LSI INDUSTRIES INC
Form 10-Q
February 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 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 or a smaller reporting 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]	Emerging growth company [ ]
Non-accelerated filer [ ]	Smaller reporting 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 January 27, 2018 there were 25,574,457 shares of the Registrant's common stock, no par value per share, outstanding.

LSI INDUSTRIES INC.

FORM 10-Q

FOR THE QUARTER ENDED DECEMBER 31, 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		Six Months Ended	
	December 31		December 31	
(In thousands, except per share data)	2017	2016	2017	2016
Net sales	$*92,305*	$*85,658*	$*179,771*	$*169,817*
Cost of products and services sold	*66,998*	*63,611*	*130,761*	*126,432*
Restructuring costs	--	*640*	--	*1,143*
Gross profit	*25,307*	*21,407*	*49,010*	*42,242*
Restructuring costs	--	*57*	--	*210*
Impairment of goodwill	--	--	*28,000*	--
Selling and administrative expenses	*20,760*	*18,532*	*41,277*	*38,148*
Operating income (loss)	*4,547*	*2,818*	*(20,267*)	*3,884*
Interest (income)	*(8*)	*(28*)	*(16*)	*(55*)
Interest expense	*425*	*8*	*836*	*21*
Income (loss) before income taxes	*4,130*	*2,838*	*(21,087*)	*3,918*

Income tax expense (benefit)	*5,598*	*832*	*(3,990*)	*1,083*
Net (loss) income	$*(1,468*)	$*2,006*	$*(17,097*)	$*2,835*
(Loss) Earnings per common share (see Note 4)				
Basic	$*(0.06*)	$*0.08*	$*(0.66*)	$*0.11*
Diluted	$*(0.06*)	$*0.08*	$*(0.66*)	$*0.11*
Weighted average common shares outstanding				
Basic	*25,858*	*25,314*	*25,824*	*25,294*
Diluted	*25,858*	*25,803*	*25,824*	*25,859*

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

LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except shares)	December 31, 2017	June 30, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ *3,177*	$ *3,039*
Accounts receivable, less allowance for doubtful accounts of $475 and $506, respectively	*59,740*	*48,880*
Inventories	*48,662*	*50,008*
Refundable income tax	--	*775*
Assets held for sale	--	*1,463*
Other current assets	*3,712*	*2,964*
Total current assets	*115,291*	*107,129*
Property, Plant and Equipment, at cost		
Land	*6,469*	*6,429*
Buildings	*35,855*	*35,463*
Machinery and equipment	*82,152*	*78,804*
Construction in progress	*796*	*3,805*
	125,272	*124,501*
Less accumulated depreciation	*(80,409*)	*(77,147*)
Net property, plant and equipment	*44,863*	*47,354*
Goodwill	*30,538*	*58,538*
Other Intangible Assets, net	*36,789*	*38,169*

Other Long-Term Assets, net	*10,893*	*5,490*
Total assets	$*238,374*	$*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)	December 31, 2017	June 30, 2017
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ *16,828*	$ *19,356*
Accrued expenses	*25,713*	*26,069*
Total current liabilities	*42,541*	*45,425*
Long-Term Debt	*52,149*	*49,698*
Other Long-Term Liabilities	*1,356*	*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 25,562,003 and 24,429,223 shares, respectively	*122,170*	*120,259*
Retained earnings	*20,158*	*39,819*
Total shareholders' equity	*142,328*	*160,078*
Total liabilities & shareholders' equity	$ *238,374*	$ *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)	Six Months Ended December 31	
	2017	2016
Cash Flows from Operating Activities		
Net (loss) income	$*(17,097)*	$*2,835*
Non-cash items included in net income		
Depreciation and amortization	*5,124*	*3,605*
Deferred income taxes	*(5,667)*	*(962)*
Impairment of goodwill	*28,000*	--
Deferred compensation plan	*(413)*	*237*
Stock compensation expense	*1,463*	*1,688*
Issuance of common shares as compensation	*156*	*228*
Loss (gain) on disposition of fixed assets	*(29)*	*53*
Fixed asset impairment and accelerated depreciation	--	*354*
Allowance for doubtful accounts	*115*	*205*
Inventory obsolescence reserve	*1,033*	*758*
Changes in certain assets and liabilities:		
Accounts receivable	*(10,975)*	*(2,771)*
Inventories	*313*	*979*
Refundable income taxes	*775*	--
Accounts payable	*(2,626)*	*(176)*
Accrued expenses and other	*(742)*	*(2,630)*
Customer prepayments	*(221)*	*216*
Net cash flows (used in) provided by operating activities	*(791)*	*4,619*
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	*(1,190)*	*(2,744)*
Proceeds from sale of fixed assets	*1,527*	*1*
Net cash flows provided by (used in) investing activities	*337*	*(2,743)*
Cash Flows from Financing Activities		
Payments of long-term debt	*(48,553)*	--
Borrowings of long-term debt	*51,004*	--
Cash dividends paid	*(2,564)*	*(2,513)*

