a $100 million facility. The line of credit expires in the third quarter of fiscal 2022. Interest on the revolving line of credit is charged based upon an increment over the LIBOR rate as periodically determined, or at the bank's base lending rate, at the Company's option. The increment over the LIBOR borrowing rate, as periodically determined, fluctuates between 125 and 250 basis points depending upon the ratio of indebtedness to earnings before interest, taxes, depreciation and amortization ("EBITDA"), as defined in the line of credit agreement. The increment over LIBOR borrowing rate will remain at 175 basis points for the next twelve months. The fee on the unused balance of the $100 million committed line of credit is 15 basis points. Under the terms of this line of credit, the Company has agreed to a negative pledge of real estate assets and is required to comply with financial covenants that limit the ratio of indebtedness to EBITDA and require a minimum fixed charge coverage ratio. As of September 30, 2017, there was $51.9 million borrowed against the line of credit, and $48.1 million was available as of that date. Based on the terms of the line of credit and the maturity date, the debt has been classified as long term.

The Company is in compliance with all of its loan covenants as of September 30, 2017.

NOTE 9 - CASH DIVIDENDS

The Company paid cash dividends of $1,286,000 and $1,256,000 in the three months ended September 30, 2017 and 2016, respectively. Dividends on restricted stock units in the amount of $29,106 and $13,898 were accrued as of September 30, 2017 and 2016, respectively. These dividends will be paid upon the vesting of the restricted stock units when shares are issued to the award recipients. In October 2017, the Board of Directors declared a regular quarterly cash dividend of $0.05 per share payable November 14, 2017 to shareholders of record as of November 6, 2017. The indicated annual cash dividend rate is $0.20 per share.

NOTE 10 - EQUITY COMPENSATION

Stock Based Compensation

The Company has an equity compensation plan that was approved by shareholders in November 2012 and that covers all of its full-time employees, outside directors and certain advisors. This 2012 Stock Incentive Plan replaced all previous equity compensation plans. The options granted or stock awards made pursuant to this plan are granted at fair market value at the date of grant or award. Service-based options granted to non-employee directors become exercisable 25% each ninety days (cumulative) from the date of grant and options granted to employees generally become exercisable 25% per year (cumulative) beginning one year after the date of grant. Performance-based options granted to employees become exercisable 33.3% per year (cumulative) beginning one year after the date of grant. The maximum contractual term of the Company’s stock options is ten years. If a stock option holder’s employment with the Company terminates by reason of death, disability or retirement, as defined in the Plan, the Plan generally provides for acceleration of vesting. The number of shares reserved for issuance is 1,366,738 shares, all of which were available for future grant or award as of September 30, 2017. This plan allows for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted and unrestricted stock awards, performance stock awards, and other stock awards. Service based and performance based stock options were granted and restricted stock units (“RSUs”) were awarded during the three months ended September 30, 2017. As of September 30, 2017, a total of 3,593,365 options for common shares were outstanding from this plan as well as one previous stock option plan (which has also been approved by shareholders), and of these, a total of 1,536,124 options for common shares were vested and exercisable. As of September 30, 2017, the approximate unvested stock option expense that will be recorded as expense in future periods is $3,029,686. The weighted average time over which this expense will be recorded is approximately 25 months. Additionally, as of September 30, 2017 a total of 194,150 restricted stock units were outstanding. The approximate unvested stock compensation expense that will be recorded as expense in future periods for the RSUs is $913,907. The weighted average time over which this expense will be recorded is approximately 33 months.

Stock Options

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

	Three Months Ended September 30 2017	
Dividend yield	3.4	%
Expected volatility	40.9	%
Risk-free interest rate	1.8	%
Expected life (years)	6.0	

At September 30, 2017, the 724,037 options granted during the first three months of fiscal 2018 to employees had exercise prices of $5.92 per share, fair values $1.71 per share, and remaining contractual lives of nine years, ten months.

At September 30, 2016, the 832,500 options granted during the first three months of fiscal 2017 to employees had exercise prices ranging from $10.08 to $11.06 per share, fair values ranging from of $3.39 to $3.83 per share, and remaining contractual lives of between nine years, nine months and nine years, eleven months.

The Company calculates stock option expense using the Black-Scholes model. Stock option expense is recorded on a straight line basis, or sooner if the grantee is retirement eligible as defined in the 2012 Stock Incentive Plan, with an estimated 8.3% forfeiture rate effective July 1, 2017. Previous estimated forfeiture rates were between 2.0% and 3.5% between the periods January 1, 2014 through June 30, 2017. 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 $757,808 and $1,438,443 of expense related to stock options in the three months ended September 30, 2017 and 2016, respectively. As of September 30, 2017, the Company had 3,479,522 stock options that were vested and that were expected to vest, with a weighted average exercise price of $8.21 per share, an aggregate intrinsic value of $594,220 and weighted average remaining contractual terms of 7.6 years.

