LSI INDUSTRIES INC
Form 10-Q
October 29, 2010
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, 2010.
	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 ____ NO ____

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

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

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

As of October 25, 2010 there were 24,038,885 shares of the Registrant's common stock outstanding.

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FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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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 expressio 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 INCOME STATEMENTS
(Unaudited)

(In thousands, except per share data)	Three Months Ended September 30 2010	2009
Net sales	$ 79,851	$ 67,676
Cost of products and services sold	59,229	51,079
Gross profit	20,622	16,597
Selling and administrative expenses	14,000	14,100
Operating income	6,622	2,497
Interest (income)	(20)	(3)
Interest expense	42	37
Income before income taxes	6,600	2,463
Income tax expense	2,332	826
Net income	$ 4,268	$ 1,637
Earnings per common share (see Note 5)		
Basic	$ 0.18	$ 0.07
Diluted	$ 0.18	$ 0.07
Weighted average common shares outstanding		
Basic	24,281	23,683
Diluted	24,289	23,688

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 share amounts)	September 30, 2010	June 30, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$12,103	$17,417
Accounts and notes receivable, net	42,004	35,254
Inventories	42,732	40,082
Refundable income taxes	25	1,146
Other current assets	5,340	5,512
Total current assets	102,204	99,411
Property, Plant and Equipment, net	45,092	44,911
Goodwill, net	10,766	10,766
Other Intangible Assets, net	14,455	15,103
Other Long-Term Assets, net	3,665	3,654
Total assets	$176,182	$173,845
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	$33	$33
Accounts payable	12,795	12,553
Accrued expenses	11,974	13,257
Total current liabilities	24,802	25,843
Other Long-Term Liabilities	3,734	3,784
Commitments and contingencies (Note 12)	--	--
Shareholders' Equity		
Preferred shares, without par value;		
Authorized 1,000,000 shares; none issued	--	--
Common shares, without par value;		
Authorized 40,000,000 shares;		
Outstanding 24,037,638 and 24,045,502		
shares, respectively	100,325	99,963
Retained earnings	47,321	44,255
Total shareholders' equity	147,646	144,218
Total liabilities & shareholders' equity	$176,182	$173,845

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 2010	2009
Cash Flows from Operating Activities		
Net income	$4,268	$1,637
Non-cash items included in net income		
Depreciation and amortization	1,969	1,946
Deferred income taxes	(66)	--
Deferred compensation plan	33	18
Stock option expense	415	346
Issuance of common shares as compensation	10	10
Loss on disposition of fixed assets	1	1
Allowance for doubtful accounts	102	88
Inventory obsolescence reserve	200	366
Changes in certain assets and liabilities, net of acquisition		
Accounts and notes receivable	(6,852)	(4,583)
Inventories	(2,850)	(1,245)
Accounts payable and other	1,502	2,247
Customer prepayments	(1,237)	(266)
Net cash flows provided by (used in) operating activities	(2,505)	565
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(1,503)	(1,133)
Acquisition of business, net of cash received	--	(675)
Net cash flows (used in) investing activities	(1,503)	(1,808)
Cash Flows from Financing Activities		
Payment of long-term debt	(8)	(2,217)
Cash dividends paid	(1,202)	(1,202)
Purchase of treasury shares	(96)	(82)
Issuance of treasury shares	--	11
Net cash flows (used in) financing activities	(1,306)	(3,490)
Decrease in cash and cash equivalents	(5,314)	(4,733)
Cash and cash equivalents at beginning of year	17,417	13,986
Cash and cash equivalents at end of period	$12,103	$9,253

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, 2010, the results of its operations for the three month periods ended September 30, 2010 and 2009, and its cash flows for the three month periods ended September 30, 2010 and 2009. These statements should be read in conjunction with the financial statements and footnotes included in the fiscal 2010 Annual Report on Form 10-K. Financial information as of June 30, 2010 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, all of which are wholly owned. All intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition:

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

The Company has four sources of revenue: revenue from product sales; revenue from installation of products; service revenue generated from providing integrated design, project and construction management, site engineering and site permitting; and revenue from shipping and handling.

Product revenue is recognized on product-only orders upon passing of title and risk of loss, generally at time of shipment. However, product revenue related to orders where the customer requires the Company to install the product is recognized when the product is installed. Other than normal product warranties or the possibility of installation or post-shipment service, support and maintenance of certain solid state LED video screens, billboards, or active digital signage, the Company has no post-shipment responsibilities.

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

Service revenue from integrated design, project and construction management, and site permitting is recognized when all products have been installed at each individual retail site of the customer on a proportional performance basis.