Exercise of stock options	*175*	*171*
Purchase of treasury shares	*(107*)	*(390*)
Acquisition of common stock for tax withholding related to share based compensation	*183*	--
Issuance of treasury shares	*454*	*44*
Net cash flows provided by (used in) financing activities	*592*	*(2,688*)
Increase (decrease) in cash and cash equivalents	*138*	*(812*)
Cash and cash equivalents at beginning of period	*3,039*	*33,835*
Cash and cash equivalents at end of period	$*3,177*	$*33,023*

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

LSI INDUSTRIES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE *1* - INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements are unaudited and are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the interim financial statements include all normal adjustments and disclosures necessary to present fairly the Company's financial position as of *December 31, 2017,* the results of its operations for the *three* and *six* month periods ended *December 31, 2017* and *2016,* and its cash flows for the *six* month periods ended *December 31, 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 multiple 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.

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

Credit and Collections:

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

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

(In thousands)	December 31, 2017	June 30, 2017
Accounts receivable	$ *60,215*	$ *49,386*
Less: Allowance for doubtful accounts	*(475*)	*(506*)
Accounts receivable, net	$ *59,740*	$ *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 *December 31, 2017* and *June 30, 2017,* the Company had bank balances of *$4,827,512* and *$4,488,000,* 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. A combination of financial modeling and qualitative input factors are used to establish excess and obsolete inventory reserves and management adjusts these reserves as more information becomes available about the ultimate disposition of the inventory item.

Property, Plant and Equipment and Related Depreciation:

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

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

Costs related to the purchase, internal development, and implementation of the Company's fully integrated enterprise resource planning/business operating software system are either capitalized or expensed. Leasehold improvements are depreciated over the shorter of *fifteen* years or the remaining term of the lease.

The Company recorded *$1,862,000* and *$1,669,000* of depreciation expense in the *second* quarter of fiscal *2018* and *2017,* respectively, and *$3,744,000* and *$3,397,000* of depreciation expense in the *first* half 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 on occasion, long-term debt. The fair value of these financial instruments approximates carrying value because of their short-term maturity and/or variable, market-driven interest rates. The Company has *no* financial instruments with off-balance sheet risk.

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

Product Warranties:

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

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

(In thousands)	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016	Fiscal Year Ended June 30, 2017
Balance at beginning of the period	$ *7,560*	$ *5,069*	$*5,069*
Additions charged to expense	*2,394*	*2,243*	*4,956*
Addition from acquired company	--	--	*907*
Deductions for repairs and replacements	*(3,266*)	*(1,351*)	*(3,372*)
Balance at end of the period	$ *6,688*	$ *5,961*	$*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 *$1,379,000* and *$1,269,00* for the *three* months ended *December 31, 2017* and *2016,* respectively, and *$2,941,000* and *$2,670,000* for the *six* months ended *December 31, 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, contingently issuable shares and common shares to be issued under a deferred compensation plan, all of which totaled *756,000* and *787,000* shares for the *three* month ended *December 31, 2017* and *2016,* respectively, and *686,000* shares and *852,000* shares for the *six* months ended *December 31, 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.