Information related to all stock options for the three months ended September 30, 2017 and 2016 is shown in the following tables:

	Three Months Ended September 30, 2017			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at 6/30/17	3,119,688	$ 9.12	7.4	$2,332,224
Granted	724,037	$ 5.92		
Forfeitures	(232,171)	$ 13.92		
Exercised	(18,189)	$ 6.31		
Outstanding at 9/30/17	3,593,365	$ 8.18	7.6	$646,326
Exercisable at 9/30/17	1,536,124	$ 8.26	5.9	$111,768

	Three Months Ended September 30, 2016			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at 6/30/16	2,976,490	$ 8.97	6.6	$8,338,974
Granted	832,500	$ 11.06		
Forfeitures	(140,250)	$ 15.95		
Exercised	(20,813)	$ 8.32		
Outstanding at 9/30/16	3,647,927	$ 9.18	7.3	$8,783,980

Exercisable at 9/30/16	1,586,188	$ 8.91	5.1	$4.982,876

The following table presents information related to unvested stock options:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at June 30, 2017	1,842,127	$ 3.52
Granted	724,037	$ 1.71
Vested	(384,602)	$ 3.58
Forfeited	(124,321)	$ 3.49
Unvested at September 30, 2017	2,057,241	$ 2.87

The weighted average grant date fair value of options granted during the three months ended September 30, 2017 and 2016 was $1.71 and $3.83, respectively. The aggregate intrinsic value of options exercised during the three months ended September 30, 2017 and 2016 was $20,156 and $50,160, respectively. The aggregate grant date fair value of options that vested during the three months ended September 30, 2017 and 2016 was $1,377,325 and $1,334,248, respectively. The Company received $114,770 and $173,185 of cash from employees who exercised options in the three month periods ended September 30, 2017 and 2016, respectively. In the first three months of fiscal 2018 the Company recorded $104,969 as a reduction of federal income taxes payable, $81,010 as an increase in expense, $5,973 as a reduction of income tax expense, and $180,006 as a reduction of the deferred tax asset related to the issuance of RSUs and the exercises of stock options in which the employees sold the common shares prior to the passage of twelve months from the date of exercise. In the first three months of fiscal 2017 the Company recorded $78,040 as a reduction of federal income taxes payable, $165,856 as an increase in common stock, $8,880 as a reduction of income tax expense, and $183,665 as a reduction of the deferred tax asset related to the issuance of RSUs and the exercises of stock options in which the employees sold the common shares prior to the passage of twelve months from the date of exercise.

Restricted Stock Units

A total of 91,490 restricted stock units with a fair value of $5.92 per share were awarded to employees during the three months ended September 30, 2017. A total of 71,700 restricted stock units with a fair value of $11.06 per share were awarded to employees during the three months ended September 30, 2016. The Company determined the fair value of the awards based on the closing price of the Company stock on the date the restricted stock units were awarded. The RSUs have a four year ratable vesting period. The restricted stock units are non-voting, but accrue cash dividends at the same per share rate as those cash dividends declared and paid on LSI's common stock. Dividends on RSUs in the amount of $29,106 and $13,898 were accrued as of September 30, 2017 and 2016, respectively. Accrued dividends are paid to the holder upon vesting of the RSUs and issuance of shares.

The following table presents information related to restricted stock units:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at June 30, 2017	133,335	$ 10.38
Awarded	91,490	$ 5.92
Shares Issued	(30,675)	$ 10.30
Unvested at September 30, 2017	194,150	$ 8.29

As of September 30, 2017, the 194,150 restricted stock units had a remaining contractual life of between 1 years 10 months and 3 years 9 months. Of the 194,150 RSUs outstanding, 180,984 are vested and expected to vest in the future. An estimated forfeiture rate of 8.3% was used in the calculation of expense related to the restricted stock units. The Company recorded $255,415 of expense related to restricted stock units in the three months ended September 30, 2017.

As of September 30, 2016, the 118,575 outstanding restricted stock units had a remaining contractual life of 2 years 9 months and 3 years 9 months. Of the 118,575 RSUs outstanding, 113,868 are expected to vest as of September 30, 2016. An estimated forfeiture rate of 3.4% was used in the calculation of expense related to the restricted stock units. The Company recorded $302,301 of expense related to restricted stock units in the three months ended September 30, 2016.

Director and Employee Stock Compensation Awards

The Company awarded a total of 8,550 and 9,470 common shares in the three months ended September 30, 2017 and 2016, respectively, as stock compensation awards. These common shares were valued at their approximate $77,976 and $103,100 fair market values based on their stock price at dates of issuance multiplied by the number of common shares awarded, respectively, pursuant to the compensation programs for non-employee directors who receive a portion of their compensation as an award of Company stock and for employees who received a nominal recognition award in the form of Company stock. Stock compensation awards are made in the form of newly issued common shares of the Company.

Deferred Compensation Plan

The Company has a non-qualified deferred compensation plan providing for both Company contributions and participant deferrals of compensation. This plan is fully funded in a Rabbi Trust. All plan investments are in common shares of the Company. As of September 30, 2017 there were 38 participants, all with fully vested account balances. A total of 241,095 common shares with a cost of $2,180,397, and 257,898 common shares with a cost of $2,456,875 were held in the plan as of September 30, 2017 and June 30, 2017, 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 issued 31,922 new common shares for purposes of the non-qualified deferred compensation plan. The Company used approximately $106,537 and $343,700 to purchase 15,225 and 34,587 common shares of the Company in the open stock market during the three months ended September 30, 2017 and 2016, respectively, for either employee salary deferrals or Company contributions into the non-qualified deferred compensation plan.

