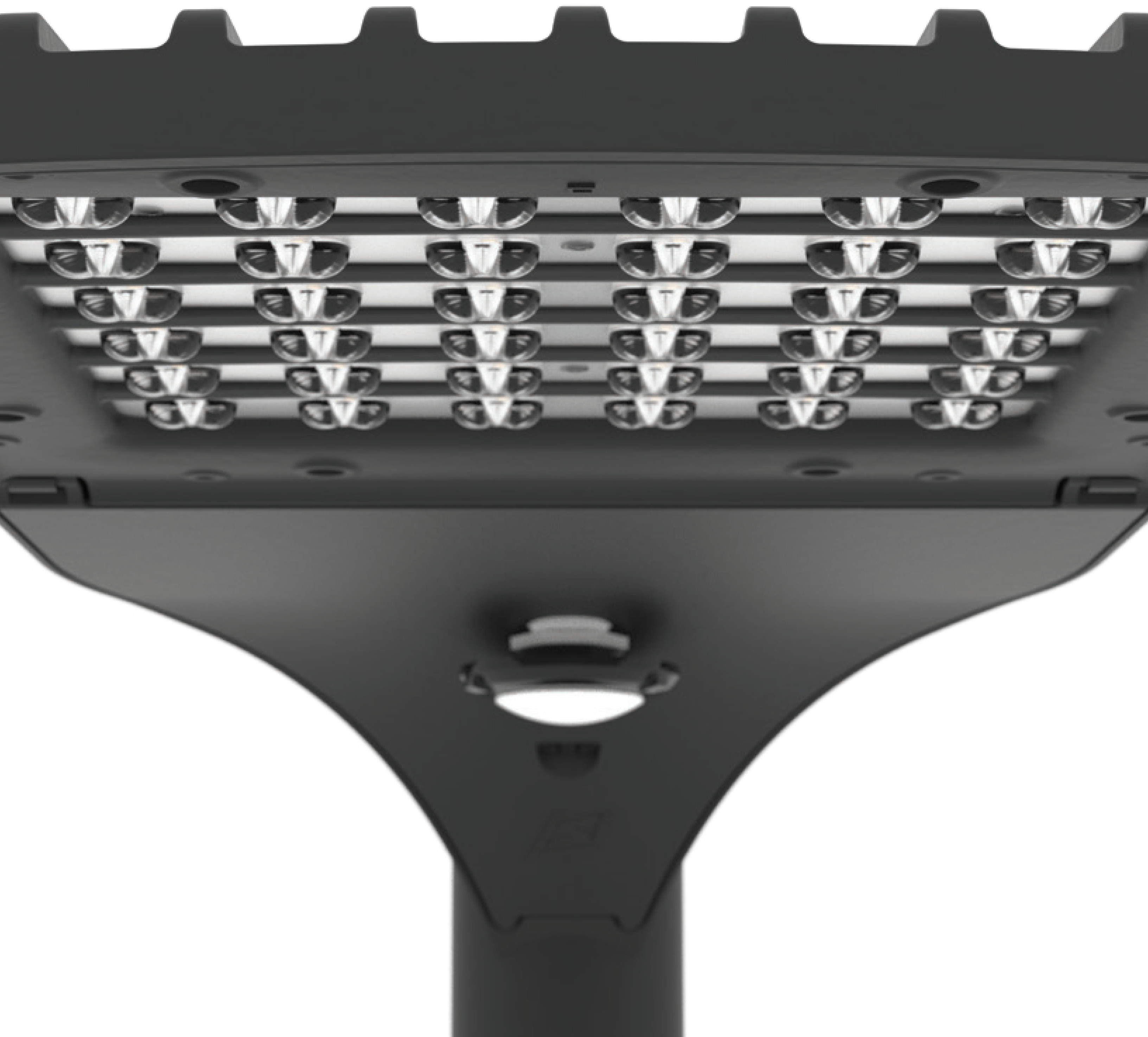
2019
ANNUAL REPORT



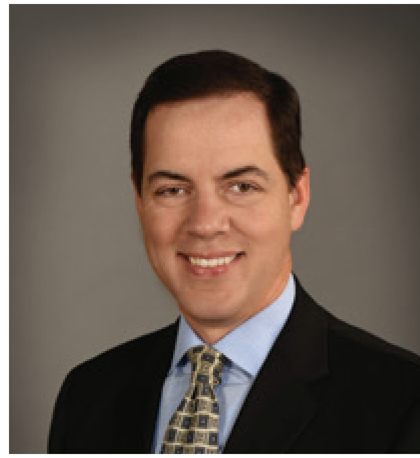
FOCUSED PERFORMANCE

LSI is a performance-based, **American** made outdoor lighting company. We provide best-in-class solutions to our customers that includes bringing select indoor and specialty lighting products to a broad number of vertical markets and specific applications. We deliver a differentiated and unique offering to our customers through superior customer service and the combination of outdoor and indoor products along with our graphics, digital graphics, and lighting controls solutions.

We are a vertically integrated U.S.-based manufacturer concentrating on serving customers in North America and Latin America. Our major markets include commercial / industrial lighting, petroleum / convenience store, multi-site retail including automobile dealerships and restaurants, among others.

Headquartered in Cincinnati, Ohio, LSI has facilities in Ohio, Kentucky, North Carolina, and Texas. The Company's common shares are traded on the NASDAQ Global Select Market under the symbol LYTS.

James A. Clark
President and Chief Executive Officer



TO OUR VALUED SHAREHOLDERS,

These are interesting times.

Energy efficiency, changes in public policy, demand for environmental sustainability, an evolving retail landscape, tariffs, and developing technology, provide a large landscape of opportunity.

Significant and sometimes disruptive changes in business may seem like nothing new, but for LSI they have given our team a way to develop a renewed clarity of the market while focusing on what makes LSI such a unique company with such broad growth potential.

LSI has a rich history of innovation and entrepreneurship. Starting back in 1976 and continuing our journey to the present-day, LSI has always maintained a consistent focus on leadership, innovation and performance. These are the principles of our relationship with our customers, agents, partners and employees, and serve as the foundation of our teams' mission to bring a unique and differentiated offering to market, ever ready to evolve and adapt to accomplish our goals and serve our customers.

Since joining the company in November and rallying the team around a renewed focus, we have made significant improvements in our commercial and operational capabilities. In short, the team has made great strides towards becoming a customer-centric organization by shifting our sales organization from a product-based company organized around independent business units, to a vertical specific approach organized around core vertical markets, including Automotive, Petroleum, QSR and Retail among others.

We seek out opportunities to differentiate and we strive to position ourselves as a highly valued partner. Our sales team is well supported by resources to help our customers with their needs including design capabilities, site survey and specification requirements, permitting, installation management, product development, software and a host of after sale services.

We believe it is important to expand the conversation beyond just products, to one of solutions that help our customers become more successful. This shift has enabled us to better understand our customers' needs and increase our value as a true partner. It underlines how we've moved beyond being the lowest price supplier while continuing to be the supplier of choice. Our successful expansion into Mexico is a direct result of working closely with our customers, earning their trust and confidence.

This customer first mindset is squarely understood by the entire organization, embraced by our operations, engineering and purchasing teams as they work together assuring that product development not only serves our customers' needs but also work in harmony from a manufacturing standpoint. The LSI team is actively looking for ways to improve performance and quality while reducing costs and overall manufacturing efficiency.

Ultimately our collective success is driven by the people in the organization. I see the engagement as we continue to empower those that seek to lead, and work to hold ourselves accountable to each other. Our core principles of leadership, innovation and performance have served us well and will continue to lead us in 2020 and beyond. We have a lot of opportunity ahead of us and we will execute against it.

In closing, I want to say thank you to our customers, employees, agents, partners, suppliers, directors and shareholders for your continued support and engagement in our company. We have a bright future ahead of us.

Sincerely;

James Clark

President, Chief Executive Officer, Director

"WE BELIEVE IT IS IMPORTANT TO EXPAND THE CONVERSATION BEYOND A PRODUCT TO ONE OF SOLUTIONS THAT WILL HELP OUR CUSTOMER BECOME MORE SUCCESSFUL."

LSI INDUSTRIES
FORM 10-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED JUNE 30, 2019.

OR

☐ **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.
(Exact name of Registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)	10000 Alliance Road Cincinnati, Ohio 45242 (Address of principal executive offices)	IRS Employer I.D. No. 31-0888951

(513) 793-3200
(Telephone number of principal executive offices)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common shares, no par value	LYTS	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☑

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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 such files).
Yes ☑ No ☐

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

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ Smaller reporting company☑
Emerging growth company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

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.
☐

As of December 31, 2018, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately $79,577,192 based upon a closing sale price of $3.17 per share as reported on The NASDAQ Global Select Market.

At August 30, 2019 there were 26,047,851 no par value Common Shares issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s Proxy Statement filed with the Commission for its 2019 Annual Meeting of Shareholders are incorporated by reference in Part III, as specified.

LSI INDUSTRIES INC.
2019 FORM 10-K ANNUAL REPORT
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Note about Forward-Looking Statements

This report includes estimates, projections, statements relating to our business plans, objectives, and expected operating results that are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including the following sections: "Business" (Part I, Item 1 of this Form 10-K), "Risk Factors" (Part I, Item 1A of this Form 10-K), and "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Part II, Item 7 of this Form 10-K). These forward-looking statements generally are identified by the words "encourage," "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "future," "opportunity," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially. We describe risks and uncertainties that could cause actual results and events to differ materially in "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Quantitative and Qualitative Disclosures about Market Risk" (Part II, Item 7A of this Form 10-K). Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

PART I

ITEM 1. BUSINESS

Our Company

LSI is a performance-based outdoor lighting company. We provide best-in-class solutions to our customers that include bringing select indoor and specialty lighting products to a broad number of vertical markets and specific applications. We look to bundle these products with our graphics, digital graphics, and lighting solutions to create a differentiated and unique offering to our customers. Our products and services include digital signage, printed and structural graphics, and electrical signage capabilities, a wide variety of high quality indoor and outdoor lighting products, lighting control systems, and related professional services including engineering, installation, and project management. We also provide graphics and lighting products on a stand-alone basis. Our company is the leading provider of corporate visual image solutions to the petroleum / convenience store industry. We use this leadership position to penetrate national retailers and multi-site retailers, including quick service and casual restaurants, retail chain stores and automobile dealerships, located primarily in the United States. We seek to expand our market share in the traditional commercial / industrial lighting market by combining our LED product innovation and lighting control solutions utilizing the latest technology along with a strong emphasis on high service levels and market focused solutions. Our solutions are targeted at both renovation and new construction markets. We have comprehensive design and product development capabilities for targeted markets. We also provide a variety of lighting control solutions which allow our customers to reduce energy and maintenance costs. In addition to designing and producing traditional signage, we design and integrate digital signage technology where customers are provided a turnkey solution that includes design, software, hardware content development, implementation, service and support.

We believe that national retailers and other companies in the markets we serve are increasingly seeking single-source suppliers with the project management skills and service expertise necessary to execute a comprehensive visual image program. The integration of our graphics, lighting, and technology coupled with our professional services capabilities allows our customers to outsource to us the development of an entire visual image program from the planning and design stage through installation. Our approach is to combine our lighting products and custom graphics applications utilizing the latest technology along with our professional service capabilities to create complete customer-focused visual image solutions. We also offer our lighting products and graphics elements on a stand-alone basis to service our existing image solutions customers, to establish a presence in a new market or to create a relationship with a new customer. We believe that our ability to combine lighting, graphics, and technology coupled with professional services into a comprehensive visual image solution differentiates us from our competitors who offer only stand-alone products for lighting or graphics and who lack professional services offerings. During the past several years, we have continued to enhance our ability to provide comprehensive corporate visual image solutions by adding additional graphics capabilities such as digital signage and media content management, wireless lighting control systems, new and innovative LED lighting products and professional services through acquisitions and internal development.

Our focus on product development and innovation creates products that are essential components of our customers' corporate visual image strategy. Our spending on research and development was $5.3 million in fiscal 2019 and $6.0 million in fiscal 2018. We develop and manufacture lighting including solid-state LED lighting, lighting control systems, and graphics and distribute them through an extensive multi-channel distribution network that allows us to effectively service our target markets. Customers include distributors, franchisees and national end-user corporate accounts.

We also focus on the elimination of non-value added activities throughout our organization through the LSI Business System, a Lean Management System utilizing Kaizen events and lean tools to drive continuous improvement in our processes. The LSI Business System improves shareholder value by increasing customer satisfaction and eliminating waste, both of which will improve the bottom line. We are committed to this company-wide initiative through employee education and training with the ultimate goal to make it part of the corporate culture and way of thinking of all employees.

Our business is organized as follows: the Lighting Segment, which represented 72% of our fiscal 2019 net sales and the Graphics Segment, which represented 28% of our fiscal 2019 net sales. See Note 2 of Notes to Consolidated Financial Statements beginning on page 42 of this Form 10-K for additional information on business segments. Net sales by segment are as follows (in thousands):

	2019	2018
Lighting Segment	$ 235,114	$ 260,613
Graphics Segment	93,738	81,410
Total Net Sales	$ 328,852	$ 342,023

Lighting Segment

Our Lighting Segment manufactures and markets outdoor and indoor lighting and lighting controls for the commercial, industrial and multi-site retail markets including the petroleum / convenience store, quick-service, and automotive markets. Our products are designed and manufactured to provide maximum value and meet the high-quality, competitively-priced product requirements of the markets we serve. We generally avoid specialty or custom-designed, low-volume products for single order opportunities. Focusing on key market applications allows us to deliver unique product solutions which in turn provides value to our customers.

Our lighting fixtures, poles and brackets are produced in a variety of designs, styles and finishes. Important functional variations include types of mounting, such as pole, bracket and surface, and the nature of the light requirement, such as interior and exterior down-lighting, wall-wash lighting, canopy lighting, flood-lighting, area lighting and security lighting. Our engineering staff performs photometric analyses and wind load safety studies for all light fixtures and also designs our fixtures and lighting systems. Our lighting products utilize LED light sources. The major products and services offered within our lighting segment include: exterior area lighting, interior lighting, canopy lighting, landscape lighting, lighting controls, light poles, lighting system design, and photometric layouts. All of our products are designed for performance, reliability, ease of installation and service, as well as attractive appearance. The Company also has a focus on designing lighting system solutions and implementing strategies related to energy savings in substantially all markets served.

We offer our customers expertise in developing and utilizing high-performance solid-state LED solutions, which when combined with the Company's lighting fixture expertise and control technology, has the potential to result in a broad spectrum of white light LED fixtures that offer equivalent or improved lighting performance with significant energy and maintenance savings as compared to conventional light sources.