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

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

Credit and Collections:

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

(In thousands)	September 30, 2010	June 30, 2010
Accounts and notes receivable	$42,505	$35,653
less Allowance for doubtful accounts	(501)	(399)
Accounts and notes receivable, net	$42,004	$35,254

Cash and Cash Equivalents:

The cash balance includes cash and cash equivalents which have original maturities of less than three months. The Company maintains balances at financial institutions in the United States and Canada. The balances at financial institutions in Canada are not covered by insurance. As of September 30, 2010 and June 30, 2010, the Company had bank balances of $ 10,590,000 and $18,530,000, respectively, in excess of FDIC insured limits and therefore without insurance coverage.

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out basis.

Property, Plant and Equipment and Related Depreciation:

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

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

Costs related to the purchase, internal development, and implementation of the Company's fully integrated enterprise resource planning/business operating software system are either capitalized or expensed in accordance with ASC Subtopic 350-40, Intangibles – Goodwill and Other: Internal-Use Software. Leasehold improvements are depreciated over the shorter of fifteen years or the remaining term of the lease.

The following table presents the Company's property, plant and equipment at the dates indicated.

(In thousands)	September 30, 2010	June 30, 2010
Property, plant and equipment, at cost	$110,303	$108,873
less Accumulated depreciation	(65,211)	(63,962)
Property, plant and equipment, net	$45,092	$44,911

The Company recorded $1,321,000, and $1,330,000 of depreciation expense in the first quarter of fiscal 2011 and 2010, respectively.

Intangible Assets:

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

Fair Value of Financial Instruments:

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

Product Warranties:

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

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

(In thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Year Ended June 30, 2010
Balance at beginning of the period	$589	$223	$223
Additions charged to expense	516	256	1,870
Addition from acquisition	--	5	5
Deductions for repairs and replacements	(302)	(251)	(1,509)
Balance at end of the period	$803	$233	$589

Research and Development Costs:

Research and development expenses are costs directly attributable to new product development, including the development of new technology for both existing and new products, and consist of salaries, payroll taxes, employee benefits, materials, supplies, depreciation and other administrative costs. All costs are expensed as incurred and are classified as operating expenses. The Company follows the requirements of ASC Subtopic 985-20, Software: Costs of Software to be Sold, Leased, or Marketed, by expensing as research and development all costs associated with development of software used in solid-state LED products. Research and development costs incurred related to both product and software development totaled $1,480,000, and $1,182,000 for the three month periods ended September 30, 2010 and 2009, respectively.

Earnings Per Common Share:

The computation of basic earnings per common share is based on the weighted average common shares outstanding for the period net of treasury shares held in the Company's non-qualified deferred compensation plan. The computation of diluted earnings per share is based on the weighted average common shares outstanding for the period and includes common share equivalents. Common share equivalents include the dilutive effect of stock options, contingently issuable shares and common shares to be issued under a deferred compensation plan, all of which totaled 241,000 shares and 235,000 shares for the three month periods ended September 30, 2010 and 2009, respectively. See further discussion in Note 5.

New Accounting Pronouncements:

In October 2009, the Financial Accounting Standards Board issued ASU 2009-14, "Certain Revenue Arrangements That Include Software Elements." This amended guidance clarifies when revenue can be recognized when tangible products contain both software and non-software components in a multiple deliverable arrangement. This update was effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted the amended guidance on July 1, 2010. There was no impact on the consolidated results of operations, cash flows or financial position as a result of the amended guidance.

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 condensed consolidated financial statements were filed. No items were identified during this evaluation that required adjustment to or disclosure in the accompanying financial statements.

Reclassifications:

Certain reclassifications may have been made to prior year amounts in order to be consistent with the presentation for the current year. For segment reporting, the Technology Segment has been reclassified into the All Other Category and Corporate Administration has been separately stated. See further discussion in Note 4.

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 - MAJOR CUSTOMER CONCENTRATIONS

The Company’s Lighting Segment and Graphics Segment net sales to 7-Eleven, Inc. represented approximately $19,519,000 or 24%, and $7,747,000 or 11% of consolidated net sales in the three months ended September 30, 2010 and 2009, respectively. The accounts receivable balance from 7-Eleven, Inc. at September 30, 2010 was $6,836,000 or 16% of consolidated net accounts receivable. There was no concentration of accounts receivable at June 30, 2010 or September 30, 2009.

NOTE 4 - BUSINESS SEGMENT INFORMATION

Accounting Standards Codification Topic 280, Segment Reporting, establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information of those segments to be presented in interim financial statements. Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision maker (the Company’s President and Chief Executive Officer) in making decisions on how to allocate resources and assess performance. While the Company has twelve operating segments, it has only three reportable operating business segments (Lighting, Graphics, and Electronic Components), an All Other Category, and Corporate Administration.