For fiscal year 2018, the Company estimates the Rabbi Trust for the Nonqualified Deferred Compensation Plan will make net repurchases of 15,225 common shares of the Company. The Company does not currently repurchase its own common shares for any other purpose.

NOTE 11 - SUPPLEMENTAL CASH FLOW INFORMATION

(In thousands)	Three Months Ended September 30	
	2017	2016
Cash payments:		

Interest	$382	$13
Income taxes	$--	$1,022

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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

The Company may occasionally issue a standby letter of credit in favor of third parties. As of June 30, 2017, there were no such standby letters of credit issued.

NOTE 13 – SEVERANCE COSTS

The Company recorded severance expense of $0 and $145,000 in the three months ended September 30, 2017 and 2016, respectively. This severance expense was related to reductions in staffing not related to plant restructuring. See further discussion of restructuring expenses in Note 14.

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

(In thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Fiscal Year Ended June 30, 2017
Balance at beginning of the period	$ 235	$ 39	$ 39
Accrual of expense	--	145	523
Payments	(159)	(119)	(313)
Adjustments	--	--	(14)
Balance at end of the period	$ 76	$ 65	$ 235

NOTE 14 – RESTRUCTURING COSTS

On September 22, 2016, the Company announced plans to close its lighting facility in Kansas City, Kansas. The decision was based upon the market shift away from fluorescent and other technologies and the rapid movement to LED lighting which is produced at other LSI facilities. The Company expects to continue to meet the demand for products containing fluorescent light sources as long as these products are commercially viable. All operations at the Kansas City facility ceased prior to December 31, 2016. Fiscal 2017 restructuring costs related to the closure of the Kansas City facility were $944,000. There have been no restructuring costs in fiscal 2018. These costs primarily included employee-related costs (primarily severance), the impairment of manufacturing equipment, plant shut down costs, costs related to the preparation of the facility for sale, legal costs, and other related costs. In addition, there was also an inventory write-down of $485,000 recorded in fiscal 2017. The write-down was related to inventory that was previously realizable until the decision in the first quarter of fiscal 2017 to shut down the Kanas City plant due to the planned curtailment of the manufacturing of fluorescent light fixtures. The Company owned the facility in Kansas City and realized a $1,361,000 gain when the facility was sold.

The Company also announced the consolidation of the Beaverton, Oregon facility into other LSI facilities. The light assembly of products in the Beaverton facility was moved to the Company's Columbus, Ohio facility, and administration and engineering functions were moved to the Company's Cincinnati, Ohio facility. This consolidation was completed September 30, 2016. As a result of this consolidation, restructuring charges of $377,000 were recorded in fiscal 2017, with the majority of this representing the costs related to the remaining period of the facility's lease and severance costs for employees who formerly worked in the Beaverton facility. There were not restructuring charges in fiscal 2018.

In November 2016, the Company announced the consolidation of the Woonsocket, Rhode Island manufacturing operation into its North Canton, Ohio operation. The manufacturing operations in Woonsocket ceased prior to December 31, 2016. The Company owns the facility in Woonsocket and realized a small gain when the facility was sold in September 2017. Total restructuring costs related to the consolidation of the Woonsocket facility were $452,000 in fiscal 2017. These costs primarily include employee-related costs (severance), plant shut down costs, costs related to the preparation of the facility for sale, legal costs, and other related costs. There have been no restructuring charges in fiscal 2018.

Management does not expect any significant restructuring charges for fiscal 2018. All previously announced restructuring projects were completed in fiscal 2017 and all restructuring charges were recorded in fiscal 2017.

The following table presents information about restructuring costs for the periods indicated:

(In thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016
Severance and other termination benefits	$ --	$ 165
Lease obligation	--	213
Impairment of fixed assets and accelerated depreciation	--	273
Other	--	5
Total	$ --	$ 656

The following table presents restructuring costs incurred by line item in the consolidated statement of operations in which the costs are included:

(In thousands)	Three Months Ended September 30 2016
Cost of Goods Sold	$ 503
Operating Expenses	153
Total	$ 656

The following table presents information about restructuring costs by segment for the periods indicated:

(In thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30 2016
Lighting Segment	$ --	$ 545
Graphics Segment	--	--
Corporate and Eliminations	--	111
Total	$ --	$ 656

The following table presents a roll forward of the beginning and ending liability balances related to the restructuring costs:

(In thousands)	Balance as of	Restructuring Expense	Payments	Adjustments	Balance as of

	June 30, 2017				September 30, 2017
Severance and termination benefits	$ --	$ --	--	$ --	$ --
Lease obligation	85	--	(43)	--	42
Other	--	--	--	--	--
Total	$ 85	$ --	$ (43)	$ --	$ 42

Refer to Note 13 for information regarding additional severance expenses that are not included in the restructuring costs identified in this footnote.