Graphics Segment

Our Graphics Segment manufactures and sells exterior and interior visual image elements related to signage and graphics, including integrated digital signage solutions and menu boards. The major products and services offered within our Graphics Segment include the following: signage and canopy graphics, pump dispenser graphics, building fascia graphics, electrical signage, decals, interior signage and marketing graphics, aisle markers, wall mural graphics, fleet graphics, video boards, menu boards and digital signage and media content management. Our Company also manages and executes the implementation of large rollout programs. These products are used in graphics displays and visual image programs in several markets, including the petroleum / convenience store market, quick-service restaurant, grocery, and multi-site retail operations. Our extensive lighting and graphics expertise, product offering, visual image solution implementation capabilities and other professional services represent significant competitive advantages. We work with our customers and design firms to establish and implement cost effective corporate visual image programs to advance our customer's brand. Increasingly, we have become the primary supplier of exterior and interior graphics for our customers. We also offer installation management services for those customers who require the installation of interior or exterior products (utilizing pre-qualified independent subcontractors throughout the United States).

Our business can be significantly impacted by participation in a customer's "image conversion program," especially if it were to involve a "roll out" of that new image to a significant number of that customer's and its franchisees' retail sites. The impact to our business can be very positive with growth in net sales and profitability when we are engaged in an image conversion program. This can be followed in subsequent periods by lesser amounts of business or negative comparisons following completion of an image conversion program, unless we are successful in replacing that completed business with participation in new image conversion programs of similar size with one or more customers. An image conversion program can potentially involve any or all of the following improvements, changes or refurbishments at a customer's retail site: interior or exterior lighting (see discussion above about our lighting segment), interior or exterior store signage and graphics, and installation of these products in both the prototype and roll out phases of their program.

Our Competitive Strengths

Single Source Comprehensive Visual Image Solution Provider. We believe that we are the only company serving our target markets that combines digital signage and graphics capabilities, lighting products and installation implementation capabilities to create comprehensive image solutions. We believe that our position as a single-source provider creates a competitive advantage over competitors who can only address either the lighting or the graphics component of a customer's corporate visual image program. Using our broad visual image solutions capabilities, our customers can maintain complete control over the creation of their visual image programs while avoiding the added complexity of coordinating separate lighting and graphics suppliers and service providers. We can use high technology software to produce computer-generated virtual prototypes of a customer's new or improved retail site image. We believe that these capabilities are unique to our target markets and they allow our customers to make educated, cost-effective decisions quickly.

Proven Ability to Penetrate Target Markets. We have grown our business by establishing a leadership position in many of the markets we serve, including petroleum / convenience stores, automobile dealerships and specialty retailers. Although our relationship with our customers may begin with the need for a single product or service, we leverage our broad product and service offering to identify additional products and solutions. We promote the combination of graphics, lighting, and technology, along with image element offerings, and services to create comprehensive solutions for our customers.

Focus on Product Innovation. We believe that our ability to successfully identify, develop and patent new products has allowed us to expand our market opportunity and enhance our market position. Our product innovation initiatives are designed to increase the value of our product offering by addressing the needs of our customers and target markets through retrofit enhancements to existing products or the development of new products. New product development includes developing an expanding portfolio of technology patents. We believe our product innovation process creates value for our customers by producing products that offer energy efficiency, low maintenance requirements and long-term operating performance at competitive prices based upon the latest technologies available.

Strong Relationships with our Customers. We have used our innovative products and high-quality services to develop close, long-standing relationships with a large number of our customers. Many of our customers are recognized among the leaders in their respective markets. Their use of our products and services raises the visibility of our capabilities and facilitates the acceptance of our products and services in their markets. Within each of these markets, our ability to be a single source provider of image solutions often creates repeat business opportunities through corporate reimaging programs. We have served some of our customers since our inception in 1976.

An Appropriately Capitalized Balance Sheet. As part of our long-term operating strategy, we believe the Company maintains a conservative capital structure. With a solid equity base, we are able to preserve operating flexibility in times of industry expansion and contraction. In the current business environment, a strong balance sheet demonstrates financial viability to our existing and targeted customers. In addition, a strong balance sheet enables us to invest in the company through research and development and allows the Company to invest in capital projects that support the Company's growth.

Customer Product Training and Education Centers. We conduct product training and education for our customers, contractors, and channel partners at our multiple locations. These centers, which demonstrate the depth and breadth of our product and service offerings, have become an effective component of our sales process. These centers can also provide a visual illustration of lighting solutions to our customers.

Maintain our Vertically Integrated Business Model. Our Company balances its strength as a vertically integrated manufacturer with its sourcing of purchased finished goods through the global supply chain. We focus on developing lighting and graphics products coupled with technology, and outsource certain non-core processes and product components as necessary.

Commitment to Continuous Improvement. We are committed to a philosophy of continuous improvement through the LSI Business System, which is a Lean Management System utilizing Kaizen events and lean tools to identify and eliminate waste and increase customer satisfaction with the ultimate goal to improve shareholder value.

Sales, Marketing and Customers

Sales: Our lighting products including lighting controls, are sold primarily throughout the United States, but also in Canada, Mexico, Australia, and Latin America (less than 5% of consolidated net sales are outside the United States) using a combination of regional sales managers and independent sales representatives serving primarily the commercial / industrial market along with several of the other markets we serve. Our lighting product sales originate from two primary revenue streams. The first revenue stream is from project-based business, quoting and receiving orders as a preferred vendor for product sales to multiple end-users, including customer-owned as well as franchised and licensed dealer operations. The second revenue stream is from selling standard product to stocking distributors, who subsequently provide product to electrical contractors and end users for a variety of lighting applications. Our graphics products, which in many instances are program-driven, are sold primarily through our own sales force. Our marketing approach and means of distribution vary by product line and by market.

Sales are developed through a wide variety of contacts such as, but not limited to, national retail marketers, branded product companies, franchise and dealer operations. In addition, sales are also achieved through recommendations from local architects, engineers, petroleum and electrical distributors and contractors. The Company utilizes the latest technology to track sales leads and customer quotes with the ultimate goal to turn them into orders from our customers. Our sales are partially seasonal as installation of outdoor lighting and graphic systems in the northern states decreases during the winter months.

Marketing: The capabilities of our Image Center and I-Zone Marketing Centers are important parts of our sales process. These centers, unique within the lighting and graphics industry, are facilities that can produce a computer-generated virtual prototype of a customer’s facility on a large screen through the combination of high technology software and audio/visual presentation. The I-Zone marketing center is a digitally controlled facility containing a large solid-state LED video screen and several displays that showcase our LED technology and LED products. With these capabilities, our customers can instantly explore a wide variety of lighting and graphics alternatives to develop consistent day and nighttime images. These centers give our customers more options, greater control, and more effective time utilization in the development of lighting, graphics and visual image solutions, all with much less expense than traditional prototyping. In addition to being cost and time effective for our customers, we believe that the capabilities of these marketing centers contribute to the development of the best solution for our customers’ needs.

The Image and I-Zone marketing centers also contain comprehensive indoor and outdoor product display areas that allow our customers to see many of our products and services in one setting. This aids our customers in making quick and effective lighting and graphic design decisions through hands-on product demonstrations and side-by-side comparisons. More importantly, these capabilities allow us to expand our customer’s interest from just a single product into other products and solutions. We believe that the capabilities of these centers have further enhanced our position as a highly qualified outsourcing partner capable of guiding a customer through image alternatives utilizing our lighting and graphics products and services. We believe this capability distinguishes us from our competitors and will become increasingly beneficial in attracting additional customers.

In addition to the capabilities of our Image and I-Zone Marketing Centers, the Company markets its products and service capabilities to end users in multiple channels through a broad spectrum of marketing and promotional methods, including direct customer contact, trade shows, on-site training, print advertising in industry publications, product brochures and other literature, as well as the internet and social media.

Manufacturing and Operations

We design, engineer and manufacture most of our lighting and graphics products through utilizing lean manufacturing principles. We periodically invest in new machinery and equipment utilizing the latest technology in order to leverage the manufacturing efficiencies gained from our high-volume production. When appropriate, we utilize alliances with domestic and international vendors to outsource certain products and components. The majority of products and related software are engineered, designed and final-assembled by the Company, while a portion of the manufacturing has been performed by select qualified vendors. We are not dependent on any one supplier for critical component parts.

The principal raw materials and purchased components used in the manufacturing of our products are steel, aluminum, aluminum castings, fabrications, LEDs, power supplies, powder paint, steel tubing, wire harnesses, acrylic, silicon and glass lenses, inks, various graphics substrates such as foam board and vinyls, and digital screens. We source these materials and components from a variety of suppliers. Although an interruption of these supplies and components could disrupt our operations, we believe generally that alternative sources of supply exist and could be readily arranged. We strive to reduce price volatility in our purchases of raw materials and components through annual contracts with strategic suppliers. Our Lighting operations generally carry a certain level of sub-assemblies and finished goods inventory to meet quick delivery requirements. Most lighting products are made to order and shipped shortly after they are manufactured. Our Graphics operations manufacture custom graphics products for customers who require us to stock certain amounts of finished goods in exchange for their commitment to that inventory. Our digital signage business requires an investment in digital screens in order to meet the demands of a large roll-out program. In some Graphics programs, customers also give us a cash advance for the inventory that we stock for them. The Company's operations dealing with LED products generally carry LED and LED component inventory due to longer lead times.

We currently operate out of eight manufacturing and office facilities in four U.S. states. Excluded from the list of facilities is the Company's New Windsor, New York facility which is reported as an asset held for sale as of June 30, 2019.

Most of our operations received ISO 9001:2015 Certification thru ANAB (Cert# 5369-Eagle Registrations Inc.) with plans to certify the Company's other facilities. Our manufacturing operations are subject to various federal, state and local regulatory requirements relating to environmental protection and occupational health and safety. We do not expect to incur material capital expenditures with regard to these matters and believe our facilities are in compliance with such regulations.

Goodwill and Intangible Asset Impairment

There was no impairment of the Company's indefinite-lived intangible assets in fiscal years 2019 and 2018. The Company recorded a $20,165,000 impairment of goodwill in the Lighting Segment in fiscal year 2019 and a $28,000,000 goodwill impairment to the same reporting unit in the Lighting Segment in fiscal 2018.

Competition

We experience strong competition in all segments of our business, and in all markets served by our product lines. Although we have many competitors, some of which have greater financial and other resources, we do not compete with the same companies across our entire product and service offerings. We believe product quality and performance, price, customer service, prompt delivery, and reputation to be important competitive factors. We also have several product and process patents which have been obtained in the normal course of business which provide a competitive advantage in the marketplace.

Additional Information

Our sales are partially seasonal as installation of outdoor lighting and graphic systems in the northern states lessens during the winter months. We had a backlog of orders, which we believe to be firm, of $30.7 million and $28.8 million at June 30, 2019 and 2018, respectively. All orders are expected to be shippable or installed within twelve months.

We have 1,065 full-time employees and 181 agency employees as of June 30, 2019. We offer a comprehensive compensation and benefits program to our employees, including competitive wages, medical and dental insurance, an incentive plan that is based upon the achievement of the Company's business plan goals, a 401(k) retirement savings plan and, for certain employees, a nonqualified deferred compensation plan and an equity based incentive plan.

We file reports with the Securities and Exchange Commission ("SEC") on Forms 10-K, 10-Q and 8-K. The SEC maintains an internet website that contains reports, proxy and information statements and other information regarding us. The address of that site is http://www.sec.gov. Our internet address is http://www.lsi-industries.com. We make available free of charge through our internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practical after we electronically file them with the SEC. LSI is not including the other information contained on its website as part of or incorporating it by reference into this Annual Report on Form 10-K.

LSI Industries Inc. is an Ohio corporation, incorporated in 1976.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the following factors which could materially affect our business, financial condition, cash flows or future results. Any one of these factors could cause the Company's actual results to vary materially from recent results or from anticipated future results. The risks described below are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Lower levels of economic activity in our end markets could adversely affect our operating results.

Our businesses operate in several market segments including, but not limited to, commercial, industrial, retail, petroleum / convenience store and automotive. Operating results can be negatively impacted by volatility in these markets. Future downturns in any of the markets we serve could adversely affect our overall sales and profitability. In addition, customer difficulties in the future could result from economic declines or issues arising from the cyclical nature of their business and, in turn, result in decreases in product demand, increases in bad debt write-offs, decreases in timely collection of accounts receivable and adjustments to our allowance for doubtful accounts receivable, resulting in material reductions to our revenues and net earnings.

The markets in which we operate are subject to competitive pressures that could affect selling prices, and therefore could adversely affect our operating results.

Our businesses operate in markets that are highly competitive, and we compete on the basis of price, quality, service and/or brand name across the industries and markets served. Some of our competitors for certain products, primarily in the Lighting Segment, have greater sales, assets and financial resources. Some of our competitors are based in foreign countries and have cost structures and prices in foreign currencies. Accordingly, currency fluctuations could cause our U.S. dollar-priced products to be less competitive than our competitors' products which are priced in other currencies. Competitive pressures could affect prices we charge our customers or demand for our products, which could adversely affect our operating results. Additionally, customers for our products may attempt to reduce the number of vendors from which they purchase in order to reduce the size and diversity of their inventories and their transaction costs. To remain competitive, we will need to invest continuously in research and development, manufacturing, marketing, customer service and support, and our distribution networks. We may not have sufficient resources to continue to make such investments and we may be unable to maintain our competitive position.

Our operating results may be adversely affected by unfavorable economic, political and market conditions.

Economic and political conditions worldwide have from time to time contributed to slowdowns in our industry at large, as well as to the specific segments and markets in which we operate. When combined with ongoing customer consolidation activity and periodic manufacturing and inventory initiatives, an uncertain macro-economic and political climate, including but not limited to the effects of possible weakness in domestic and foreign financial and credit markets, could lead to reduced demand from our customers and increased price competition for our products, increased risk of excess and obsolete inventories and uncollectible receivables, and higher overhead costs as a percentage of revenue. If the markets in which we participate experience further economic downturns, as well as a slow recovery period, this could negatively impact our sales and revenue generation, margins and operating expenses, and consequently have a material adverse effect on our business, financial condition and results of operations.

Price increases or significant shortages of raw materials and components could adversely affect our operating margin.