The Tax Cuts and Jobs Act was signed into law on *December 22nd, 2017* and makes numerous changes to the Internal Revenue Code. Among other changes, the Act reduces the US corporate income tax rate to *21%* effective *January 1, 2018.* Because the Act became effective mid-way through the Company's tax year, the Company will have a US statutory income tax rate of *27.7%* for the fiscal *2018,* and will have a *21%* US statutory income tax rate for fiscal years thereafter. During the quarter ended *December 31, 2017,* the Company re-valued the deferred tax balances because of the change in US tax rate resulting in a *one*-time deferred tax expense of *$4,676,578.*

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 and interim periods within those years, beginning after *December 15, 2017,* or the Company's fiscal *2019.* The Company currently plans to adopt the new revenue guidance for the fiscal year beginning *July 1, 2018* using the modified retrospective approach. 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* 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 and interim periods within those years, beginning after *December 15, 2018,* or the Company's fiscal *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 and interim periods within those years, beginning after *December 15, 2016,* or the Company's fiscal *2018.* We adopted this standard on *July 1, 2017* and recognized excess tax benefits of $*87,354* in income tax expense during the *six* months ended *December 31, 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 had *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 *2021.* Early adoption of the accounting standard is permitted, and the Company elected to adopt this standard early. (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 consolidated financial statements.

Use of Estimates:

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

NOTE *3* - SEGMENT REPORTING INFORMATION

The accounting guidance on Segment Reporting establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information of those segments to be presented in financial statements. Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision maker (the Company's Chief Executive Officer or "CODM") in making decisions on how to allocate resources and assess performance. 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* and *six* months ended *December 31, 2017* or *2016.* There was *no* concentration of accounts receivable at *December 31, 2017* or *June 30, 2017.*

Summarized financial information for the Company's operating segments is provided for the indicated periods and as of *December 31, 2017* and *December 31, 2016:*

(In thousands)	Three Months Ended December 31 2017	Three Months Ended December 31 2016	Six Months Ended December 31 2017	Six Months Ended December 31 2016
Net Sales:				
Lighting Segment	$*69,174*	$*65,076*	$*137,602*	$*130,341*
Graphics Segment	*23,131*	*20,582*	*42,169*	*39,476*
	$*92,305*	$*85,658*	$*179,771*	$*169,817*
Operating Income (Loss):				
Lighting Segment	$*5,275*	$*3,761*	$*(17,655*)	$*6,852*
Graphics Segment	*2,255*	*1,174*	*3,731*	*2,191*
Corporate and Eliminations	*(2,983*)	*(2,117*)	*(6,343*)	*(5,159*)
	$*4,547*	$*2,818*	$*(20,267*)	$*3,884*
Capital Expenditures:				
Lighting Segment	$*499*	$*205*	$*760*	$*1,301*
Graphics Segment	*157*	*459*	*339*	*825*
Corporate and Eliminations	*36*	*120*	*91*	*618*
	$*692*	$*784*	$*1,190*	$*2,744*
Depreciation and Amortization:				
Lighting Segment	$*1,885*	$*1,115*	$*3,786*	$*2,307*
Graphics Segment	*384*	*376*	*763*	*736*
Corporate and Eliminations	*283*	*279*	*575*	*562*
	$*2,552*	$*1,770*	$*5,124*	$*3,605*

	December 31, 2017	June 30, 2017
Identifiable Assets:		
Lighting Segment	$*182,680*	$*214,070*
Graphics Segment	*39,394*	*33,144*
Corporate and Eliminations	*16,300*	*9,466*
	$*238,374*	$*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.