NOTE 15 – INCOME TAXES

The Company's effective income tax rate is based on expected income, statutory rates and tax planning opportunities available in the various jurisdictions in which it operates. For interim financial reporting, the Company estimates the annual income tax rate based on projected taxable income for the full year and records a quarterly income tax provision or benefit in accordance with the anticipated annual rate. The Company refines the estimates of the year's taxable income as new information becomes available, including actual year-to-date financial results. This continual estimation process often results in a change to the expected effective income tax rate for the year. When this occurs, the Company adjusts the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected income tax rate. Significant judgment is required in determining the effective tax rate and in evaluating tax positions. In the first quarter of fiscal 2018, a deferred tax asset of $10.7 million was created as a result of the impairment of goodwill in the Lighting reporting unit. (See footnote 7)

	Three Months Ended September 30	
	2017	2016
Reconciliation to effective tax rate:		
Provision for income taxes at the anticipated annual tax rate	33.7%	32.0%
Uncertain tax positions	(0.2)	(1.3)
Difference between deferred and current tax rate related to the impairment of goodwill	4.8	--
Deferred tax asset adjustment	--	(6.7)
Other	(0.3)	(0.8)
Effective tax rate	38.0%	23.2%

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 September 30	
	2017	2016
Lighting Segment	$68,428	$65,265
Graphics Segment	19,038	18,894
	$87,466	$84,159

Operating Income (Loss) by Business Segment

(In thousands)	Three Months Ended September 30	
	2017	2016
Lighting Segment	$(22,930)	$3,091
Graphics Segment	1,476	1,017
Corporate and Eliminations	(3,360)	(3,042)

$(24,814) $1,066

Summary Comments

Fiscal 2018 first quarter net sales of $87,466,000 increased $3.3 million or 3.9% as compared to first quarter fiscal 2017. Net sales were favorably influenced by increased net sales of the Lighting Segment (up $3.2 million or 4.8%) and increased net sales of the Graphics Segment (up $0.1 million or 0.8%). Comparable fiscal 2018 net sales excluding net sales from Atlas Lighting Products, Inc. (Atlas) decreased by $7.7 million or 9.2% compared to fiscal 2017 net sales. The Company acquired Atlas on February 21, 2017.

Fiscal 2018 first quarter operating loss of $(24,814,000) decreased $25.9 million from operating income of $1,066,000 in the first quarter of fiscal 2017. The $25.9 million change from operating income in fiscal 2017 to an operating loss in fiscal 2018 was mostly the result of a pre-tax $28 million goodwill impairment charge in the Lighting Segment. Adjusted fiscal 2018 operating income, a Non-GAAP measure, of $3,186,000 increased 41% or $0.9 million compared to adjusted fiscal 2017 operating income of $2,267,000. Refer to “Non-GAAP Financial Measures” below. The increase in adjusted operating income was the net result of increased net sales, increased gross profit and increased gross profit as a percentage of sales, and an increase in selling and administrative expenses.

Non-GAAP Financial Measures

The Company believes it is appropriate to evaluate its performance after making adjustments to the as-reported U.S. GAAP operating income, net income, and earnings per share. Adjusted operating income, net income and earnings per share, which exclude the impact of goodwill impairment, restructuring and plant closure costs, and severance costs, are non-GAAP financial measures. We believe that these adjusted supplemental measures are useful in assessing the operating performance of our business. These supplemental measures are used by our management, including our chief operating decision maker, to evaluate business results. We exclude these items because they are not representative of the ongoing results of operations of our business. Below is a reconciliation of these non-GAAP measures to operating income, net income, and earnings per share for the periods indicated.

(in thousands, unaudited)	First Quarter	
	FY 2018	FY 2017
Reconciliation of operating income to adjusted operating income:		
Operating income as reported	$(24,814)	$1,066
Adjustment for goodwill impairment	28,000	
Adjustment for restructuring, plant closure costs, and related inventory write-downs inclusive of the income tax effect		1,056
Adjustment for other severance costs		145
Adjusted Operating Income	$3,186	$2,267

(in thousands, except per share data; unaudited)	First Quarter					
	FY 2018		Diluted EPS	FY 2017		Diluted EPS
Reconciliation of net income to adjusted net income:						
Net income and earnings per share as reported	$(15,629)		$(0.61)	$829		$ 0.03
Adjustment for goodwill impairment, inclusive of the income tax effect	17,363	(3)	$0.67			
Adjustment for restructuring, plant closure costs, and related inventory write-downs inclusive of the income tax effect				695	(1)	0.03

Adjustment for other severance costs, inclusive of the income tax effect			97	(2)	--
Adjusted net income and earnings per share	$ 1,734	$ 0.07	$ 1,621		$ 0.06

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

(1) 361

(2) 48

(3) 10,637

<u>Results of Operations</u>

THREE MONTHS ENDED SEPTEMBER 30, 2017 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2016

In the first quarter of fiscal 2018, the Technology Segment was merged with the Lighting Segment. Prior year results have been restated to reflect the combination of the two segments.