The Company purchases large quantities of raw materials and components such as steel, aluminum, LEDs, electronic components, plastic lenses, glass lenses, vinyls, inks, and corrugated cartons. Materials comprise the largest component of costs, representing approximately 62% and 61% of the cost of sales in 2019 and 2018, respectively. While we have multiple sources of supply for most of our material requirements, significant shortages could disrupt the supply of raw materials. Further significant tariffs or increases in the price of these raw materials and components could further increase the Company's operating costs and materially adversely affect margins. Although the Company attempts to pass along increased costs in the form of price increases to customers, the Company may be unsuccessful in doing so for competitive reasons. Even when price increases are successful, the timing of such price increases may lag significantly behind the incurrence of higher costs. On occasion, there are selected electronic component parts and certain other parts shortages in the market place, some of which have affected the Company's manufacturing operations and shipment schedules even though multiple suppliers may be available. The lead times of these suppliers can increase and the prices of some of these parts have increased during periods of shortages.

We have a concentration of net sales to the petroleum / convenience store market, and any substantial change in this market could have an adverse effect on our business.

Approximately 32% of our net sales in fiscal year 2019 are concentrated in the petroleum / convenience store market. Sales to this market segment are dependent upon the general conditions prevailing in and the profitability of the petroleum/convenience store industries and general market conditions. Our petroleum market business can be subject to reactions by the petroleum industry to world political events, particularly those in the Middle East, and to the price and supply of oil. Major disruptions in the petroleum industry generally result in a curtailment of retail marketing efforts, including expansion and refurbishing of retail outlets, by the petroleum industry and adversely affect our business. Any substantial change in purchasing decisions by one or more of our larger customers whether due to actions by our competitors, customer financial constraints, and industry factors or otherwise, could have an adverse effect on our business.

The Company may pursue future growth through strategic acquisitions, alliances, or investments, which may not yield anticipated benefits

The Company has strengthened its business through strategic acquisitions, alliances, and investments and may continue to do so as opportunities arise in the future. Such investments have been and may be start-up or development stage entities. The Company will benefit from such activity only to the extent that it can effectively leverage and integrate the assets or capabilities of the acquired businesses and alliances including, but not limited to, personnel, technology, and operating processes. Moreover, unanticipated events, negative revisions to valuation assumptions and estimates, diversions of resources and management's attention from other business concerns, and difficulties in attaining synergies, among other factors, could adversely affect the Company's ability to recover initial and subsequent investments, particularly those related to acquired goodwill and intangible assets or non-controlling interests. In addition, such investment transactions may limit the Company's ability to invest in other activities, which could be more profitable or advantageous.

If we do not develop the appropriate new products or if customers do not accept new products, we could experience a loss of competitive position which could adversely affect future revenues.

The Company is committed to product innovation on a timely basis to meet customer demands. Development of new products for targeted markets requires the Company to develop or otherwise leverage leading technologies in a cost-effective and timely manner. Failure to meet these changing demands could result in a loss of competitive position and seriously impact future revenues. Products or technologies developed by others may render the Company's products or technologies obsolete or noncompetitive. A fundamental shift in technologies in key product markets could have a material adverse effect on the Company's operating results and competitive position within the industry. More specifically, the development of new or enhanced products is a complex and uncertain process requiring the anticipation of technological and market trends. Rapidly changing product technologies could adversely impact operating results due to potential technological obsolescence of certain inventories or increased warranty expense related to newly developed LED lighting products. We may experience design, manufacturing, marketing or other difficulties, such as an inability to attract a sufficient number of experienced engineers that could delay or prevent our development, introduction or marketing of new products or enhancements and result in unexpected expenses. Such difficulties could cause us to lose business from our customers and could adversely affect our competitive position. In addition, added expenses could decrease the profitability associated with those products that do not gain market acceptance.

Our business is cyclical and seasonal, and in downward economic cycles our operating profits and cash flows could be adversely affected.

Historically, sales of our products have been subject to cyclical variations caused by changes in general economic conditions. The demand for our products reflects the capital investment decisions of our customers, which depend upon the general economic conditions of the markets that our customers serve, including, particularly, the petroleum/convenience store industries. During periods of expansion in construction and industrial activity, we generally have benefited from increased demand for our products. Conversely, downward economic cycles in these industries result in reductions in sales and pricing of our products, which may reduce our profits and cash flow. During economic downturns, customers also tend to delay purchases of new products. The cyclical and seasonal nature of our business could at times adversely affect our liquidity and financial results.

A loss of key personnel or inability to attract qualified personnel could have an adverse effect on our operating results.

The Company's future success depends on the ability to attract and retain highly skilled technical, managerial, marketing and finance personnel, and, to a significant extent, upon the efforts and abilities of senior management. The Company's management philosophy of cost-control results in a lean workforce. Future success of the Company will depend on, among other factors, the ability to attract and retain other qualified personnel, particularly management, research and development engineers and technical sales professionals. The loss of the services of any key employees or the failure to attract or retain other qualified personnel could have a material adverse effect on the Company's results of operations.

The costs of litigation and compliance with environmental regulations, if significantly increased, could have an adverse effect on our operating profits.

We are, and may in the future be, a party to any number of legal proceedings and claims, including those involving patent litigation, product liability, employment matters, and environmental matters, which could be significant. Given the inherent uncertainty of litigation, we can offer no assurance that existing litigation or a future adverse development will not have a material adverse impact. We are also subject to various laws and regulations relating to environmental protection and the discharge of materials into the environment, and it could potentially be possible we could incur substantial costs as a result of the noncompliance with or liability for clean up or other costs or damages under environmental laws.

The turnover of independent commissioned sales representatives could cause a significant disruption in sales volume.

Commissioned sales representatives are critical to generating business in the Lighting Segment. From time to time, commissioned sales representatives representing a particular region resign or are terminated and replaced with new commissioned sales representatives. During this period of transition from the previous agency to the new one, sales in the particular region will likely fall as business is disrupted. It may take several months for the new sales representative to generate sales that will equal or exceed the previous sales representative. There is also the risk that the new sales agency will not attain the sales volume of the previous agency. These sales representative changes may occur individually as one agency is replaced due to lack of performance. On the other hand, these sales representative changes can be widespread as a result of the competitive nature of the lighting industry as LSI and its competition vie for the strongest sales agency in a particular region.

The Company may be unable to sustain significant customer and/or channel partner relationships.

Relationships with customers are directly impacted by the Company's ability to deliver quality products and services. Although no individual customer exceeded 10% of sales during the current fiscal year, the loss of or a substantial decrease in the volume of purchases by certain large customers could harm the Company in a meaningful manner. The Company has relationships with channel partners such as electrical distributors, home improvement retailers, independent sales agencies, system integrators, and value-added resellers. While the Company maintains positive, and in many cases long-term relationships with these channel partners, the loss of a number of channel partners or substantial decrease in the volume of purchases from a major channel partner or group of channel partners could adversely affect the Company.

Changes in a customer's demands and commitment to proprietary inventory could result in significant inventory write-offs.

Upgrading or replacing a customer's current image requires the manufacture of inventory that is specific to the particular customer. This is particularly true in the Graphics Segment. In as many instances as possible, we require a commitment from the customer before the inventory is produced. Our request for a commitment can range from a single site or store to a large roll-out program involving many sites or stores. The risk does exist that a customer cannot or will not honor its commitment to us. The reasons a customer cannot or will not honor its commitment can range from the bankruptcy of the customer, to the change in the image during the roll-out program, to canceling the program before its completion and before the inventory is sold to the customer. In each of these instances, we could be left with significant amounts of inventory required to support the customer's re-imaging. While all efforts are made to hold the customer accountable for its commitment, there is the risk that a significant amount of inventory could be deemed obsolete or no longer usable which could result in significant inventory write-offs.

If we are unable to adequately protect our intellectual property, we may lose some of our competitive advantage.

Our success is determined in part by our ability to obtain United States and foreign patent protection for our technology and to preserve our trade secrets. Our ability to compete and the ability of our business to grow could suffer if our intellectual property rights are not adequately protected. There can be no assurance that our patent applications will result in patents being issued or that current or additional patents will afford protection against competitors. We rely on a combination of patents, copyrights, trademarks and trade secret protection and contractual rights to establish and protect our intellectual property. Failure of our patents, copyrights, trademarks and trade secret protection, non-disclosure agreements and other measures to provide protection of our technology and our intellectual property rights could enable our competitors to more effectively compete with us and have an adverse effect on our business, financial condition and results of operations. In addition, our trade secrets and proprietary know-how may otherwise become known or be independently discovered by others. No guarantee can be given that others will not independently develop substantially equivalent proprietary information or techniques, or otherwise gain access to our proprietary technology.

Sudden or unexpected changes in a customer's creditworthiness could result in significant accounts receivable write-offs.

The Company takes a conservative approach when extending credit to its customers. Customers are granted an appropriate credit limit based upon the due diligence performed on the customer which includes, among other things, the review of the company's financial statements and banking information, various credit checks, and payment history the customer has with the Company. At any given time, the Company can have a significant amount of credit exposure with its larger customers. While the Company is frequently monitoring its outstanding receivables with its customers, the likelihood does exist that a customer with large credit exposure is unable to make payment on its outstanding receivables which could result in a significant write-off of accounts receivable.

Failure of the Company's operating or information system or a compromise of security with respect to its operating system or portable electronic devices could adversely affect the Company's results of operations and financial condition or the effectiveness of internal controls over operations and financial reporting.

Information technology system failures, network disruptions and breaches of data security caused by such factors, including, but not limited to, earthquakes, fire, theft, fraud, malicious attack or other causes could disrupt the Company's operations by causing delays or cancellation of customer orders, negatively affecting the Company's online offerings and services, impeding the manufacture or shipment of products, processing transactions and reporting financial results, resulting in the unintentional disclosure of customer or Company information, or damage to the Company's reputation. There can be no assurance that a system failure or loss or data security breach will not materially adversely affect the Company's financial condition and operating results.

If the Company's products are improperly designed, manufactured, packaged, or labeled, the Company may need to recall those items, may have increased warranty costs, and could be the target of product liability claims

The Company may need to recall products if they are improperly designed, manufactured, packaged, or labeled, and the Company does not maintain insurance for such recall events. Many of the Company's products and solutions have become more complex in recent years and include more sophisticated and sensitive electronic components. The Company has increasingly manufactured certain of those components and products in its own facilities. The Company has previously initiated product recalls as a result of potentially faulty components, assembly, installation, and packaging of its products. Widespread product recalls could result in significant losses due to the costs of a recall, the destruction of product inventory, penalties, and lost sales due to the unavailability of a product for a period of time. In addition, products developed by the Company that incorporate new technologies, such as LED technology, generally provide for more extensive warranty protection which may result in higher costs if warranty claims on these products are higher than historical amounts. The Company may also be liable if the use of any of its products causes harm, and could suffer losses from a significant product liability judgment against the Company in excess of its insurance limits. The Company may not be able to obtain indemnity or reimbursement from its suppliers or other third parties for the warranty costs or liabilities associated with its products. A significant product recall, warranty claim, or product liability case could also result in adverse publicity, damage to the Company's reputation, and a loss of consumer confidence in its products.

Our stock price has experienced a significant decline, which could further adversely affect our ability to raise additional capital.

The market price of our common stock has experienced a significant decline from which it has not fully recovered. During the last twelve months, the sales price of our common stock, as reported on the Nasdaq Global Select Market, declined from a high of $8.69 in February 2018 to a low of $2.48 on March 28, 2019. Most recently, on August 30, 2019, the market price of our common stock, as reported on the Nasdaq Global Select Market, closed at a price of $4.47 per share. Our progress in developing and commercializing our products, our quarterly operating results, announcements of new products by us or our competitors, our perceived prospects, changes in general conditions in the economy or the financial markets, adverse events related to our strategic relationships, and other developments affecting us or our competitors could cause the market price of our common stock to fluctuate substantially. In addition, in recent years, including in fiscal 2019, the stock market has experienced significant price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These market fluctuations, regardless of the cause, may materially and adversely affect our stock price, regardless of our operating results.

Changes in the method of determining London Interbank Offered Rate ("LIBOR"), or the replacement of LIBOR with an alternative reference rate, may adversely affect interest expense related to outstanding debt.

Amounts drawn under our credit facility may bear interest rates in relation to LIBOR, depending on our selection of repayment options. On July 27, 2017, the Financial Conduct Authority ("FCA") in the UK announced that it would phase out LIBOR as a benchmark by the end of 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve is considering replacing U.S. dollar LIBOR with a newly created index called the Broad Treasury Financing Rate, calculated with a broad set of short-term repurchase agreements backed by treasury securities. If LIBOR ceases to exist, we may need to renegotiate our credit facility and may not able to do so with terms that are favorable to us. The overall financial market may be disrupted as a result of the phase-out or replacement of LIBOR. Disruption in the financial market or the inability to renegotiate our credit facility with favorable terms could have a material adverse effect on our business, financial position, and operating results.

Any actual or perceived failure by us to comply with legal or regulatory requirements related to privacy or data security in one or multiple jurisdictions could result in proceedings, actions or penalties against us.

There are numerous state, federal and foreign laws, regulations, decisions and directives regarding privacy and the collection, storage, transmission, use, processing, disclosure and protection of personally identifiable information and other personal, customer or other data, the scope of which is continually evolving and subject to differing interpretations. For example, in the U.S., Health Insurance Portability and Accountability Act ("HIPAA") privacy and security rules require us as a business associate to protect the confidentiality of patient health information, and the Federal Trade Commission has begun to assert authority over protection of privacy and the use of cyber security in information systems. In Europe, the General Data Protection Regulation ("GDPR"), which went into effect in May 2018, imposes several stringent requirements for controllers and processors of personal data that will increase our obligations and, in the event of violations, may impose significant fines of up to the greater of 4% of worldwide annual revenue or €20 million. In the UK, a Data Protection Bill that substantially implements the GDPR became law in May 2018. China and Russia have also passed laws that require individually identifiable data on their citizens to be maintained on local servers and that may restrict transfer or processing of that data. Further, in June 2018, California passed the California Consumer Privacy Act of 2018 ("CCPA"), which will become effective on January 1, 2020. CCPA imposes stringent data privacy and data protection requirements for the data of California residents, and provides for penalties for noncompliance of up to $7,500 per violation. The restrictions imposed by these laws and regulations may limit the use and adoption of our products, reduce overall demand for our products, require us to modify our data handling practices and impose additional costs and burdens. In addition, U.S. and international laws that have been applied to protect user privacy (including laws regarding unfair and deceptive practices in the U.S. and GDPR in the EU) may be subject to evolving interpretations or applications in light of privacy developments. As a result, we may be subject to significant consequences, including penalties and fines, for any failure to comply with such laws, regulations and directives.