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 December 31		Six Months Ended December 31	
(In thousands)	2017	2016	2017	2016
Lighting Segment inter-segment net sales	$*992*	$*700*	$*1,707*	$*1,453*
Graphics Segment inter-segment net sales	$*1,040*	$*680*	$*1,071*	$*812*

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

NOTE *4* - EARNINGS PER COMMON SHARE

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

	Three Months Ended December 31		Six Months Ended December 31	
	2017	2016	2017	2016
BASIC EARNINGS PER SHARE				
Net (loss) income	$*(1,468*)	$*2,006*	$*(17,097*)	$*2,835*
Weighted average shares outstanding during the period, net of treasury shares (a)	*25,551*	*25,016*	*25,528*	*25,007*
Weighted average vested restricted stock units outstanding	*63*	*37*	*52*	*37*
Weighted average shares outstanding in the Deferred Compensation Plan during the period	*244*	*261*	*244*	*250*
Weighted average shares outstanding	*25,858*	*25,314*	*25,824*	*25,294*
Basic (loss) earnings per share	$*(0.06*)	$*0.08*	$*(0.66*)	$*0.11*
DILUTED EARNINGS PER SHARE				
Net (loss) income	$*(1,468*)	$*2,006*	$*(17,097*)	$*2,835*
Weighted average shares outstanding				
Basic	*25,858*	*25,314*	*25,824*	*25,294*
Effect of dilutive securities (b):				
Impact of common shares to be issued under stock option plans, and contingently issuable shares, if any	--	*489*	--	*565*
Weighted average shares outstanding (c)	*25,858*	*25,803*	*25,824*	*25,859*
Diluted (loss) earnings per share	$*(0.06*)	$*0.08*	$*(0.66*)	$*0.11*

(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 *3,569,762* common shares and *1,682,270* common shares for the *three* months ended *December 31, 2017* and *2016,* respectively, and options to purchase *3,549,705* common shares and *1,626,770* common shares for the *six* months ended *December 31, 2017* and *2016,* respectively were *not* included in the computation of the *three* month and *six* month period for diluted earnings per share, respectively, because the exercise price was greater than the average fair market value of the common shares. For the *three* and *six* months ended *December 31, 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)	December 31, 2017	June 30, 2017
Inventories:		
Raw materials	$ *31,156*	$*32,421*
Work-in-process	*2,772*	*3,527*
Finished goods	*14,734*	*14,060*
Total Inventories	$ *48,662*	$*50,008*

NOTE *6* - ACCRUED EXPENSES

The following information is provided as of the dates indicated:

(In thousands)	December 31, 2017	June 30, 2017
Accrued Expenses:		
Compensation and benefits	$ *8,667*	$*9,759*
Customer prepayments	*840*	*1,061*
Accrued sales commissions	*2,214*	*2,314*
Accrued warranty	*6,688*	*7,560*
Other accrued expenses	*7,304*	*5,375*
Total Accrued Expenses	$ *25,713*	$*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 goodwill and indefinite-lived intangible assets using a combination of a market approach and an income (discounted cash flow) approach, at the reporting unit level. The estimation of the fair value of goodwill and intangible assets requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease an impairment charge. Company management uses its judgment in assessing whether assets *may* have become impaired between annual impairment tests. Indicators such as adverse business conditions, economic factors and technological change or competitive activities *may* signal that an asset has become impaired.

The Company identified its reporting units in conjunction with its annual goodwill impairment testing. The Company 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* of the reporting units in the Lighting Segment that contains goodwill, as of *September 30, 2017.* Because the Company 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 December 31, 2017			
Goodwill	$*94,564*	*28,690*	*123,254*
Accumulated impairment losses	*(65,191*)	*(27,525*)	*(92,716*)
Goodwill, net as of December 31, 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)*	December 31, 2017 Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			
Customer relationships	$*35,563*	$ *8,982*	$*26,581*
Patents	*338*	*201*	*137*
LED technology firmware, software	*16,066*	*11,521*	*4,545*
Trade name	*2,658*	*554*	*2,104*
Non-compete agreements	*710*	*710*	--
Total Amortized Intangible Assets	*55,335*	*21,968*	*33,367*
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*	$ *21,968*	$*36,789*

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	
	December 31, 2017	December 31, 2016
Three Months Ended	$*690*	$ *101*
Six Months Ended	$*1,380*	$ *208*

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 *December 31, 2017,* there was *$52.1* million borrowed against the line of credit, and *$47.9* 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 *December 31, 2017*.