Lighting Segment

(In thousands)	Three Months Ended September 30	
	2017	2016
Net Sales	$68,428	$65,265
Gross Profit	$18,673	$15,890
Operating Income	$(22,930)	$3,091

Lighting Segment net sales of $68,428,000 in the first quarter of fiscal 2018 increased 4.8% from fiscal 2017 same period net sales of $65,265,000. Comparable fiscal 2018 net sales excluding net sales from Atlas decreased by $7.9 million or 12.1% from fiscal 2017 first quarter sales. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled $53.0 million in the first quarter of fiscal 2018, representing a $9.8 million or 22.7% increase from fiscal 2017 first quarter net sales of solid-state LED light fixtures of $43.1 million. Light fixtures having solid-state LED technology represent 84.8% of total lighting product net sales in the first quarter of fiscal 2018 compared to 71.5% of total Lighting Segment net sales in the first quarter of fiscal 2017. There was a reduction in the Company's traditional lighting sales (metal halide and fluorescent light sources) from fiscal 2017 to fiscal 2018 as customers continue to convert from traditional lighting to light fixtures having solid-state LED technology**.**

Lighting Segment total net sales of solid-state LED technology in light fixtures have been recorded as indicated in the table below.

(In thousands)	LED Net Sales FY 2018	FY 2017	% Change
First Quarter	$52,956	$43,146	22.7 %
Second Quarter		46,137	
First Half		89,283	
Third Quarter		44,946	
Nine Months		134,229	

Fourth Quarter	52,303
Full Year	$186,532

Gross profit of $18,673,000 in the first quarter of fiscal 2018 increased $2.8 million or 17.5% from the same period of fiscal 2017, and increased from 24.1% to 27.0% as a percentage of Lighting Segment net sales (customer plus inter-segment net sales). The Company incurred restructuring and plant closure costs that were recorded in cost of sales related to the closure of the Kansas City, Kansas manufacturing facility of $691,000 and $254,000 related to the consolidation of it Beaverton, Oregon facility into other LSI facilities in fiscal 2017 with no comparable costs in fiscal 2018. The remaining increase in amount of gross profit is due to the net effect of improved product mix, net sales from Atlas for which there were no comparable sales in fiscal 2017, manufacturing efficiencies as a result of the Company's lean initiatives, continued inflationary pressures in certain commodities, competitive pricing pressures, and cost savings related to the closure of the Kansas City manufacturing facility.

Selling and administrative expenses of $13,603,000 in the first quarter of fiscal year 2018 increased $1.2 million or 10.4% from the same period of fiscal 2017 primarily as the net result of acquiring Atlas. Our comparable selling and administrative expenses excluding Atlas decreased in the first quarter of fiscal year 2018 from the same period of fiscal 2017. This impacted areas such as increased employee compensation and benefits expense ($0.6 million), increased research and development expense ($0.2 million), decreased commission expense ($0.5 million), and increased amortization expense ($0.6 million). The Company also recorded a $28 million goodwill impairment charge in fiscal 2018 with no comparable expense in fiscal 2017. The Company will perform an impairment analysis in the third quarter of fiscal 2018 in conjunction with its annual impairment test.

The Lighting Segment first quarter fiscal 2018 operating loss of $(22,930,000) decreased $26,021,000 million from operating income of $3,091,000 in the same period of fiscal 2017 primarily due to a $28 million pre-tax goodwill impairment charge. Adjusted fiscal 2018 operating income, a non-GAAP measure, of $5,070,000 increased 22.3% or $1.1 million compared to adjusted fiscal 2017 operating income of $4,144,000. (Adjusted fiscal 2017 results exclude restructuring plant closure and plant consolidation costs and related inventory write-downs of $1.1 million.) The increase in adjusted operating income was the net result of increased net sales, an increase in gross profit and gross profit as a percentage of sales, and increased selling and administrative expenses.

Graphics Segment

(In thousands)	Three Months Ended September 30	
	2017	2016
Net Sales	$19,038	$18,894
Gross Profit	$5,063	$4,440
Operating Income	$1,476	$1,017

Graphics Segment net sales of $19,038,000 in the first quarter of fiscal 2018 increased $0.1 million or 0.8% from fiscal 2017 same period net sales of $18,894,000. With the cyclical nature of the Company's national programs, there was a decrease in Petroleum market sales more than offset by sales to the QSR and Retail markets.

Gross profit of $5,063,000 in the first quarter of fiscal 2018 increased $0.6 million or 14.0% from the same period of fiscal 2017. Gross profit as a percentage of segment net sales (customer plus inter-segment net sales) increased from 23.3% in the first quarter of fiscal 2017 to 26.6% in the first quarter of fiscal 2018. The change in amount of gross profit is due to the net effect of increased net sales (customer plus inter-segment net sales) and an improvement to gross profit margin on both product and installation sales, increased shipping and handling cost as a percentage of shipping and handling sales, decreased employee compensation and benefit expense ($0.4 million), decreased supplies expense ($0.1 million), and decreased outside service expense ($0.1 million).

Selling and administrative expenses of $3,587,000 in the first quarter of fiscal 2018 increased $0.2 million or 4.8% from the same period of fiscal 2017 primarily as a result of the net effect of various increases and decreases in several expense categories.