Data protection legislation around the world is comprehensive and complex and there has been a recent trend towards more stringent enforcement of requirements regarding protection and confidentiality of personal data. The restrictions imposed by such laws and regulations may limit the use and adoption of our products and services, reduce overall demand for our products and services, require us to modify our data handling practices, and impose additional costs and burdens. With increasing enforcement of privacy, data protection and cyber security laws and regulations, there is no guarantee that we will not be subject to enforcement actions by governmental bodies or that our costs of compliance will not increase significantly. Enforcement actions can be costly and interrupt regular operations of our business. In addition, there has been a developing trend of civil lawsuits and class actions relating to breaches of consumer data held by large companies. While we have not been named in any such suits, if a substantial breach or loss of data from our records were to occur, we could become a target of such litigation. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations, or other legal obligations could result in additional cost and liability to us, damage our reputation, inhibit sales, and adversely affect our business. Our failure to comply with applicable laws and regulations could result in enforcement action against us, including fines and public censure, claims for damages by customers and other affected individuals, damage to our reputation and loss of goodwill (both in relation to existing customers and prospective customers), any of which could harm our business, results of operations and financial condition.

U.S. Government trade actions could have an adverse impact on our business, financial position, and results of operation.

The United States and China have been engaged in protracted negotiations over the Chinese government's acts, policies, and practices related to technology transfer, intellectual property, and innovation that the Trump Administration has found to be unreasonable and burdensome to US commerce. To date, the President has used his authority under Section 301 of the Trade Act of 1974 three times to levy a 25% retaliatory tariff on 6,830 subheading categories of imported Chinese high-tech and consumer goods valued at $250 billion per year. Although List 3, alone valued at $200 billion, had originally set an additional duty rate at 10%, that rate was increased to 25% effective May 10, 2019. Moreover, in August 2019, the President announced a 10% tariff on a fourth list of goods valued at nearly $300 billion to take effect September 1, 2019, which has subsequently been delayed until December 15, 2019. These tariffs, along with any additional tariffs or other trade actions that may be implemented, may increase the cost of certain materials and/or products that we import from China, thereby adversely affecting our profitability. These actions could require us to raise our prices, which could decrease demand for our products. As a result, these actions, including potential retaliatory measures by China and further escalation into a potential “trade war”, may adversely impact our business. Given the uncertainty regarding the scope and duration of these trade actions by the United States or other countries, as well as the potential for additional trade actions, the impact on our operations and results remains uncertain.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

	Description	Size	Location	Status
1)	LSI Industries Corporate Headquarters and lighting fixture manufacturing	243,000 sq. ft. (includes 66,000 sq. ft. of office space)	Cincinnati, OH	Owned
2)	LSI Lighting pole manufacturing and dry powder-coat painting	122,000 sq. ft.	Cincinnati, OH	Owned
3)	LSI Industries technology center	9,000 sq. ft.	Cincinnati, OH	Leased (a)
4)	LSI Lighting Fabrication manufacturing and dry powder-coat painting	96,000 sq. ft. (includes 5,000 sq. ft. of office space)	Independence, KY	Owned
5)	LSI Graphics office; screen printing manufacturing; and architectural graphics manufacturing	183,000 sq. ft. (includes 34,000 sq. ft. of office space)	Houston, TX	Leased
6)	LSI Graphics office and manufacturing	212,000 sq. ft. (includes 22,000 sq. ft. of office space)	North Canton, OH	Owned
7)	LSI Lighting office and manufacturing	170,000 sq. ft. (includes 10,000 sq. ft. of office space)	New Windsor, NY	Owned and Leased (b)
8)	LSI Lighting office and manufacturing	57,000 sq. ft. (includes 5,000 sq. ft. of office space)	Columbus, OH	Owned
9)	LSI Lighting office and manufacturing	336,000 sq. ft. (included 60,000 sq. ft. of office space)	Burlington, NC	Leased

(a) The square footage of the leased facility will be reduced to 1,000 square feet September 2019

(b) The land at this facility is leased and the building is owned. This property is listed as an asset for sale as of June 30, 2019. The official sale of the building is expected to take place in the first quarter of fiscal 2020.

The Company considers these nine operating facilities, excluding the New Windsor facility (total of approximately 1,200,000 square feet) adequate for its current level of operations.

ITEM 3. LEGAL PROCEEDINGS

See Note 13 of Notes to the Consolidated Financial Statements beginning on page 56 of this Form 10-K

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

LSI's shares of common stock are traded on the NASDAQ Global Select Market under the symbol "LYTS." At August 23, 2019, there were approximately 653 shareholders of record. The Company believes this represents approximately 3,000 beneficial shareholders.

The Company's Board of Directors has adopted a dividend policy which indicates that dividends will be determined by the Board of Directors in its discretion based upon its evaluation of earnings, cash flow requirements, financial condition, debt levels, stock repurchases, future business developments and opportunities, and other factors deemed relevant by the Board of Directors. The Company has paid annual cash dividends beginning in fiscal 1987 through fiscal 1994, and quarterly cash dividends since fiscal 1995. The Company's indicated annual rate for payment of a cash dividend at the end of fiscal 2019 was $0.20 per share.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis of Financial Condition and Results of Operations" appears on pages 19 through 27 of this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in variable interest rates, changes in prices of raw materials and purchased component parts, and changes in foreign currency translation rates. Each of these risks is discussed below.

Interest Rate Risk

The Company earns interest income on its cash, cash equivalents, and short-term investments (if any) and pays interest expense on its debt (if any). Because of variable interest rates, the Company is exposed to the risk of interest rate fluctuations, which impact interest income, interest expense, and cash flows.

The Company's $75,000,000 line of credit is subject to interest rate fluctuations, should the Company borrow certain amounts on this line of credit. Additionally, the Company expects to generate cash from its operations that will subsequently be used to pay down as much of the debt (if any is outstanding) as possible or invest cash in short-term investments (if no debt is outstanding), while still funding the growth of the Company.

Raw Material Price Risk

The Company purchases large quantities of raw materials and components, mainly steel, aluminum, castings, fabrications, LEDs, electronic components, power supplies, powder paint, plastic, silicon and glass lenses, vinyls, inks, and corrugated cartons, to name a few. The Company's operating results could be affected by the availability and price fluctuations of these materials. The Company's strategic sourcing plans include mitigating risk by utilizing multiple suppliers for a commodity to avoid significant dependence on any single supplier. While the possibility does exist of industry-wide supply shortages at any time in the future, the Company has not experienced any significant supply problems in recent years. Price risk for these materials is related to price increases in commodity items that affect all users of the materials, including the Company's competitors. For the fiscal year ended June 30, 2019, the raw material component of cost of goods sold subject to price risk was approximately $158 million. The Company does not actively hedge or use derivative instruments to manage its risk in this area. The Company does, however, seek and qualify new suppliers, negotiate with existing suppliers, and arranges stocking agreements to mitigate risk of supply and price increases. On occasion, the Company's Lighting Segment has announced price increases with customers in order to offset raw material price increases and to mitigate the impact of trade tariffs. In fiscal 2019, the Company announced price increases for all lighting and pole products impacted by tariffs along with the raw material price inflation of certain commodities. The price increases with customers did not fully offset the increases in cost in certain products. The Company's Graphics Segment generally establishes new sales prices, reflective of the then current raw material prices, for each custom graphics program as it begins.

Foreign Currency Translation Risk

The Company has minimal foreign currency risk as a result of its legal entity located in Mexico. The sales transacted in pesos is approximately 3% of consolidated net sales. All other business conducted by the Company are in U.S. dollars.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

Schedules other than those listed above are omitted for the reason(s) that they are either not applicable or not required or because the information required is contained in the financial statements or notes thereto. Selected quarterly financial data is found in Note 17 of the accompanying consolidated financial statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

We conducted, under the supervision of our management, including the Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2019, our disclosure controls and procedures were effective. Management believes that the consolidated financial statements included in this Annual Report on Form 10-K are fairly presented in all material respects in accordance with U.S GAAP, and the Company's Chief Executive Officer and Chief Financial Officer have certified that, based on their knowledge, the consolidated financial statements included in this report fairly present in all material respects the Company's financial condition, results of operations, statement of shareholders' equity, and cash flows for each of the periods presented in this report.

Management's Report on Internal Control over Financial Reporting appearing on page 28 of this report is incorporated by reference in this Item 9A.

Changes in Internal Control

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. See Management's Report On Internal Control Over Financial Reporting on page 28. In January 2018, the Company hired PricewaterhouseCoopers to serve as its internal auditors.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEMS 10, 11, 12, 13 and 14 of Part III are incorporated by reference to the LSI Industries Inc. Proxy Statement for its Annual Meeting of Shareholders to be held November 5, 2019, as filed with the Commission pursuant to Regulation 14A.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Consolidated Financial Statements
Appear as part of Item 8 of this Form 10-K.

(2) Exhibits — Exhibits set forth below are either on file with the Securities and Exchange Commission and are incorporated by reference as exhibits hereto, or are filed with this Form 10-K.

Exhibit No.	Exhibit Description
3.1	Amended Articles of Incorporation of LSI.
3.2	Amended and Restated Code of Regulations of LSI (incorporated by reference to Exhibit 3 to LSI's Form 8-K filed January 22, 2009).
4.1	Description of Securities.
4.2	Warrant Agreement issued by LSI Industries Inc. (incorporated by reference to Exhibit 4.1 to LSI's Form 8-K filed February 21, 2017).
10.1	Third Amendment to Loan Documents dated February 21, 2017 between LSI and PNC Bank, National Association (incorporated by reference to Exhibit 4.2 to LSI's Form 8-K filed February 21, 2017).
10.2	Fourth Amendment to Loan Documents dated February 28, 2019 between LSI and PNC Bank, National Association (incorporated by reference to Exhibit 10.2 to LSI's Form 10-Q filed on May 8, 2019).
10.3	Amended and Restated Loan Agreement dated as of June 19, 2014 between LSI and PNC Bank, National Association (incorporated by reference to Exhibit 10.1 of LSI's Form 10-K filed September 10, 2014)
10.4*	Amended and Restated 2012 Stock Incentive Plan amended as of November 17, 2016 (incorporated by reference to Exhibit 10.1 to LSI's Form 10-Q filed February 3, 2017).
10.5*	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 of LSI's Form 8-K filed June 23, 2016)
10.6*	LSI Industries Inc. Nonqualified Deferred Compensation Plan (Amended and Restated as of November 20, 2014) (incorporated by reference to Exhibit 10.2 to LSI's Form 10-Q filed February 5, 2015).
10.7*	Employment Agreement between LSI and James A. Clark (incorporated by reference to Exhibit 10.1 to LSI's 8-K filed October 17, 2018).
10.8*	Employment Offer Letter between LSI and James E. Galeese (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed on June 13, 2017).
10.9*	Employment Offer Letter between LSI and Thomas A. Caneris (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed on August 5, 2019).
10.10*	Employment Offer Letter between LSI and Michael C. Beck (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed on January 16, 2019).
10.11*	Change of Control Policy (incorporated by reference to Exhibit 10 to LSI's Form 8-K filed October 3, 2011).
10.12*	Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.3 to LSI's Form 8-K filed July 6, 2015).
10.13*	Form of Non-qualified Stock Option Agreement / Inducement Awards (incorporated by reference to Exhibit 10.1 to LSI's Form 10-Q filed November 7, 2018).
10.14*	Form of Nonqualified Stock Option Award Agreement - Service-Based (incorporated by reference to Exhibit 10.5 to LSI's Form 8-K filed July 6, 2015).
10.15*	Form of Nonqualified Stock Option Award Agreement – Performance-Based (incorporated by reference to Exhibit 10.4 to LSI's Form 8-K filed July 6, 2015).

10.16*	Form of Incentive Stock Option Award Agreement (incorporated by reference to Exhibit 10.6 to LSI's Form 8-K filed July 6, 2015).
14	Code of Ethics (incorporated by reference to exhibit 14 to LSI's Form 10-K for the fiscal year ended June 30, 2004).
21	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm (Grant Thornton LLP)
24	Power of Attorney (included as part of signature page)
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a)
31.2	Certification of Principal Financial Officer required by Rule 13a-14(a)
32.1	18 U.S.C. Section 1350 Certification of Principal Executive Officer
32.2	18 U.S.C. Section 1350 Certification of Principal Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Document
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

LSI will provide shareholders with any exhibit upon the payment of a specified reasonable fee, which fee shall be limited to LSI's reasonable expenses in furnishing such exhibit. The exhibits identified herein as being filed with the SEC have been so filed with the SEC but may not be included in this version of the Annual Report to Shareholders.

ITEM 16. FORM 10-K SUMMARY

Not included.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LSI INDUSTRIES INC.

September 6, 2019	BY: /s/ James A. Clark
Date	James A. Clark Chief Executive Officer and President

We, the undersigned directors and officers of LSI Industries Inc. hereby severally constitute James A. Clark and James E. Galeese, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title
/s/ James A. Clark James A. Clark Date: September 6, 2019	Chief Executive Officer and President (Principal Executive Officer)
/s/ James E. Galeese James E. Galeese Date: September 6, 2019	Executive Vice President, and Chief Financial Officer (Principal Financial Officer)
/s/ Jeffery S. Bastian Jeffery S. Bastian Date: September 6, 2019	Vice President and Chief Accounting Officer (Principal Accounting Officer)
/s/ Robert P. Beech Robert P. Beech Date: September 6, 2019	Director
/s/ Ronald D. Brown Ronald D. Brown Date: September 6, 2019	Director
/s/ Amy L. Hanson Amy L. Hanson Date: September 6, 2019	Director
/s/ John K. Morgan John K. Morgan Date: September 6, 2019	Director
/s/ Wilfred T. O’Gara Wilfred T. O’Gara Date: September 6, 2019	Chairman of the Board of Directors

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's "forward looking statements" and disclosures as presented earlier in this Form 10-K in the "Safe Harbor" Statement, as well as the Company's consolidated financial statements and accompanying notes presented later in this Form 10-K should be referred to when reading Management's Discussion and Analysis of Financial Condition and Results of Operations.

Net Sales by Business Segment

(In thousands)	**2019**	2018
Lighting Segment	$ **235,114**	$ 260,613
Graphics Segment	**93,738**	81,410
Total Net Sales	$ **328,852**	$ 342,023

Operating Income (Loss) by Business Segment

(In thousands)	**2019**	2018
Lighting Segment	$ **(12,211)**	$ (12,795)
Graphics Segment	**3,112**	5,618
Corporate and Eliminations	**(10,791)**	(14,475)
Total Operating (Loss)	$ **(19,890)**	$ (21,652)

Summary of Consolidated Results

We are in the business of designing, manufacturing and marketing lighting, graphics and technology solutions for both indoor and outdoor applications. Historically, sales of our products have been subject to cyclical variations caused by competitive pressures that affect selling prices, changes in general economic conditions, and other factors. Our operating results in fiscal 2019 reflect the continued competitiveness in both our project and stock and flow markets, a shift in focus to pursue higher value-add customer opportunities, a mix of new larger customers, a shift in product mix, and pricing below prior year levels driven by select price moves in key vertical markets. This combination of factors has negatively impacted gross margin and operating earnings compared to the prior year.