NOTE *9* - CASH DIVIDENDS

The Company paid cash dividends of *$2,564,000* and *$2,513,000* in the *six* months ended *December 31, 2017* and *2016,* respectively. Dividends on restricted stock units in the amount of *$38,463* and *$19,826* were accrued as of *December 31, 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 *January 2018,* the Board of Directors declared a regular quarterly cash dividend of *$0.05* per share payable *February 13, 2018* to shareholders of record as of *February 5, 2018.* The indicated annual cash dividend rate is *$0.20* per share.

NOTE *10* - EQUITY COMPENSATION

Stock Based Compensation

The Company's equity compensation plan, the *2012* Stock Incentive Plan ("the *2012* Plan"), was approved by shareholders in *November 2012.* The *2012* Plan covers all of its full-time employees, outside directors and certain advisors and replaced all previous equity compensation plans. In *November 2016,* the Company's shareholders approved an amendment to the *2012* Plan that added *1,600,000* shares to the plan and implemented the use of a fungible share ratio that consumes *2.5* available shares for every *1* full value share awarded by the Company as stock compensation. The *2012* Plan allows for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted and unrestricted stock awards, and other stock awards. Stock option grants or stock awards made pursuant to the *2012* Plan are granted at fair market value at the date of option grant or stock award.

Stock option grants *may* be service-based or performance-based. Service-based options granted during fiscal *2017* and prior fiscal years generally have a *four* year ratable vesting period beginning *one* year after the date of grant. Service-based options granted during fiscal *2018* have a *three* year ratable vesting period beginning *one* year after the date of grant. Performance-based options have a *three* year ratable vesting period beginning *one* year after the date of grant. The maximum exercise period of stock options granted under the *2012* Plan 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 under the *2012* Plan is *1,453,356* shares, all of which were available for future grant or award as of *December 31, 2017.* Service-based and performance-based stock options were granted and restricted stock units ("RSUs") were awarded during the *six* months ended *December 31, 2017.* As of *December 31, 2017,* a total of *3,448,677* stock options were outstanding under the *2012* Plan (as well as *one* previous stock option plan which was also approved by shareholders), of which, a total of *1,527,651* stock options were vested and exercisable. As of *December 31, 2017,* the approximate unvested stock option expense that will be recorded as expense in future periods is *$2,563,987.* The weighted average time over which this expense will be recorded is approximately *24* months. Additionally, as of *December 31, 2017,* a total of *187,150* RSUs were outstanding. The approximate unvested stock compensation expense that will be recorded as expense in future periods for the RSUs is *$775,144.* The weighted average time over which this expense will be recorded is approximately *30* months.

Stock Options

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

	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2017	2016	2017	2016
Dividend yield	*3.06%*	*2.07%*	*3.35%*	*1.81%*
Expected volatility	*41 %*	*41 %*	*41 %*	*43 %*
Risk-free interest rate	*1.94%*	*2.06%*	*1.77%*	*1.00%*
Expected life (in years)	6.0	6.0	6.0	6.0

At *December 31, 2017*, the *794,537* options granted during the *first six* months of fiscal *2018* to employees had exercise prices ranging from *$5.92* to *$6.54* per share, fair values ranging from of *$1.71* to *$1.96* per share, and remaining contractual lives of between *9.5* and *10* years.