The Graphics Segment first quarter fiscal 2017 operating income of $1,476,000 increased $0.5 million or 45.1% from operating income of $1,017,000 in the same period of fiscal 2017. The net increase of $0.5 million was primarily the net result of increased net sales, increased gross profit and increased gross profit margin as a percentage of sales, and increased selling and administrative expenses.

Corporate and Eliminations

(In thousands)	Three Months Ended September 30	
	2017	2016
Gross (Loss) Profit	$(33)	$505
Operating (Loss)	$(3,360)	$(3,042)

The gross profit or loss relates to the elimination of intercompany profit in inventory.

Administrative expenses of $3,327,000 in the first quarter of fiscal 2018 decreased $0.1 million or 3.2% from the same period of the prior year. In fiscal 2017, the Company incurred $0.1 million in restructuring expenses related to the consolidation of its Beaverton, Oregon facility into other LSI facilities, with no comparable costs in fiscal 2018. The remaining change is primarily the net result of a decrease in employee compensation and benefit expense ($0.5 million), an increase in outside service expense ($0.2 million), and a net increase in various other expense categories ($0.2 million).

Consolidated Results

The Company reported $403,000 net interest expense in the first quarter of fiscal 2018 compared to no net interest income in the first quarter of fiscal 2017. The change from interest income in fiscal 2017 to interest expense in fiscal 2018 is the result of borrowing against the Company's line of credit. Commitment fees related to the unused portion of the Company's line of credit and interest income on invested cash are included in both fiscal years.

The $9,588,000 income tax benefit in the first quarter of fiscal 2018 represents a consolidated effective tax rate of 38% influenced by the goodwill impairment. The $251,000 income tax expense in the first quarter of fiscal 2017 represents a consolidated effective tax rate of 23.2%. This the net result of an income tax rate of 32.0% influenced by certain permanent book-tax differences, by a benefit related to uncertain income tax positions, and by a favorable adjustment to a deferred tax asset.

The Company reported a net loss of $(15,629,000) in the first quarter of fiscal 2018 compared to net income of $829,000 in the same period of the prior year. The change between net income in fiscal 2017 to a net loss in fiscal is mostly driven by the $28 million pre-tax goodwill impairment charge in fiscal 2018. The change in net income is primarily the net result of increased net sales, increased gross profit and an improvement in gross profit as a percentage of sales, increased selling and administrative expenses, restructuring and plant closure costs in fiscal 2017 with no comparable costs in fiscal 2018, and a goodwill impairment charge in fiscal 2018 with no comparable charge in fiscal 2017. Diluted loss per share of $(0.61) was reported in the first quarter of fiscal 2018 as compared to $0.03 diluted earnings per share in the same period of fiscal 2017. The weighted average common shares outstanding for purposes of computing diluted earnings per share in the first quarter of fiscal 2018 were 25,791,000 shares as compared to 25,912,000 shares in the same period last year.

Liquidity and Capital Resources

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

At September 30, 2017, the Company had working capital of $67.6 million, compared to $61.7 million at June 30, 2017. The ratio of current assets to current liabilities was 2.64 to 1 as compared to a ratio of 2.36 to 1 at June 30, 2017. The $5.9 million increase in working capital from June 30, 2017 to September 30, 2017 was primarily related to the net effect of decreased cash and cash equivalents ($.9 million), increased net accounts receivable ($5.4 million), decreased net inventory ($0.8 million), a decrease in accrued expenses ($2.6 million), an increase in other current assets ($0.5 million), a decrease in the asset held for sale ($1.5 million), a decrease in refundable income taxes ($0.8 million), and a decrease in accounts payable ($1.5 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 used $3.4 million of cash from operating activities in the first quarter of fiscal 2018 as compared to a source of cash of $0.3 million in the same period of the prior year. This $3.7 million decrease in net cash flows from operating activities is primarily the net result of an increase rather than a decrease in net accounts receivable (unfavorable change of $6.0 million), a decrease rather than an increase in accounts payable (unfavorable change of

$1.7 million), a larger decrease in customer prepayments (favorable change of $0.2 million), a decrease rather than an increase in inventory (favorable change of $0.7 million), a larger decrease in accrued expenses and other (favorable change of $2.2 million), a decrease in refundable income taxes (favorable change of $0.7 million), and a decrease in net income from fiscal 2017 to a net loss in fiscal 2018 offset by an increase in non-cash items (favorable change of $0.1 million).

Net accounts receivable were $54.3 million and $48.9 million at September 30, 2017 and June 30, 2017, respectively. DSO increased to 53 days at September 30, 2017 from 52 days at June 30, 2017. The Company believes that its receivables are ultimately collectible or recoverable, net of certain reserves, and that aggregate allowances for doubtful accounts are adequate.

Net inventories of $49.2 million at September 30, 2017 decreased $0.8 million from $50.0 million at June 30, 2017. The decrease of $0.8 million is the result of a decrease in gross inventory of $1.0 million and a decrease in obsolescence reserves of $0.1 million. Based on a strategy of balancing inventory reductions with customer service and the timing of shipments, net inventory increases occurred in the first quarter of fiscal 2018 in the Graphics Segment of approximately $0.9 million which was more than offset by a decrease in net inventory in the Lighting Segment of $1.7 million.