Fiscal 2019 net sales of $328,852,000 decreased $13.2 million or 3.9% as compared to fiscal 2018 net sales of $342,023,000. Net sales were favorably influenced by increased net sales of the Graphics Segment (up $12.3 million or 15.1%) and were unfavorably influenced by decreased net sales of the Lighting Segment (down $25.5 million or 9.8%).

Fiscal 2019 operating loss of $(19,890,000) represents a $1.8 million decrease in operating loss from an operating loss of $(21,652,000) in fiscal 2018. Both fiscal years recorded goodwill impairment charges in the Lighting Segment. There was a $20.2 million goodwill impairment charge in fiscal 2019 compared to a $28.0 million goodwill impairment charge in fiscal 2018. Non-GAAP adjusted operating income in fiscal 2019 of $4.0 million decreased $5.6 million or 58.1% from adjusted fiscal 2018 operating income of $9.6 million. Refer to "Non-GAAP Financial Measures" below for a reconciliation of non-GAAP financial measures to U.S. GAAP measures. The decrease in adjusted operating income was the result of decreased net sales and decreased gross profit partially offset by a decrease in selling and administrative expenses. Most notably, business performance was impacted by disruptions related the change in Chief Executive Officer, significant changes in the organizational structure including senior staff, along with several unplanned projects.

Non-GAAP Financial Measures

The Company believes it is appropriate to evaluate its performance after making adjustments to net income for the 2019 and 2018 fiscal years reported in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). We adjusted operating (loss), net (loss) and (loss) per share, which include the impact of restructuring and plant closure costs, along with severance costs, goodwill impairment expense, a tax charge related to the revaluation of deferred tax assets, the tax impact from the anticipated sale of the New Windsor, New York facility, and transition and re-alignment costs. These are all non-GAAP financial measures, but we believe that these adjusted supplemental measures are useful in assessing the operating performance of our business. These supplemental measures are used by our management, including our chief operating decision maker, to evaluate business results. We exclude these items because they are not representative of the ongoing results of operations of our business. Below is a reconciliation of these non-GAAP financial adjustments to operating (loss), net (loss), and adjusted diluted (loss) per share for the periods indicated.

	YEAR-TO-DATE	
(In thousands)	2019	2018
Reconciliation of operating (loss) to adjusted operating income		
Operating (Loss) as reported	**$ (19,890)**	**$ (21,652)**
Goodwill impairment	20,165	28,000
Restructuring and plant closure costs (*includes inventory write-downs of $1,267)*	3,073	--
Severance costs	560	128
Transition and re-alignment costs	120	3,136
Adjusted Operating Income	**$ 4,028**	**$ 9,612**

(In thousands, except per share data)	*YEAR-TO-DATE* 2019			2018		
Reconciliation of net (loss) to adjusted net income			Diluted EPS			Diluted EPS
Net (Loss) as reported	**$ (16,339)**		**$ (0.63)**	**$ (19,541)**		**$ (0.76)**
Goodwill impairment	15,325	(1)	0.59	17,361	(6)	0.67
Restructuring and plant closure costs	2,410	(2)	0.09	--		--
Severance costs	426	(3)	0.02	92	(7)	--
Transition and re-alignment costs	91	(4)	--	2,261	(8)	0.09
Tax impact from the anticipated sale of New Windsor Facility	(928)	(5)	(0.04)	--		--
Tax Impact from the reduction of the Deferred Tax Assets	--		--	5,541	(9)	0.22
Net Income adjusted	**$ 985**		**$ 0.04**	**$ 5,714**		**$ 0.22**

The income tax effects of the adjustments in the tables above were calculated using the estimated combined U.S. and Mexico effective income tax rates for the periods indicated.

The reconciliation of reported earnings per share to adjusted earnings per share may not produce identical amounts due to rounding differences and due to the difference between basic and dilutive weighted average shares outstanding in the computation of earnings per share.

The $5.5 million tax impact from the Tax Cuts and Jobs Act (TCJA) reported above excludes the impact of the new tax law on the fiscal 2018 goodwill impairment which approximates a $2.2 million tax benefit. The total impact to the Company as a result of the tax rate changes from the TCJA including the fiscal 2018 goodwill impairment is $3.3 million.

(1) $4,840
(2) $663
(3) $134
(4) $29
(5) $0
(6) $10,639
(7) $36
(8) $975
(9) $0

The Company utilizes other non-GAAP financial measures such as Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA and Adjusted EBITDA) and Free Cash Flow. Management believes that these are non-GAAP financial measures are useful as supplemental measures in assessing the operating performance of our business.

(Unaudited; In thousands)	Twelve Months Ended June 30		
EBITDA	2019	2018	% Change
Operating Income as reported	**$ (19,890)**	**$ (21,652)**	**-8%**
Depreciation and Amortization	10,221	10,222	
EBITDA	**$ (9,669)**	**$ (11,430)**	**-15.4%**

(Unaudited; In thousands)	Twelve Months Ended June 30		
Adjusted EBITDA	2019	2018	% Change
Operating Income as adjusted	**$ 4,028**	**$ 9,612**	**-58%**
Depreciation and Amortization	10,221	10,222	
Adjusted EBITDA	**$ 14,249**	**$ 19,834**	**-28.2%**

(Unaudited; In thousands)	Twelve Months Ended June 30		
Free Cash Flow	2019	2018	% Change
Cash Flow From Operations	**$ 11,491**	**$ 11,500**	**n/m**
Capital Expenditures	(2,618)	(3,406)	
Free Cash Flow	**$ 8,873**	**$ 8,094**	**9.6%**

Results of Operations

2019 Compared to 2018

Lighting Segment

(In thousands)	**2019**	2018
Net Sales	**$ 235,114**	$ 260,613
Gross Profit	**$ 55,119**	$ 69,256
Operating (Loss)	**$ (12,211)**	$ (12,795)

Lighting Segment net sales of $235,114,000 in fiscal 2019 decreased 9.8% from fiscal 2018 same period net sales of $260,613,000. The 9.8% drop in sales is attributed to continued competitiveness in the Company's project and stock and flow markets.

Gross profit of $55,119,000 in fiscal 2019 decreased $14.1 million or 20.4% from the same period of fiscal 2018 and decreased from 26.6% to 23.4% as a percentage of Lighting Segment net sales. The Company incurred restructuring and plant closure costs that were recorded in cost of sales related to the closure of its Hawthorne, California and New Windsor, New York facilities of $2,708,000 in fiscal 2019 with no comparable costs in fiscal 2018. The remaining decrease in amount of gross profit is due to the effect of reduced sales volume, competitive pricing pressures, and inflationary pressures of certain commodities, and product mix among the markets the Company serves, partially offset by manufacturing efficiencies as a result of the Company's lean initiatives. In addition, the Company's realignment of its sales organization and its focus on market priorities were disruptive and contributed to the decline in year-over-year sales which also had a negative impact on gross profit.

Selling and administrative expenses of $67,330,000 in fiscal year 2019 decreased $14.7 million or 17.9% from the same period of fiscal 2018 selling and administrative expenses of $82,051,000, primarily due to the $20.2 million and $28.0 million goodwill impairment charges in fiscal 2019 and fiscal 2018, respectively. When the goodwill impairment charges are removed from both fiscal year results, there was a $6.9 million or 12.7% reduction in selling and administrative expenses. The reduction in selling and administrative expenses is mostly driven by lower commission expense which is due to lower sales volume along with a reduction in spending to match lower sales.

The Lighting Segment fiscal 2019 operating loss of $(12,211,000) decreased $0.6 million from an operating loss of $(12,795,000) in the same period of fiscal 2018 partially due to a $20.2 million pre-tax goodwill impairment charge in fiscal 2019 compared to a $28.0 million pre-tax goodwill impairment charge in fiscal 2018. When reported operating income is adjusted to remove the impacts of the goodwill impairment charges, restructuring charges, and severance expense, fiscal 2019 adjusted operating income of $11,218,000 was $4.0 million lower than fiscal 2018 adjusted operating income of $15,213,000. The reduction in sales volume and gross profit was partially offset by lower selling and administrative expenses.

Graphics Segment

(In thousands)	**2019**	2018
Net Sales	**$ 93,738**	$ 81,410
Gross Profit	**$ 18,602**	$ 20,016
Operating Income	**$ 3,112**	$ 5,618

Graphics Segment net sales of $93,738,000 in fiscal 2019 increased $12.3 million or 15.1% from fiscal 2018 same period net sales of $81,410,000. Most of the increase in sales is from the growth in sales to the Petroleum and Quick Service Restaurant markets including digital technology.

Gross profit of $18,602,000 in fiscal 2019 decreased $1.4 million or 7.1% from the same period of fiscal 2018. Gross profit as a percentage of segment net sales (customer plus inter-segment net sales) decreased from 24.6% in fiscal 2018 to 19.8% in fiscal 2019. The reduction in gross profit on higher sales is partially due to a mix shift to large customers in both the print and digital technology applications. These large projects, with lengthy life cycles, are competitive and initially generate lower margins. The business will work to improve the margins on these projects over their life cycles.

Selling and administrative expenses of $15,490,000 in fiscal 2019 increased $1.1 million or 7.6% from the same period of fiscal 2018. A reduction in wage and benefit expense was more than offset by an increase in bad debt expense and outside service expense.

The Graphics Segment fiscal 2019 operating income of $3,112,000 decreased $2.5 million or 44.6% from operating income of $5,618,000 in the same period of fiscal 2018. The decrease of $2.5 million was primarily the net result of lower gross margin on higher sales and an increase in selling and administrative expenses.

Corporate and Eliminations

(In thousands)		**2019**		2018
Gross (Loss)	**$**	**(8)**	$	(38)
Operating (Loss)	**$**	**(10,791)**	$	(14,475)

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

Administrative expenses of $10,783,000 in fiscal 2019 decreased $3.7 million or 25.3% from the same period of the prior year. The change is primarily the result of $3.1 million of transition and re-alignment costs related to the departure of the Company's former Chief Executive Officer in fiscal 2018 with no corresponding event in fiscal 2019. Other factors contributing to the reduction in selling and administrative expense is the overall net reduction in corporate spending in line with lower sales and profit levels.

Other Consolidated Matters to Report

The Company reported $2,240,000 net interest expense in fiscal 2019 compared to $1,680,000 net interest expense in fiscal 2018. The change in interest expense from fiscal 2018 to fiscal 2019 is the result of higher interest rates on the Company's line of credit. The Company also recorded other expense of $138,000 in fiscal 2019 related to net foreign currency transaction losses from transactions with its customers and suppliers through its Mexican subsidiary.

The $5,929,000 income tax benefit in fiscal 2019 represents a consolidated effective tax rate of 26.6%, which is inclusive of the tax impact from the anticipated sale of its New Windsor, New York facility. The closing of the sale was previously announced to occur in the fourth quarter of fiscal 2019 but had been delayed pending final approval from the town of New Windsor, New York. The sale has been approved and the Company anticipates the formal sale will occur in the first quarter of fiscal 2020. The tax impact from the anticipated sale of the New Windsor facility is a $928,000 tax benefit related to the reduction of a valuation reserve previously established against deferred tax assets. Also impacting the consolidated tax benefit is a 30% tax rate on taxable income from pre-tax profits recognized by the Company's Mexican subsidiary along with certain permanent book-tax differences and adjustments related to uncertain income tax positions. The $3,791,000 tax benefit in fiscal 2018 represents a consolidated effective rate of 16.3%. This is the net result of an overall income tax rate of 27.6% adjusted by the $3.3 million tax expense to revalue the Company's deferred tax assets due to the Tax Cuts and Jobs Act, and by certain permanent book-tax differences and adjustments related to uncertain income tax positions.

The Company reported a net loss of $(16,339,000) in fiscal 2019 compared to net loss of $(19,541,000) in the same period of the prior year. The decrease in the net loss from fiscal 2018 to fiscal 2019 is mostly driven by net effect of decreased net sales, decreased gross profit, decreased selling and administrative expenses which is, a decrease in goodwill impairment expense, increased interest expense, and a larger tax benefit. Also contributing to the period-over-period results is a one-time adjustment to the Company's benefit policy in the first quarter of fiscal 2019 which resulted in a favorable pre-tax adjustment to earnings of $1.2 million. Diluted loss per share of $(0.63) was reported in fiscal 2019 as compared to $(0.76) diluted loss per share in the same period of fiscal 2018. The weighted average common shares outstanding for purposes of computing diluted loss per share in fiscal 2019 were 26,109,000 shares as compared to 25,866,000 shares in the same period last year.

Liquidity and Capital Resources

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

At June 30, 2019 the Company had working capital of $71.1 million, compared to $67.9 million at June 30, 2018. The ratio of current assets to current liabilities was 2.78 to 1 as compared to a ratio of 2.61 to 1 at June 30, 2018. Included in working capital is an asset held for sale of $7.5 million. When the asset held for sale is removed from working capital, the current ratio is 2.59 to 1, which is a decline from the prior fiscal year and which is a more meaningful comparison to prior year. The largest contributor to the reduction in working capital after the asset held for sale is removed is a $7.5 million reduction in net inventory. The Company proactively manages its working capital, including reduction of the accounts receivable days sales outstanding (DSO) and reduction of inventory levels, without reducing service to its customers.

The Company generated $11.5 million of cash from operating activities in fiscal 2019 and in fiscal 2018. The same level of cash flow from operations period over period is the net result of an increase rather than a decrease in accounts payable (favorable change of $2.6 million), a decrease rather than an increase in net accounts receivable (favorable change of $2.0 million), a smaller increase in net inventory (favorable change of $3.3 million), a greater decrease in accrued expenses and other (unfavorable change of $3.7 million), and a decrease in net loss from fiscal 2018 to fiscal 2019 along with unfavorable change of non-cash add-backs to the change in net loss (unfavorable change of $6.7 million).

Net accounts receivable was $54.7 million and $50.6 million at June 30, 2019 and June 30, 2018, respectively. DSO was 55 days at June 30, 2019 compared to DSO of 53 days at June 30, 2018. The calculation of the June 30, 2019 DSO calculation excludes the $5.5 million added to net accounts receivable attributed to the adoption of the new revenue guidance in order to provide a more meaningful comparison of DSO between the two fiscal years. The Company believes that its receivables are ultimately collectible or recoverable, net of certain reserves, and that aggregate allowances for doubtful accounts are adequate.