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

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 *8.54%* forfeiture rate effective *October 1, 2017.* Previous estimated forfeiture rates were between *2.0%* and *8.3%* between the periods *January 1, 2013* through *September 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 *$367,920* of expense in the *three* months ended *December 31, 2017* and recorded a reduction of expense of *$142,434* in the *three* months ended *December 31, 2016,* related to stock options. The reduction of stock option expense in the *three* months ended *December 31, 2016* was the result of expectations that the performance criteria related to incentive based options will *not* be met. The Company recorded *$1,125,728* and *$1,296,009* of expense related to stock options in the *six* months ended *December 31, 2017* and *2016,* respectively. As of *December 31, 2017,* the Company had *3,344,138* stock options that were vested and that were expected to vest, with a weighted average exercise price of *$8.13* per share, an aggregate intrinsic value of *$905,309* and weighted average remaining contractual terms of *7.4* years.

Information related to all stock options for the six months ended *December 31, 2017* and *2016* is shown in the following tables:

	Six Months Ended December 31, 2017			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at 6/30/17	*3,119,688*	$ *9.12*	*7.4*	$*2,332,224*
Granted	*794,537*	$ *5.98*		
Forfeitures	*(438,609*)	$ *11.62*		
Exercised	*(26,939*)	$ *6.49*		
Outstanding at 12/31/17	*3,448,677*	$ *8.10*	*7.4*	$*971,344*
Exercisable at 12/31/17	*1,527,651*	$ *8.14*	*5.7*	$*218,246*

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

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	*794,537*	$ *1.73*
Vested	*(513,504*)	$ *3.49*
Forfeited	*(202,134*)	$ *3.46*
Unvested at December 31, 2017	*1,921,026*	$ *2.79*

The weighted average grant date fair value of options granted during the *six* month periods ended *December 31, 2017* and *2016* was *$1.73* and *$3.83,* respectively. The aggregate intrinsic value of options exercised during the *six* months ended *December 31, 2017* and *2016* was *$22,079* and *$99,883,* respectively. The aggregate grant date fair value of options that vested during the *six* months ended *December 31, 2017* and *2016* was *$1,793,086* and *$1,779,490,* respectively. The Company received *$174,965* and *$295,030* of cash from employees who exercised options in the *six* month periods ended *December 31, 2017* and *2016,* respectively. In the *first six* months of fiscal *2018* the Company recorded a *$83,608* reduction of the federal income tax payable, *$559,474* as an increase in common stock, *$87,354* as a reduction of income tax expense, and *$170,462* as a reduction of the deferred tax assets. In the *first six* months of fiscal *2017* the Company recorded *$95,443* as a reduction of federal income taxes payable, *$124,056* as a decrease in common stock, *$22,073* as a reduction of income tax expense, and *$197,427* as a reduction of the deferred tax asset related to the issuance of 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* RSUs with a fair value of *$5.92* per share were awarded to employees during the *six* months ended *December 31, 2017.* The service-based RSUs awarded during fiscal *2018* have a *three* year ratable vesting period beginning *one* year after the date of award. A total of *71,700* RSUs with a fair value of *$11.06* per share were awarded to employees during the *six* months ended *December 31, 2016.* The service-based RSUs awarded during fiscal *2017* and in prior fiscal years have a *four* year ratable vesting period beginning *one* year after the date of award. The Company determined the fair value of the awards based on the closing price of the Company stock on the date the RSUs were awarded. The RSUs have a *four* year ratable vesting period. The RSUs are non-voting, but accrue cash dividends at the same per share rate as those cash dividends declared and paid on LSI's common stock. Dividends on RSUs in the amount of *$38,463* and *$19,826* were accrued as of *December 31, 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 RSUs:

	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*
Shares Forfeited	*(7,000*)	$ *10.46*
Unvested at December 31, 2017	*187,150*	$ *8.21*

As of *December 31, 2017*, the *187,150* RSUs had a remaining contractual life of between *2.5* and *3.5* years. Of the *187,150* RSUs outstanding as of *December 31, 2017, 176,073* RSUs are vested or expected to vest in the future. An estimated forfeiture rate of *8.5%* was used in the calculation of expense related to the RSUs. The Company recorded *$81,895* and *$337,310* of expense related to RSUs in the *three* and *six* month periods ended *December 31, 2017,* respectively.