Cash generated from operations and borrowing capacity under the Company’s line of credit is the Company’s primary source of liquidity. The Company has a secured $100 million revolving line of credit with its bank, with $48.1 million of the credit line available as of October 27, 2017. This line of credit is a $100 million five year credit line expiring in the third quarter of fiscal 2022. The Company believes that its $100 million line of credit plus cash flows from operating activities are adequate for the Company’s fiscal 2018 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants.

The Company generated cash of $1.0 million related to investing activities in the first quarter of fiscal 2018 as compared to a use of $2.0 million in the same period of the prior year, resulting in a favorable change of $3.0 million. Capital expenditures for the first quarter of fiscal 2018 decreased $1.5 million to $0.5 million from the same period in fiscal 2017. The Company sold its Woonsocket manufacturing facility for $1.5 million which contributed to the change in cash flow from investing activities from fiscal 2017 to fiscal 2018.

The Company generated $1.5 million of cash related to financing activities in the first quarter of fiscal 2018 compared to a use of cash of $1.5 million in the first quarter of fiscal 2017. The $3.0 million favorable change in cash flow was the net result of borrowings in excess of payments of long term debt of $2.2 million, and a decrease in the purchase of treasury shares coupled with an increase in the distribution of treasury shares (favorable change of $0.8 million).

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 undisclosed off-balance sheet arrangements.

Cash Dividends

In October 2017, the Board of Directors declared a regular quarterly cash dividend of $0.05 per share payable November 14, 2017 to shareholders of record as of November 6, 2017. The indicated annual cash dividend rate for fiscal 2018 is $0.20 per share. The Board of Directors has adopted a policy regarding dividends which indicates that dividends will be determined by the Board of Directors in its discretion based upon its evaluation of earnings, cash flow requirements, financial condition, debt levels, stock repurchases, future business developments and opportunities, and other factors deemed relevant.

Critical Accounting Policies and Estimates

Revenue Recognition

Revenue is recognized when title to goods and risk of loss have passed to the customer, there is persuasive evidence of a purchase arrangement, delivery has occurred or services have been rendered, and collectability is reasonably assured. Sales are recorded net of estimated returns, rebates and discounts. Amounts received from customers prior to the recognition of revenue are accounted for as customer pre-payments and are included in accrued expenses.

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

Product revenue is recognized on product-only orders upon passing of title and risk of loss, generally at time of shipment. In certain arrangements with customers, as is the case with the sale of some of our solid-state LED video screens, revenue is recognized upon customer acceptance of the video screen at the job site. Product revenue related to orders where the customer requires the Company to install the product is recognized when the product is installed. The company provides product warranties and certain post-shipment service, support and maintenance of certain solid state LED video screens and billboards.

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

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

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

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

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

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

Income Taxes

The Company accounts for income taxes in accordance with the accounting guidance for income taxes. Accordingly, deferred income taxes are provided on items that are reported as either income or expense in different time periods for financial reporting purposes than they are for income tax purposes. Deferred income tax assets and liabilities are reported on the Company's balance sheet. Significant management judgment is required in developing the Company's income tax provision, including the estimation of taxable income and the effective income tax rates in the multiple taxing jurisdictions in which the Company operates, the estimation of the liability for uncertain income tax positions, the determination of deferred tax assets and liabilities, and any valuation allowances that might be required against deferred tax assets. The Company has adopted ASU 2015-17, "Balance Sheet Classification of Deferred Taxes." As a result of early adoption of this accounting guidance, prior periods have been re-classified, which only affected the financial statement presentation and not the measurement of deferred tax liabilities and 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 audits.

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

Asset Impairment

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

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

Credit and Collections

The Company maintains allowances for doubtful accounts receivable for probable estimated losses resulting from either customer disputes or the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in their inability to make the required payments, the Company may be required to record additional allowances or charges against income. The Company determines its allowance for doubtful accounts by first considering all known collectability problems of customers' accounts, and then applying certain percentages against the various aging categories based on the due date of the remaining receivables. The resulting allowance for doubtful accounts receivable is an estimate based upon the Company's knowledge of its business and customer base, and historical trends. The amount ultimately not collected may differ from the reserve established, particularly in the case where percentages are applied against aging categories. In all cases, it is management's goal to carry a reserve against the Company's accounts receivable which is adequate based upon the information available at that time so that net accounts receivable is properly stated. The Company also establishes allowances, at the time revenue is recognized, for returns and allowances, discounts, pricing and other possible customer deductions. These allowances are based upon contractual terms and historical trends.

Warranty Reserves

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

Inventory Reserves

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

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.

New Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board issued ASU 2014-09, "Revenue from Contracts with Customers." This amended guidance supersedes and replaces all existing U.S. GAAP revenue recognition guidance. The guidance established a new revenue recognition model, changes the basis for deciding when revenue is recognized, provides new and more detailed guidance on specific revenue topics, and expands and improves disclosures about revenue. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing." In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers: Narrow Scope Improvements and Practical Expedients." In December 2016, the FASB issued ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers." These three standards clarify or improve guidance from ASU 2014-09 and are effective for fiscal years and interim periods within those years, beginning after December 15, 2017, or the Company's fiscal year 2019. The Company will adopt these standards no later than July 1, 2018. The Company is reviewing accounting policies and evaluating disclosures in the financial statements related to the new standard. The Company is also assessing potential changes to the business processes, internal controls, and information systems related to the adoption of the new standard. While the Company is currently assessing the impact of the new standard, the Company's revenue is primarily generated from the sale of finished products to customers. Those sales predominantly contain a single delivery element and revenue is recognized at a single point in time when ownership, risks, and rewards transfer. The recognition of revenue from most product sales is largely unaffected by the new standard. However, with respect to certain product sales requiring installation, revenue is currently not recognized until the installation is complete. While the Company does not expect this new guidance to have a material impact on the amount of overall sales recognized, the timing of recognition of revenues from sales on certain projects may be affected. Our initial conclusions may change as we finalize our assessment and select a transition method during the next six to nine months.

In July 2015, the Financial Accounting Standards Board issued ASU 2015-11, “Simplifying the Measurement of Inventory.” The amended guidance requires an entity to measure in scope inventory at lower of cost and net realizable value. The amended guidance is effective for fiscal years beginning after December 15, 2016, or the Company’s fiscal year 2018. We adopted the new accounting standard in the first quarter of fiscal 2018 and there was no material impact on the Company’s consolidated financial statements.

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

In March 2016, the Financial Accounting Standards Board issued ASU 2016-08, “Principal versus Agent Considerations.” The amendment is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The amended guidance is effective for financial statements issued for fiscal years and interim periods within those years, beginning after December 15, 2017, or the Company’s fiscal year 2019, with early adoption permitted in fiscal years beginning after December 15, 2016. The Company has determined the amended guidance will have an immaterial impact on its financial statements.

In March 2016, the Financial Accounting Standards Board issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting.” This amended guidance simplifies several aspects of the accounting for share-based payment award transactions. The amended guidance is effective for financial statements issued for fiscal years and interim periods within those years, beginning after December 15, 2016, or the Company’s fiscal year 2018. We adopted this standard on July 1, 2017 and recognized excess tax benefits of $81,010 in income tax expense during the three months ended September 30, 2017. The amount may not necessarily be indicative of future amounts that may be recognized as any excess tax benefits recognized would be dependent on future stock price, employee exercise behavior and applicable tax rates. Prior to July 1, 2017, excess tax benefits were recognized in additional paid-in capital. Additionally, excess tax benefits are now included in net cash flows provided by operating activities rather than net cash flows provided by financing activities in the Company’s Consolidated Statement of Cash Flows. The treatment of forfeitures has not changed, as the Company is electing to continue the current process of estimating forfeiture at the time of grant. The Company has no unrecognized excess tax benefits from prior periods to record upon the adoption of this ASU.

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments.” This amendment provides additional guidance on the measurement of expected credit losses for financial assets based on historical experience, current conditions, and supportable forecasts. The amended guidance is effective for financial statements issued for fiscal years and interim periods within those years, beginning after December 15, 2019, or the Company’s fiscal year 2021. The Company is evaluating the impact of the amended guidance and the anticipated impact to the financial statements is not material.

In August 2016, the Financial Accounting Standards Board issued ASU 2016-15, “Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments,” which provides cash flow classification guidance for certain cash receipts and cash payments. This standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, or the Company’s fiscal year 2019. The Company is evaluating the impact the amended guidance will have on its financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company’s exposure to market risk since June 30, 2017. Additional information can be found in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, which appears on page 13 of the Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

We conducted, under the supervision of our management, including the Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2016, our disclosure controls and procedures were effective. Management believes that the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q are fairly presented in all material respects in accordance with GAAP for interim financial statements, and the Company’s Chief Executive Officer and Chief Financial Officer have certified that, based on their knowledge, the condensed consolidated financial statements included in this report fairly present in all material respects the Company’s financial condition, results of operations and cash flows for each of the periods presented in this report.

The Company acquired Atlas Lighting Products, Inc. (“Atlas”) on February 21, 2017. Management excluded Atlas from its evaluation of the effectiveness of the internal control over financial reporting as of September 30, 2017. Atlas represented 31% of the Company’s total consolidated assets as of September 30, 2017, and 13% of the Company’s total consolidated sales for the fiscal year ended September 30, 2017.

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 September 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as otherwise described in this Item 4.

PART II. OTHER INFORMATION

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

(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 first quarter of fiscal 2017 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
7/1/17 to 7/31/17	3,010	$ 8.86	3,010	(1)
8/1/17 to 8/31/17	--	--	--	(1)
9/1/17 to 9/30/17	12,215	$ 6.54	12,215	(1)
Total	15,225	$ 7.00	15,225	(1)

(1) All acquisitions of shares reflected above have been made in connection with the Company's Non-Qualified Deferred Compensation Plan, which has been authorized for 575,000 shares of the Company to be held in and distributed by the Plan. At September 30, 2017, the Plan held 241,095 common shares of the Company and had distributed 366,181 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

SIGNATURES

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

LSI Industries Inc.

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

By: /s/ James E. Galeese
James E. Galeese
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

November 6, 2017