Net inventories of $43.5 million at June 30, 2019 decreased $7.5 million from $51.0 million at June 30, 2018. The decrease of $7.5 million is the result of a decrease in gross inventory of $6.5 million and an increase in obsolescence reserves of $1.0 million. Driven by a strategy of balancing inventory reductions with customer service and the timing of shipments, net inventory decreased $1.0 million in the Graphics Segment and decreased $6.5 million in the Lighting Segment in fiscal 2019.

Cash generated from operations and borrowing capacity under the Company's line of credit is the Company's primary source of liquidity. The Company has a secured $75 million revolving line of credit with its bank, with $41.5 million of the credit line available as of August 15, 2019. The Company amended its revolving line of credit in the third quarter of fiscal 2019 and reduced its available line of credit from $100 million to $75 million in order to better match its financing needs with an appropriate borrowing capacity. This line of credit is a $75 million five-year credit line expiring in the third quarter of fiscal 2022. The Company believes that its $75 million line of credit plus cash flows from operating activities are adequate for the Company's fiscal 2020 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants.

The Company used cash of $2.6 million related to investing activities in fiscal 2019 as compared to a use of $1.9 million in the same period of the prior year, resulting in an unfavorable change of $0.7 million. Capital expenditures in fiscal 2019 decreased $0.8 million to $2.6 million from the same period in fiscal 2018. The Company sold its Woonsocket manufacturing facility for $1.5 million in fiscal 2018 which contributed to the change in cash flow from investing activities from fiscal 2018 to fiscal 2019.

In April 2019, the Company announced that it entered into a definitive agreement to sell its manufacturing facility in New Windsor, New York. Under the terms of the agreement, the Company will receive approximately $12 million of gross proceeds related to the sale. The sale is expected to be completed in the first quarter of fiscal 2020.

The Company had an $11.1 million use of cash related to financing activities in fiscal 2019 compared to a use of cash of $9.5 million in fiscal 2018. The $1.6 million unfavorable change in cash flow was primarily the net result of an increase in net payments against the revolving line of credit as a result of the Company's positive cash flow from operations.

The Company has on its balance sheet 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.

Off-Balance Sheet Arrangements

The Company has no financial instruments with off-balance sheet risk and has no off-balance sheet arrangements except for the operating leases identified in the table below.

Contractual Obligations as of June 30, 2019 (a)(b)	Payments Due by Period Total	Less than 1 year	1-3 Years	3-5 years	More than 5 years
Operating Lease Obligations	$12,183	$ 2,211	$4,357	$4,009	$1,606
Purchase Obligations	$19,656	$19,656	--	--	--
Total Contractual Obligations	$31,839	$21,867	$4,357	$4,009	$1,606

(a) The liability for uncertain tax positions of $1.1 million is not included due to the uncertainty of timing of payments.

(b) The $39.5 million borrowed against the revolving line of credit is not included due to the uncertainty of the timing of payments. The line of credit expires in the third quarter of fiscal 2022.

Cash Dividends

In August 2019, the Board of Directors declared a regular quarterly cash dividend of $0.05 per share payable September 12, 2019 to shareholders of record as of September 3, 2019. The indicated annual cash dividend rate for fiscal 2019 was $0.20 per share. The Board of Directors has adopted a policy regarding dividends which indicates that dividends will be determined by the Board of Directors at its discretion based upon its evaluation of earnings, cash flow requirements, financial conditions, debt levels, stock repurchases, future business developments and opportunities, and other factors deemed relevant.

Critical Accounting Policies and Estimates

A summary of the Company's significant accounting policies is included in Note 1 to the audited consolidated financial statements of the Company's fiscal 2019 Annual Report on Form 10-K.

The Company is required to make estimates and judgments in the preparation of its financial statements that affect the reported amounts of assets, liabilities, revenues and expenses, and related footnote disclosures. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The Company continually reviews these estimates and their underlying assumptions to ensure they remain appropriate. The Company believes the items discussed below are among its most significant accounting policies because they utilize estimates about the effect of matters that are inherently uncertain and therefore are based on management's judgment. Significant changes in the estimates or assumptions related to any of the following critical accounting policies could possibly have a material impact on the financial statements.

New Accounting Pronouncements

In 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 will adopt this guidance effective July 1, 2019 using a modified-retrospective transition method, under which it expects to elect not to adjust comparative periods. The Company intends to elect the package of practical expedients permitted under the new guidance. In addition, the Company plans to elect accounting policies to not record short-term leases on the balance sheet and to not separate lease and lease components.

The Company has completed its assessment of its lease portfolio and is in the process of finalizing the testing of its new lease accounting software solution and implementing new processes and controls to account for leases in accordance with the new guidance. The Company's most significant leases are its two manufacturing facilities. Besides the two real estate leases, most other leases are relatively small and comprise mostly of a vehicle, forklifts and various office equipment. Upon adoption of this new guidance, the Company expects to recognize a $9.5 million to $12.5 million of right-of-use assets and corresponding lease liabilities on its consolidated balance sheet. The Company does not expect the adoption will have a material impact on its consolidated statements of operations or consolidated statements of cash flows.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Management of LSI Industries Inc. and subsidiaries (the "Company" or "LSI") is responsible for the preparation and accuracy of the financial statements and other information included in this report. LSI's Management is also responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities Exchange Act Rules 13a-15(f). Under the supervision and with the participation of Management, including LSI's principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting as of June 30, 2019, based on the criteria set forth in "the 2013 Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A control system, no matter how well conceived and operated, can provide only reasonable assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the reality that judgments in decision making can be faulty, the possibility of human error, and the circumvention or overriding of the controls and procedures.

In meeting its responsibility for the reliability of the financial statements, the Company depends upon its system of internal accounting controls. The system is designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded. The system is supported by policies and guidelines, and by careful selection and training of financial management personnel. The Company also has a Disclosure Controls Committee, whose responsibility is to help ensure appropriate disclosures and presentation of the financial statements and notes thereto. Additionally, the Company has an Internal Audit Department to assist in monitoring compliance with financial policies and procedures.

The Board of Directors meets its responsibility for overview of the Company's financial statements through its Audit Committee which is composed entirely of independent Directors who are not employees of the Company. The Audit Committee meets periodically with Management and Internal Audit to review and assess the activities of each in meeting their respective responsibilities. Grant Thornton LLP has full access to the Audit Committee to discuss the results of their audit work, the adequacy of internal accounting controls, and the quality of financial reporting.

Based upon LSI's evaluation, the Company's principal executive officer and principal financial officer concluded that internal control over financial reporting was effective as of June 30, 2019. We reviewed the results of Management's assessment with the Audit Committee of our Board of Directors. Additionally, our independent registered public accounting firm audited and independently assessed the effectiveness of the Company's internal control over financial reporting. Grant Thornton LLP, an independent registered public accounting firm, has issued an opinion on the effectiveness of the Company's internal control over financial reporting, which is presented in the financial statements.

James A. Clark
President and Chief Executive Officer
(Principal Executive Officer)

James E. Galeese
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
LSI Industries Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of LSI Industries Inc. (an Ohio corporation) and subsidiaries (the "Company") as of June 30, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of and for the year ended June 30, 2019, and our report dated September 6, 2019 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Cincinnati, Ohio
September 6, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
LSI Industries Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of LSI Industries Inc. (an Ohio corporation) and subsidiaries (the “Company”) as of June 30, 2019 and 2018, the related consolidated statements of operations, comprehensive income, shareholders’ equity, and cash flows for each of the two years in the period ended June 30, 2019, and the related notes and schedules (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of June 30, 2019, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated September 6, 2019 expressed an unqualified opinion.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for revenue from contracts with customers in the year ended June 30, 2019 due to the adoption of Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606).*

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since fiscal 2010.

Cincinnati, Ohio
September 6, 2019

LSI INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended June 30, 2019 and 2018
(In thousands, except per share data)

	2019	2018
Net sales	$ 328,852	$ 342,023
Cost of products and services sold	253,621	252,789
Restructuring costs	1,441	—
Severance costs	77	—
Gross profit	73,713	89,234
Selling and administrative expenses	72,470	79,750
Impairment of goodwill and intangible asset	20,165	28,000
Severance costs	483	—
Restructuring costs	365	—
Transition and realignment costs	120	3,136
Operating (loss)	(19,890)	(21,652)
Interest (income)	(38)	(39)
Interest expense	2,278	1,719
Other expense	138	—
(Loss) before income taxes	(22,268)	(23,332)
Income tax (benefit)	(5,929)	(3,791)
Net (loss)	$ (16,339)	$ (19,541)
(Loss) per common share (see Note 3)		
Basic	$ (0.63)	$ (0.76)
Diluted	$ (0.63)	$ (0.76)
Weighted average common shares outstanding		
Basic	26,109	25,866
Diluted	26,109	25,866

The accompanying notes are an integral part of these financial statements.

LSI INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended June 30, 2019 and 2018

(In thousands)	**2019**	**2018**
Net (Loss)	**$ (16,339)**	**$ (19,541)**
Foreign currency translation adjustment	16	--
Comprehensive (Loss)	**$ (16,323)**	**$ (19,541)**

The accompanying notes are an integral part of these financial statements.

LSI INDUSTRIES INC.
CONSOLIDATED BALANCE SHEETS
June 30, 2019 and 2018
(In thousands, except shares)

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 966**	$ 3,178
Accounts receivable, less allowance for doubtful accounts of $879 and $409, respectively	**54,728**	50,609
Inventories	**43,512**	50,994
Refundable income taxes	**882**	1,784
Assets held for sale	**7,512**	—
Other current assets	**3,380**	3,516
Total current assets	**110,980**	110,081
Property, Plant and Equipment, at cost		
Land	**4,576**	6,470
Buildings	**27,015**	35,961
Machinery and equipment	**73,185**	77,108
Construction in progress	**455**	1,340
	105,231	120,879
Less accumulated depreciation	**(73,255)**	(77,176)
Net property, plant and equipment	**31,976**	43,703
Goodwill	**10,373**	30,538
Other Intangible Assets, net	**32,647**	35,409
Other Long-Term Assets, net	**15,124**	9,786
Total assets	**$ 201,100**	$ 229,517

The accompanying notes are an integral part of these financial statements.

	2019	2018
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 18,664**	$ 17,927
Accrued expenses	**21,211**	24,272
Total current liabilities	**39,875**	42,199
Long-Term Debt	**39,541**	45,360
Other Long-Term Liabilities	**1,747**	2,707
Commitments and Contingencies (Note 13)		
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 25,967,275 and 25,641,913 shares, respectively	**125,729**	124,104
Treasury shares, without par value;	**(1,468)**	(2,110)
Deferred compensation plan	**1,468**	2,133
Retained (loss) earnings	**(5,808)**	15,124
Accumulated other comprehensive income	**16**	—
Total shareholders' equity	**119,937**	139,251
Total liabilities & shareholders' equity	**$ 201,100**	$ 229,517

The accompanying notes are an integral part of these financial statements.

LSI INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended June 30, 2019 and 2018
(In thousands, except per share data)

	Common Shares		Treasury Shares		Key Executive	Accumulated Other		Total
	Number Of Shares	Amount	Number Of Shares	Amount	Compensation Amount	Comprehensive Income	Retained Earnings	Shareholders' Equity
Balance at June 30, 2017	25,687	$ 120,059	(258)	$ (2,457)	$2,657	-	$ 39,819	$ 160,078
Net (loss)	-	-	-	-	-	-	(19,541)	(19,541)
Stock compensation awards	43	319	-	-	-	-	-	319
Restricted stock units issued	44	-	-	-	-	-	-	-
Shares issued for deferred compensation	67	429	-	-	-	-	-	429
Activity of treasury shares, net	-	-	16	347	-	-	-	347
Deferred stock compensation	-	-	-	-	(524)	-	-	(524)
Stock-based compensation expense	-	3,012	-	-	-	-	-	3,012
Stock optons exercised, net	43	285	-	-	-	-	-	285
Dividends — $0.20 per share	-	-	-	-	-	-	(5,154)	(5,154)
Balance at June 30, 2018	25,884	$ 124,104	(242)	$ (2,110)	$2,133	-	$ 15,124	$ 139,251
Net (Loss)	**-**	**-**	**-**	**-**	**-**	-	**(16,339)**	**(16,339)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**16**	**-**	**16**
Stock compensation awards	**104**	**354**	**-**	**-**	**-**	-	**-**	**354**
Restricted stock untis issued	**114**	**-**	**-**	**-**	**-**	-	**-**	**-**
Shares issued for deferred compensation	**74**	**290**	**-**	**-**	**-**	-	**-**	**290**
Activity of treasury shares, net	**-**	**-**	**33**	**642**	**-**	-	**-**	**642**
Deferred stock compensation	**-**	**-**	**-**	**-**	**(665)**	-	**-**	**(665)**
Stock-based compensation expense	**-**	**981**	**-**	**-**	**-**	-	**-**	**981**
Stock optons exercised, net	**-**	**-**	**-**	**-**	**-**	-	**-**	**-**
Dividends — $0.20 per share	**-**	**-**	**-**	**-**	**-**	-	**(5,184)**	**(5,184)**
Cumulative effect of adoption of accounting guidance	**-**	**-**	**-**	**-**	**-**	-	**591**	**591**
Balance at June 30, 2019	**26,176**	**$ 125,729**	**(209)**	**$ (1,468)**	**$1,468**	**$16**	**$ (5,808)**	**$ 119,937**

The accompanying notes are an integral part of these financial statements.