The Company made some changes to its reportable business segments in fiscal 2011. The Technology Segment was reclassified into the All Other Category because there were no quantitative measures or qualitative factors that required the operating results of LSI Saco Technology to be reported in a separate business segment. The Company also reclassified its Corporate Administration and intercompany eliminations out of the All Other Category and into a separate line item in the business segment disclosures because this presents a more appropriate disclosure of operating income (loss) of the All Other Category. Additionally, the Company reclassified an indefinite lived trade name intangible asset and its related intercompany royalty income from the Corporate Administration balance sheet and operating results to the balance sheet and operating results of the Lighting Segment. Also, certain definite lived LED technology intangible assets and related amortization expenses were reclassified from the Corporate Administration balance sheet and operating results to the balance sheets and operating results of the Lighting Segment and the Graphics Segment. All intercompany royalty income related to these LED technology intangible assets has been reclassified from the Corporate Administration operating results to the Graphics Segment operating results. The changes described in this paragraph were made for all reported periods in these financial statements, and they had no impact on the Company’s consolidated results.

The Lighting Segment includes outdoor, indoor, and landscape lighting that has been fabricated and assembled for the commercial, industrial and multi-site retail lighting markets, including the petroleum/convenience store market. The Lighting Segment includes the operations of LSI Ohio Operations, LSI Metal Fabrication, LSI MidWest Lighting, LSI Lightron and LSI Greenlee Lighting. The LSI Greenlee facility in Dallas, Texas is being consolidated into the Company’s main lighting facility in Ohio, with completion expected in the second quarter of fiscal 2011. These operations have been integrated, have similar economic characteristics and meet the other requirements for aggregation in segment reporting.

The Graphics Segment designs, manufactures and installs exterior and interior visual image elements related to image programs, solid state LED digital advertising billboards, and solid state LED digital sports video screens (LED video screens are designed and manufactured by the Company’s Lighting Segment). These products are used in visual image programs in several markets, including the petroleum/convenience store market, multi-site retail operations, sports and advertising. The Graphics Segment includes the operations of Grady McCauley, LSI Retail Graphics and LSI Integrated Graphic Systems, which have been aggregated as such facilities manufacture two-dimensional graphics with the use of screen and digital printing, fabricate three-dimensional structural graphics sold in the multi-site retail and petroleum/convenience store markets, and exhibit each of the similar economic characteristics and meet the other requirements for aggregation in segment reporting.

The Electronic Components Segment designs, engineers and manufactures custom designed electronic circuit boards, assemblies and sub-assemblies used in various applications including the control of solid-state LED lighting. Capabilities of this Segment also have applications in the Company’s other LED product lines such as digital scoreboards, advertising ribbon boards and billboards. The Electronic Components Segment includes the operations of LSI ADL Technology.

The All Other Category includes the Company’s operating segments that neither meet the aggregation criteria, nor the criteria to be a separate reportable segment. Operations of LSI Images (menu board systems) and LSI Adapt (surveying, permitting and installation management services related to products of the Graphics Segment) are combined in the All Other Category. Operations of LSI Marcole (electrical wire harnesses) are included in the All Other Category, although this business was sold in March 2010. Additionally, operations of LSI Saco Technologies (designs and produces high-performance light engines, large format video screens using solid-state LED technology, and certain specialty LED lighting) are included in the All Other Category.

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

Summarized financial information for the Company's reportable business segments is provided for the following periods and as of September 30, 2010 and June 30, 2010:

(In thousands)	Three Months Ended September 30 2010	2009
Net Sales:		
Lighting Segment	$ 47,475	$ 39,641
Graphics Segment	26,087	22,097
Electronic Components Segment	4,564	3,238
All Other Category	1,725	2,700
	$ 79,851	$ 67,676
Operating Income (Loss):		
Lighting Segment	$ 3,680	$ 3,446
Graphics Segment	4,568	1,750
Electronic Components Segment	1,039	56
All Other Category	(315)	282
Corporate and Eliminations	(2,350)	(3,037)
	$ 6,622	$ 2,497
Capital Expenditures:		
Lighting Segment	$ 1,241	$ 271
Graphics Segment	40	164
Electronic Components Segment	43	387
All Other Category	--	9
Corporate and Eliminations	179	302
	$ 1,503	$ 1,133
Depreciation and Amortization:		
Lighting Segment	$ 946	$ 940
Graphics Segment	509	506
Electronic Components Segment	231	163
All Other Category	67	131
Corporate and Eliminations	216	206
	$ 1,969	$ 1,946

	September 30, 2010	June 30, 2010
Identifiable Assets:		
Lighting Segment	$86,608	$81,927
Graphics Segment	38,877	36,077
Electronic Components Segment	23,756	23,136
All Other Category	13,661	15,372
Corporate and Eliminations	13,280	17,333
	$176,182	$173,845

Segment net sales represent sales to external customers. Intersegment revenues were eliminated in consolidation as follows:

(In thousands)	Three Months Ended September 30 2010	2009
Lighting Segment intersegment net sales	$ 658	$ 4,935
Graphics Segment intersegment net sales	$ 425	$ 203
Electronic Components intersegment net sales	$ 1,996	$ 1,035
All Other Category intersegment net sales	$ 1,576	$ 2,939

Segment operating income, which is used in management's evaluation of segment performance, represents net sales less all operating expenses including impairment of goodwill and intangible assets, but excluding interest expense and interest income.