As of *December 31, 2016,* the *118,575* RSUs had a remaining contractual life of between *2.5* and *3.5* years. Of the *118,575* RSUs outstanding as of *December 31, 2016, 114,531* RSUs are vested or expected to vest in the future. An estimated forfeiture rate of *3.4%* was used in the calculation of expense related to the RSUs. The Company recorded *$89,896* and *$392,197* of expense related to RSUs in the *three* and *six* month periods ended *December 31, 2016,* respectively.

Director and Employee Stock Compensation Awards

The Company awarded a total of *19,920* and *21,199* common shares in the *six* months ended *December 31, 2017* and *2016,* respectively, as stock compensation awards. These common shares were valued at their approximate *$155,974* and *$228,000* fair market values based on their stock price at dates of issuance multiplied by the number of common shares awarded, respectively, pursuant to the compensation programs for non-employee directors who receive a portion of their compensation as an award of Company stock and for employees who received a nominal recognition award in the form of Company stock. Stock compensation awards are made in the form of newly issued common shares of the Company.

Deferred Compensation Plan

The Company has a non-qualified deferred compensation plan providing for both Company contributions and participant deferrals of compensation. This plan is fully funded in a Rabbi Trust. All plan investments are in common shares of the Company. As of *December 31, 2017* there were *38* participants, all with fully vested account balances. A total of *245,732* common shares with a cost of *$2,187,811,* and *257,898* common shares with a cost of *$2,456,875* were held in the plan as of *December 31, 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; shares newly issued for compensation deferred into the plan, and for distributions to terminated employees. The Company issued *42,280* new common shares for purposes of the non-qualified deferred compensation plan as of *December 31, 2017* and the company did *not* issue new common shares for plan in fiscal *2017.* The Company used approximately *$106,537* and *$390,288* to purchase *15,225* and *39,487* common shares of the Company in the open stock market during the *six* months ended *December 31, 2017* and *2016,* respectively, for either employee salary deferrals or Company contributions into the non-qualified deferred compensation plan.

The Company's non-qualified deferred compensation is *no* longer funded by purchases in the open market of LSI stock as of *September 30, 2017.* This plan is now solely funded by newly issued shares that are authorized from the Company's *2012* Stock Incentive Plan.

NOTE *11* - SUPPLEMENTAL CASH FLOW INFORMATION

(In thousands)	Six Months Ended December 31	
	2017	2016
Cash payments:		
Interest	$*767*	$*21*
Income taxes	$*1,232*	$*2,381*
Non-cash investing and finance activities:		
Issuance of common shares as compensation	$*156*	$*228*
Issuance of common shares to fund deferred compensation plan	$*261*	$--

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 *December 31, 2017,* there were *no* standby letter of credit agreements.

NOTE *13* – SEVERANCE COSTS

The Company recorded severance expense of $*83,000* and *$173,000* in the *six* months ended *December 31, 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)	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016	Fiscal Year Ended June 30, 2017
Balance at beginning of the period	$ *235*	$ *39*	$ *39*
Accrual of expense	*83*	*173*	*523*
Payments	*(218*)	*(205*)	*(313*)
Adjustments	*(14*)	--	*(14*)
Balance at end of the period	$ *86*	$ *7*	$ *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 close 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 *no* 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 owned 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 December 31, 2017	Six Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2016
Severance and other termination benefits	$ --	$ --	$ *526*	$ *691*
Lease obligation	--	--	--	*213*
Impairment of fixed assets and accelerated depreciation	--	--	*80*	*353*
Other	--	--	*91*	*96*
Total	$ --	$ --	$ *697*	$ *1,353*

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 December 31 2016	Six Months Ended December 31 2016
Cost of Goods Sold	$ *640*	$ *1,143*
Operating Expenses	*57*	*210*
Total	$ *697*	$ *1,353*

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