LSI INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2019 and 2018
(In thousands)

	2019	2018
Cash Flows From Operating Activities		
Net (Loss)	$ (16,339)	$ (19,541)
Non-cash items included in net (loss)		
Depreciation and amortization	10,221	10,222
Impairment of goodwill and intangible asset	20,165	28,000
Deferred income taxes	(6,370)	(4,748)
Deferred compensation plan	266	359
Stock based compensation expense	981	3,012
Issuance of common shares as compensation	355	319
(Gain) on disposition of fixed assets	(32)	(26)
Allowance for doubtful accounts	776	214
Inventory obsolescence reserve	3,607	2,605
Change in certain assets and liabilities, net of acquisition		
Accounts receivable	74	(1,943)
Inventories	(326)	(3,591)
Refundable income taxes	902	(1,009)
Accounts payable	684	(1,883)
Accrued expenses and other	(4,171)	(499)
Customer prepayments	698	9
Net cash flows provided by operating activities	11,491	11,500
Cash Flows From Investing Activities		
Purchases of property, plant, and equipment	(2,618)	(3,406)
Proceeds from sale of fixed assets	32	1,538
Net cash flows (used in) investing activities	(2,586)	(1,868)
Cash Flows From Financing Activities		
Payments of long-term debt	(126,431)	(99,258)
Borrowings of long-term debt	120,612	94,920
Cash dividends paid	(5,184)	(5,154)
Purchase of treasury shares	--	(107)
Shares withheld for employee taxes	(114)	(179)
Exercise of stock options	--	285
Net cash flows (used in) financing activities	(11,117)	(9,493)
(Decrease) Increase in cash and cash equivalents	(2,212)	139
Cash and cash equivalents at beginning of year	3,178	3,039
Cash and cash equivalents at end of year	$ 966	$ 3,178

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — 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:

The Company recognizes revenue when it satisfies the performance obligations in its customer contracts or purchase orders. Most of the Company’s products have a single performance obligation which is satisfied at a point in time when control is transferred to the customer. Control is generally transferred at time of shipment when title and risk of ownership passes to the customer. For customer contracts with multiple performance obligations, the Company allocates the transaction price and any discounts to each performance obligation based on relative standalone selling prices. Payment terms are typically within 30 to 90 days from the shipping date, depending on our terms with the customer. The Company offers standard warranties that do not represent separate performance obligations.

Installation is a separate performance obligation, except for our digital signage products. For digital signage products, installation is not a separate performance obligation as the product and installation is the combined item promised in digital signage contracts. The Company is not always responsible for installation of products it sells and has no post-installation responsibilities other than standard warranties.

A number of the Company's products are highly customized. As a result, these customized products do not have an alternative use. For these products, the Company generally has a legal right to payment for performance to date and generally does not accept returns on these items. The measurement of performance is based upon cost plus a reasonable profit margin for work completed. Because there is no alternative use and there is a legal right to payment, the Company transfers control of the item as the item is being produced and therefore, recognizes revenue over time. The customized product types are as follows:

- Customer specific branded print graphics
- Electrical components based on customer specifications
- Digital signage and related media content

The Company also offers installation services. Installation revenue is recognized over time as our customer simultaneously receives and consumes the benefits provided through the installation process.

For these customized products and installation services, revenue is recognized using a cost-based input method: recognizing revenue and gross profit as work is performed based on the relationship between the actual cost incurred and the total estimated cost for the contract.

Disaggregation of Revenue

The Company disaggregates the revenue from contracts with customers by the timing of revenue recognition because the Company believes it best depicts the nature, amount, and timing of our revenue and cash flows. The table presents a reconciliation of the disaggregation by reportable segments.

(In thousands)	Twelve Months Ended June 30, 2019	
	Lighting Segment	Graphics Segment
Timing of revenue recognition		
Products and services transferred at a point in time	$ 207,577	$ 54,866
Products and services transferred over time	27,537	38,872
	$ 235,114	$ 93,738
Type of Product and Services		
New technology products	$ 203,049	$ 12,479
Legacy products	29,592	59,867
Turnkey services and other	2,473	21,392
	$ 235,114	$ 93,738

New technology products include LED lighting and controls, electronic circuit boards, and digital signage solutions. Legacy products include lighting fixtures utilizing light sources other than LED technology and printed two and three dimensional graphic products. Turnkey services and other includes installation services along with shipping and handling charges.

Practical Expedients and Exemptions

- The Company's contracts with customers have an expected duration of one year or less, as such the Company applies the practical expedient to expense sales commissions as incurred, and have omitted disclosures on the amount of remaining performance obligations.
- Shipping costs that are not material in context of the delivery of products are expensed as incurred.
- The Company's accounts receivable balance represents the Company's unconditional right to receive payment from its customers with contracts. Payments are generally due within 30 to 90 days of completion of the performance obligation and invoicing, therefore, payments do not contain significant financing components.
- The Company collects sales tax and other taxes concurrent with revenue-producing activities which are excluded from revenue. Shipping and handling costs are treated as fulfillment activities and included in cost of products and services sold on the Consolidated Statements of Operations.

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)	**June 30, 2019**	June 30, 2018
Accounts receivable	**$ 55,607**	$ 51,018
Less: Allowance for doubtful accounts	**(879)**	(409)
Accounts receivable, net	**$ 54,728**	$ 50,609

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 and Mexico. In the United States, the FDIC limit for insurance coverage on non-interest bearing accounts is $250,000. As of June 30, 2019 and June 30, 2018, the Company had bank balances of $1,461,000 and $4,507,000, respectively, without insurance coverage.

Inventories and Inventory Reserves:

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

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

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

The Company recorded $7,460,000 and $7,462,000 of depreciation expense in the years ended June 30, 2019 and, 2018 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 6.

Fair Value:

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

Fair value measurements of nonfinancial assets and nonfinancial liabilities are primarily used in goodwill and other intangible asset impairment analyses, long-lived asset impairment analyses, and in the purchase price of acquired companies. 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 10 years, from the date of shipment. The Company records warranty liabilities to cover the estimated future costs for repair or replacement of defective returned products as well as products that need to be repaired or replaced in the field after installation. The Company calculates its liability for warranty claims by applying estimates based upon historical claims as a percentage of sales to cover unknown claims, as well as estimating the total amount to be incurred for known warranty issues. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

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

(In thousands)	**June 30, 2019**	June 30, 2018
Balance at beginning of the period	**$ 6,876**	$ 7,560
Additions charged to expense	**5,190**	5,181
Deductions for repairs and replacements	**(4,379)**	(5,865)
Balance at end of the period	**$ 7,687**	$ 6,876

Employee Benefit Plans:

In fiscal 2018, the Company changed its retirement plan to a 401(k) match whereby employee's contributions to the 401(k) are matched by the Company. As with the previous defined contribution retirement plan and a discretionary profit sharing plan, the 401(k) match program covers substantially all of its non-union employees. The Company also has a nonqualified deferred compensation plan covering certain employees. The costs of employee benefit plans are charged to expense and funded annually. Total costs were $1,333,000 and $1,195,000 in June 30, 2019 and 2018, respectively.

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 $5,266,000 and $5,952,000 for the fiscal years ended June 30, 2019 and 2018, 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.

(Loss) Per Common Share:

The computation of basic (loss) 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 (loss) per share is based on the weighted average common shares outstanding for the period and includes common share equivalents. Common share equivalents include the dilutive effect of stock options, restricted stock units, stock warrants, contingently issuable shares and common shares to be issued under a deferred compensation plan, all of which totaled 324,000 shares and 720,000 shares in fiscal 2019 and 2018, respectively. See further discussion in Note 3.

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 (the "Act") was signed into law on December 22, 2017 and makes numerous changes to the Internal Revenue Code. Among other changes, the Act reduces the U.S. corporate income tax rate to 21% effective January 1, 2018. Because the Act became effective mid-way through the Company's fiscal year 2018 tax year, the Company will have a U.S statutory income tax rate of 27.6% for fiscal 2018 and will have a 21% U.S. statutory income tax rate for fiscal years thereafter. As of December 31, 2017, the Company re-valued the deferred tax balances because of the change in U.S. tax rate resulting in a one-time deferred tax expense of $3,323,000.

Foreign Exchange:

The functional currency of the Mexican legal entity is the Mexican Peso. Assets and liabilities of foreign operations are translated using period end exchange rates. Revenue and expenses are translated using average exchange rates during each period reported. Translation losses (gains) are reported in accumulated other comprehensive loss (gain) as a component of shareholders equity and were $16,000 as of June 30, 2019. The Company recognizes foreign currency transaction (gains) and losses on certain assets and liabilities that are denominated in the Mexican Peso. These transaction (gains) and losses are reported in other expense in the consolidated statements of operations and were $138,000 for the twelve months ended June 30, 2019.

New Accounting Pronouncements:

On July 1, 2018, the Company adopted ASU 2014-09. "Revenue from Contracts with Customers," (Topic 606) using the modified retrospective adoption method which requires a cumulative effect adjustment to the opening balance of retained earnings. This approach was applied to contracts that were not completed as of June 30, 2018. Results for reporting periods beginning July 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The Company recorded a net increase to beginning retained earnings of $591,000 on July 1, 2018 due to the cumulative impact of adopting Topic 606, as described below.

(In thousands)	Balance as of June 30, 2018	Adjustments	Opening Balance as of July 1, 2018
Assets:			
Accounts receivable, net	$ 50,609	$ 4,935	$ 55,544
Inventories, net	$ 50,994	$ (4,167)	$ 46,827
Other long-term assets, net	$ 9,786	$ (177)	$ 9,609
Shareholders' Equity:			
Retained earnings	$ 15,124	$ 591	$ 15,715

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 will adopt this guidance effective July 1, 2019 using a modified-retrospective transition method, under which it expects to elect not to adjust comparative periods. The Company intends to elect the package of practical expedients permitted under the new guidance. In addition, the Company plans to elect accounting policies to not record short-term leases on the balance sheet and to not separate lease and lease components.

The Company has completed its assessment of its lease portfolio and is in the process of finalizing the testing of its new lease accounting software solution and implementing new processes and controls to account for leases in accordance with the new guidance. The Company's most significant leases are its two manufacturing facilities. Besides the two real estate leases, most other leases are relatively small and comprise mostly of a vehicle, forklifts and various office equipment. Upon adoption of this new guidance, the Company expects to recognize a $9.5 million to $12.5 million of right-of-use assets and corresponding lease liabilities on its consolidated balance sheet. The Company does not expect the adoption will have a material impact on its consolidated statements of operations or consolidated statements of cash flows.

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 2 — BUSINESS SEGMENT 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. The Company's two operating segments are Lighting and Graphics, with one executive team under the organizational structure reporting directly to the CODM with responsibilities for managing each segment. 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 Company's markets, primarily petroleum / convenience stores, automotive dealerships, quick-service restaurants, grocery and pharmacy stores, and retail/national accounts. The Company also services lighting product customers through the commercial industrial, stock and flow, and renovation channels. 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, equity compensation expense for various equity awards 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 were no customers or customer programs representing a concentration of 10% or more of the Company's net sales in the fiscal years ended June 30, 2019 and 2018. There was no concentration of accounts receivable at June 30, 2019 or 2018.

Summarized financial information for the Company's reportable business segments is provided for the indicated periods and as of June 30, 2019 and June 30, 2018:

(In thousands)	**2019**	2018
Net Sales:		
Lighting Segment	**$ 235,114**	$ 260,613
Graphics Segment	**93,738**	81,410
Total Net Sales	**$ 328,852**	$ 342,023
Operating (Loss):		
Lighting Segment	**$ (12,211)**	$ (12,795)
Graphics Segment	**3,112**	5,618
Corporate and Eliminations	**(10,791)**	(14,475)
Total Operating (Loss)	**$ (19,890)**	$ (21,652)
Capital Expenditures:		
Lighting Segment	**$ 2,239**	$ 2,203
Graphics Segment	**342**	1,038
Corporate and Eliminations	**37**	165
Total Capital Expenditures	**$ 2,618**	$ 3,406
Depreciation and Amortization:		
Lighting Segment	**$ 7,648**	$ 7,573
Graphics Segment	**1,594**	1,542
Corporate and Eliminations	**979**	1,107
Total Depreciation and Amortization	**$ 10,221**	$ 10,222

	June 30, 2019	June 30, 2018
Identifiable Assets:		
Lighting Segment	**$ 142,105**	$ 172,799
Graphics Segment	**40,914**	39,881
Corporate and Eliminations	**18,081**	16,837
Total Identifiable Assets	$ **201,100**	$ 229,517

The segment net sales reported above represent sales to external customers. Segment operating (loss), 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:

(In thousands)	**2019**	2018
Lighting Segment intersegment net sales	**$ 2,043**	$ 2,672
Graphics Segment intersegment net sales	**$ 928**	$ 1,276

NOTE 3 — (LOSS) PER COMMON SHARE

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

(In thousands, except per share data)	**2019**	2018
BASIC (LOSS) PER SHARE		
Net (loss)	**$ (16,339)**	$ (19,541)
Weighted average shares outstanding during the period, net of treasury shares (a)	**25,858**	25,569
Weighted average vested restricted stock units outstanding	**36**	55
Weighted average shares outstanding in the Deferred Compensation Plan	**215**	242
Weighted average shares outstanding	**26,109**	25,866
Basic (loss) per share	**$ (0.63)**	$ (0.76)
DILUTED (LOSS) PER SHARE		
Net (loss)	**$ (16,339)**	$ (19,541)
Weighted average shares outstanding - Basic	**26,109**	25,866
Effect of dilutive securities (b):		
Impact of common shares to be issued under stock option plans, and contingently issuable shares, if any	**—**	—
Weighted average shares outstanding (c)	**26,109**	25,866
Diluted (loss) per share	**$ (0.63)**	$ (0.76)

(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 3,555,530 common shares and 2,802,420 common shares at June 30, 2019 and 2018, respectively, were not included in the computation of diluted (loss) per share because the exercise price was greater than the average fair market value of the common shares. For the years ended June 30, 2019 and June 30, 2018 the effect of dilutive securities was not included in the calculation of diluted loss per share because there was a net operating loss for the period.

NOTE 4 — INVENTORIES

The following information is provided as of the dates indicated:

(In thousands)	**June 30, 2019**	June 30, 2018
Inventories:		
Raw materials	**$ 27,927**	$ 31,795
Work-in-process	**2,193**	3,833
Finished goods	**13,392**	15,366
Total Inventories	**$ 43,512**	$ 50,994

NOTE 5 — ACCRUED EXPENSES

The following information is provided as of the dates indicated:

(In thousands)	**June 30, 2019**	June 30, 2018
Accrued Expenses:		
Compensation and benefits	**$ 5,319**	$ 9,394
Customer prepayments	**1,768**	1,070
Accrued sales commissions	**1,301**	2,274
Accrued warranty	**7,687**	6,876
Other accrued expenses	**5,136**	4,658
Total Accrued Expenses	**$ 21,211**	$ 24,272

NOTE 6 — GOODWILL AND OTHER INTANGIBLE ASSETS

The 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 the reporting unit using a combination of a market approach and an income (discounted cash flow) approach, at the reporting unit level. The estimation of the fair value of reporting unit 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 the 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 currently has two reporting units that contain goodwill. There is one reporting unit within the Lighting Segment and one reporting unit within the Graphics Segment. 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.