Identifiable assets are those assets used by each segment in its operations. Corporate assets, consist primarily of cash and cash equivalents and short-term investments and refundable income taxes.

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

(In thousands)	Three Months Ended September 30 2010	2009
Net Sales (a):		
United States	$ 78,960	$ 66,615
Canada	891	1,061
	$ 79,851	$ 67,676

	September 30, 2010	June 30, 2010
Long-lived Assets (b):		
United States	$ 48,458	$ 48,220
Canada	299	345
	$ 48,757	$ 48,565

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

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

NOTE 5 - 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 2010	2009
BASIC EARNINGS PER SHARE		
Net income	$4,268	$1,637
Weighted average shares outstanding during the period, net of treasury shares (a)	24,048	23,453
Weighted average shares outstanding in the Deferred Compensation Plan during the period	233	230
Weighted average shares outstanding	24,281	23,683
Basic earnings per share	$0.18	$0.07
DILUTED EARNINGS PER SHARE		
Net income	$4,268	$1,637
Weighted average shares outstanding		
Basic	24,281	23,683
Effect of dilutive securities (b):		
Impact of common shares to be issued under stock option plans, and contingently issuable shares, if any	8	5

Weighted average shares outstanding (c)	24,289	23,688
Diluted earnings per share	$0.18	$0.07

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(a) Includes shares accounted for like treasury stock in accordance with Accounting Standards Codification Topic 710, Compensation - General.

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

(c) Options to purchase 2,074,064 common shares and 1,793,548 common shares at September 30, 2010 and 2009, respectively, were not included in the computation of diluted earnings per share because the exercise price was greater than the average fair market value of the common shares.

NOTE 6 - BALANCE SHEET DATA

The following information is provided as of the dates indicated (in thousands):

	September 30, 2010	June 30, 2010
Inventories:		
Raw materials	$23,048	$19,029
Work-in-process	7,804	8,891
Finished goods	11,880	12,162
	$42,732	$40,082
Accrued Expenses:		
Compensation and benefits	$5,548	$6,725
Customer prepayments	996	2,233
Accrued sales commissions	1,115	884
Accrued Income Taxes	927	138
Other accrued expenses	3,388	3,277
	$11,974	$13,257

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

In accordance with Accounting Standards Codification (ASC) Topic 350, Intangibles – Goodwill and Other, the Company is required to perform an annual impairment test of its goodwill and indefinite-lived intangible assets. The Company performs this test as of July 1st of each fiscal year and on an interim basis when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company uses a combination of the market approach and the income (discounted cash flow) approach in determining the fair value of its reporting units. Under ASC Topic 350, the goodwill impairment test is a two-step process. Under the first step, the fair value of the Company’s reporting unit is compared to its respective carrying value. An indication that goodwill is impaired occurs when the fair value of a reporting unit is less than the carrying value. When there is an indication that goodwill is impaired, the Company is required to perform a second step. In step two, the actual impairment of goodwill is calculated by comparing the implied fair value of the goodwill with the carrying value of the goodwill.

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

Due to economic conditions, the effects of the recession on the Company's markets and the decline in the Company's stock price, management believed that an additional goodwill impairment test was required as of June 30, 2009. The impairment test performed as of June 30, 2009 was actually the Company's annual goodwill impairment test that was to be performed in fiscal 2010 as of July 1, 2009; however, because the conditions that resulted in goodwill impairment were present as of June 30, 2009, the test was performed as of that date. There were no triggering events in fiscal 2010 related to goodwill impairment testing and, as a result, there was no impairment of goodwill recorded in fiscal 2010.

Based upon the Company's analysis as of July 1, 2010, it was determined that the goodwill associated with the four reporting units that contained goodwill was not impaired. The goodwill impairment test in the Electronic Components Segment passed with an estimated business enterprise value that was $2.2 million or 10% above the carrying value of this reporting unit. The goodwill impairment test in the All Other Category passed with an estimated business enterprise value that was $0.9 million or 84% above the carrying value of the reporting unit. The goodwill impairment tests in the Lighting and Graphics Segments passed with significant and substantial margin (in excess of 600% and 150%, respectively).

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

Goodwill (In thousands)	Lighting Segment	Graphics Segment	Electronic Components Segment	All Other Category	Total
Balance as of June 30, 2010					
Goodwill	$34,913	$24,959	$9,208	$6,850	$75,930
Accumulated impairment					