Fiscal 2019:

A sustained and significant decline in the Company's stock price in the second quarter of fiscal 2019 led management to believe that a triggering event occurred and that an interim goodwill impairment test was required for one of the two reporting units in the Lighting Segment that contained goodwill, as of December 31, 2018. In accordance with ASU 2017-04, "Simplifying the Test for Goodwill Impairment," which was adopted in a prior period, 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 fully impaired by $20,165,000. As a result of the full impairment of the goodwill of this reporting unit, the Company currently has two reporting units that contain goodwill; one reporting unit in the Lighting Segment and one reporting unit in the Graphics Segment.

As of March 1, 2019, the Company performed its annual goodwill impairment test on the two remaining reporting units that contain goodwill. The preliminary goodwill impairment test on one reporting unit in the Lighting Segment passed with a business enterprise value that was $38.9 million or 54% above the carrying value of this reporting unit including goodwill. The goodwill impairment test of the reporting unit with goodwill in the Graphics Segment passed with an estimated business enterprise value that was $3.0 million or 297% above the carrying value of the reporting unit including goodwill. The Company has performed an assessment of its goodwill from the date of the annual test through the balance sheet date for possible triggering events and has concluded that there were no triggering events that would indicate the assets are impaired.

Fiscal 2018:

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. This particular reporting unit was tested because its fair market value was marginally higher than its carrying value. The other reporting units had considerable clearance between its fair market value and carrying value. 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.

As of March 1, 2018, the Company performed its annual goodwill impairment test on the three reporting units that contain goodwill. The goodwill impairment test on one reporting unit in the Lighting Segment passed with a business enterprise value that was $21.4 million or 15% above the carrying value of this reporting unit. The goodwill impairment test of a second reporting unit in the Lighting Segment that contains goodwill passed with an estimated business enterprise value that was $16.1 million or 69% above the carrying value of this reporting unit. The goodwill impairment test of the reporting unit with goodwill in the Graphics Segment passed with an estimated business enterprise value that was $3.3 million or 319% above the carrying value of the reporting unit.

Another sustained and significant decline in the Company's stock price in the fourth 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 May 31, 2018. This particular reporting unit was tested because its fair market value was marginally higher than its carrying value. The other reporting units had considerable clearance between its fair market value and carrying value. 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 goodwill impairment test of the reporting unit in the Lighting Segment passed with a business enterprise value that was $13.7 million or 11% above the carrying value of this reporting unit including goodwill. The Company had performed an assessment of goodwill from the date of the last impairment analysis in fiscal 2018 through the balance sheet date for possible triggering events and has concluded that other than the impairment analysis that was performed in the fourth quarter on the reporting unit in the Lighting Segment (see below), there were no triggering events that would indicate the assets were impaired.

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, 2018			
Goodwill	$ 94,564	$ 28,690	$ 123,254
Accumulated impairment losses	(65,191)	(27,525)	(92,716)
Goodwill, net as of June 30, 2018	$ 29,373	$ 1,165	$ 30,538
Goodwill impairment	$ (20,165)	$ --	$ (20,165)
Balance as of June 30, 2019			
Goodwill	$ 94,564	$ 28,690	$ 123,254
Accumulated impairment losses	(85,356)	(27,525)	(112,881)
Goodwill, net as of June 30, 2019	$ 9,208	$ 1,165	$ 10,373

The Company performed its annual review of indefinite-lived intangible assets as of March 1, 2019 and determined there was no impairment. The indefinite-lived intangible impairment test passed with a fair market value that was $19.2 million or 462% above its carrying value. The Company has performed an assessment of its intangible assets from the date of the annual test through the balance sheet date for possible triggering events and has concluded that there were no triggering events that would indicate the assets are impaired.

The Company performed its annual review of indefinite-lived intangible assets as of March 1, 2018 and determined there was no impairment. The indefinite-lived intangible impairment test passed with a fair market value that was $20.6 million or 604% above its carrying value.

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

Other Intangible Assets *(In thousands)*	June 30, 2019 Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			
Customer relationships	**$ 35,563**	**$ 12,070**	**$ 23,493**
Patents	**338**	**247**	**91**
LED technology firmware, software	**16,066**	**12,364**	**3,702**
Trade name	**2,658**	**719**	**1,939**
			-
Total Amortized Intangible Assets	**54,625**	**25,400**	**29,225**
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	**$ 58,047**	**$ 25,400**	**$ 32,647**

Other Intangible Assets	June 30, 2018		
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			
Customer relationships	$ 35,563	$ 10,011	$ 25,552
Patents	338	217	121
LED technology firmware, software	16,066	11,801	4,265
Trade name	2,658	609	2,049
Non-compete agreements	710	710	--
Total Amortized Intangible Assets	55,335	23,348	31,987
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	$ 23,348	$ 35,409

	Amortization Expense of Other Intangible Assets	
(In thousands)	**2019**	2018
Amortization Expense	$ **2,762**	$ 2,760

The Company expects to record annual amortization expense as follows:

(In thousands)

2020	$ 2,687
2021	$ 2,682
2022	$ 2,460
2023	$ 2,411
2024	$ 2,411
After 2024	$16,574

NOTE 7 — REVOLVING LINE OF CREDIT AND LONG-TERM DEBT

In February 2019, the Company amended its secured line of credit to a $75 million facility from a $100 million facility in order to better match its financing needs with an appropriate borrowing capacity. 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 be 200 basis points for the fourth quarter of fiscal 2019. The fee on the unused balance of the $75 million committed line of credit is 20 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 June 30, 2019, there was $39.5 million borrowed against the line of credit, and $35.5 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 June 30, 2019.

NOTE 8 — CASH DIVIDENDS

The Company paid cash dividends of $5,184,000 and $5,154,000 in fiscal years 2019 and 2018, respectively. Dividends on restricted stock units in the amount of $28,158 and $50,621 were accrued as of June 30, 2019 and 2018, respectively. These dividends are paid upon the vesting of the restricted stock units when shares are issued to the award recipients. In August 2019, the Board of Directors declared a regular quarterly cash dividend of $0.05 per share payable September 12, 2019 to shareholders of record September 3, 2019.

NOTE 9 — EQUITY COMPENSATION

The Company's equity compensation plan is the 2012 Stock Incentive Plan ("the Plan"), was approved by shareholders in November 2012, and amended in November 2016. The Plan covers all of the Company's full-time employees, independent directors and certain advisors. The Plan allows for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted and unrestricted stock awards, and other stock-based awards. All stock-based awards are granted at fair market value at the date of grant. The number of shares reserved for issuance under the Plan is 1,967,217 shares all of which are available for future grant or award as of June 30, 2019. The Plan contains a fungible share ratio that consumes 2.5 available shares for every full value share awarded by the Company as stock compensation.

The Company has made time-based and performance-based stock option awards. Options generally have a three or four year ratable vesting period beginning one year after the date of grant. The maximum exercise period of service-based and performance-based stock options granted under the Plan is ten years.

Inducement stock option agreements are granted by the Company to attract and retain key executives. Inducement stock options are separately registered securities and are not part of the Plan. Some options granted have a three-year ratable vesting period whereas other options vest upon specific performance of the Company's stock. All Inducement stock options have a term of ten years only if the employee is employed for three years from the date of grant. In fiscal 2019, 550,000 Inducement stock options were granted.

The Company has also granted Restricted Stock Units (RSUs) under the Plan. RSUs ratably vest over a three or four year period beginning one year after the date of award. The Company has also granted Performance Stock Units (PSUs) that vest if the Company meets certain financial metrics over a three year period.

Stock Warrants

The Company has outstanding 200,000 fully exercisable stock warrants with an exercise price of $9.95 as of June 30, 2019. As of June 30, 2019, the warrants had a remaining contractual life of 2.7 years. The fair value of the warrants on the date of grant was estimated using the Black-Scholes option pricing model. The below listed weighted average assumptions were used for the warrants. The stock warrants have a fair value of $2.87.

	February 21, 2017
Dividend yield	2.01%
Expected volatility	39%
Risk-free interest rate	1.80%
Expected life	4.5 yrs.

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.

	2019	2018
Dividend yield	**4.6%**	3.3%
Expected volatility	**42%**	41%
Risk-free interest rate	**2.8%**	1.8%
Expected life	**4.9 yrs**	6.0 yrs

At June 30, 2019, the 972,900 service-based and Inducement stock options granted during fiscal 2019 to employees had exercise prices ranging from $3.18 to $4.94 per share, fair values ranging from $0.72 to $2.10 per share, and remaining contractual lives of between 9 years and 10 years.

At June 30, 2018, the 794,537 options granted during fiscal 2018 to employees had exercise prices ranging from $5.92 to $6.54 per share, fair values ranging from $1.71 to $1.96 per share, and remaining contractual lives of between 9 years and 10 years. The performance metric for the 345,560 performance-based stock options granted in fiscal 2018 was not achieved; therefore, these stock options were forfeited in fiscal 2018.

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 Plan, with an estimated 14.86% forfeiture rate effective April 1, 2019. Previous estimated forfeiture rates were between 2.00% and 8.79% between the periods January 1, 2013 through March 31, 2019. 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 $876,333 and $2,147,423 of expense related to stock options in fiscal years 2019 and 2018, respectively.

Information related to all stock options for the years ended June 30, 2019 and June 30, 2018 is shown in the following tables:

	June 30, 2019			
	Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at 6/30/18	**3,298,677**	**$ 8.06**	**7.0 years**	**$ 8,037**
Granted	**972,900**	**$ 4.57**		
Exercised	**--**	**$ --**		
Forfeited	**(1,406,548)**	**$ 7.21**		
Expired	**(115,403)**	**$ 9.12**		
Outstanding at 6/30/19	**2,749,626**	**$ 7.23**	**6.8 years**	**$ 23,500**
Exercisable at 6/30/19	**1,733,471**	**$ 8.33**	**5.6 years**	**$ --**

	Ended June 30, 2018					
	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value
Outstanding at 6/30/17	3,119,688	$	9.12	7.4 years	$	2,332,324
Granted	794,537	$	5.98			
Exercised	(42,939)	$	6.66			
Forfeited	(467,609)	$	9.11			
Expired	(105,000)	$	19.62			
Outstanding at 6/30/18	3,298,677	$	8.06	7.0 years	$	8,037
Exercisable at 6/30/18	1,824,552	$	8.22	5.8 years	$	39,011

The following table presents information related to unvested stock options:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at June 30, 2018	1,474,125	$2.65
Granted	972,900	$1.48
Vested	(786,536)	$2.91
Forfeited	(644,334)	$1.93
Unvested at June 30, 2019	1,016,155	$1.79

The weighted average grant date fair value of options granted during fiscal years 2019 and 2018 was $1.48 per share and $1.73 per share, respectively. The aggregate intrinsic value of options exercised during the years ended June 30, 2019 and June 30, 2018 $0 and $39,011, respectively. The aggregate grant date fair value of options that vested during fiscal 2019 and 2018 was $2,287,386 and $3,192,672, respectively. There were no exercises of stock options in fiscal 2019. The Company received $285,875 of cash from employees who exercised options in fiscal year 2018.

For fiscal year 2019, the Company recognized a current income tax benefit of $116,785 for tax deductions related to equity compensation. A discrete tax expense of $282,785 was recognized to reduce deferred tax assets for cancelled awards and detriments in excess of the tax deductions.

For fiscal year 2018, exercised options resulted in an income tax benefit of $116,602. Pursuant to the implementation of ASU 2016-09, the Company recognized a discrete tax expense of $292,000 to reduce deferred tax assets for cancelled awards and for detriments compared to the current year tax deduction. A discrete tax benefit of $10,767 was recognized for disqualifying dispositions of incentive stock options.

Restricted Stock Units

There were no Restricted Stock Options (RSUs) awarded to employees during fiscal 2019. A total of 91,490 RSUs with a weighted average fair value of $5.92 per share were awarded to employees during the twelve months ended June 30, 2018. 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. RSUs awarded during fiscal 2018 have a three year ratable vesting period. 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 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 $16,848 and $50,621 were accrued as of June 30, 2019 and 2018, 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, 2018	169,397	$ 8.03
Awarded	--	$ --
Vested	(113,523)	$ 8.14
Forfeited	(22,832)	$ 7.91
Unvested at June 30, 2019	33,042	$ 7.72

The Company recorded $40,893 of expense related to RSUs during fiscal year 2019. As of June 30, 2019, the 33,042 RSUs outstanding have a weighted average remaining contractual life of 3.5 years. Of the 33,042 RSUs outstanding as of June 30, 2019, 32,429 RSUs are vested or expected to vest in the future. The approximate unvested stock compensation expense that will be recorded as expense in future periods for RSU's is $45,683. The weighted average time over which this expense will be recorded is approximately 13 months. An estimated forfeiture rate of 8.3% was used in the calculation of expense related to the RSUs.

Performance Stock Units

A total of 134,350 Performance Stock Units (PSUs) with a weighted average fair value of $4.94 per share were awarded to employees during fiscal 2019 and no PSUs were awarded to employees during the twelve months ended June 30, 2018. The Company determined the fair value of the awards based on the closing price of the Company stock on the date the PSUs were awarded. The PSUs 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 PSUs in the amount of $11,310 and $0 were accrued as of June 30, 2019 and 2018, respectively. Accrued dividends are paid to the holder upon vesting of the PSUs and issuance of shares.

The following table presents information related to PSUs:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at June 30, 2018	--	$ --
Awarded	134,350	$ 4.94
Vested	--	$ --
Forfeited	(77,800)	$ 4.94
Unvested at June 30, 2019	56,550	$ 4.94

The Company recorded $62,474 of expense related to PSUs during fiscal year 2019. As of June 30, 2019, the 56,550 PSUs outstanding have a weighted average remaining contractual life of 2.1 years. Of the 56,550 PSUs outstanding as of June 30, 2019, 43,451 PSUs are vested or expected to vest in the future. The approximate unvested stock compensation expense that will be recorded as expense in future periods for PSU's is $152,172. The weighted average time over which this expense will be recorded is approximately 25 months. An estimated forfeiture rate of 11.7% was used in the calculation of expense related to the PSUs.

Director and Employee Stock Compensation Awards

The Company awarded a total of 104,020 and 41,388 common shares as stock compensation awards in fiscal years 2019 and 2018, respectively. These common shares were valued at their approximate $374,000 and $312,000 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 June 30, 2019, there were 32 participants, all with fully vested account balances. A total of 208,965 common shares with a cost of $1,468,161, and 241,996 common shares with a cost of $2,110,248 were held in the plan as of June 30, 2019 and 2018, 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 purchases of shares on the open stock market or newly issued shares as compensation deferred into the plan offset by distributions to terminated employees. The Company issued 74,721 and 67,138 new common shares for purposes of the non-qualified deferred compensation plan during fiscal 2019 and during fiscal 2018, respectively. The Company used $106,537 to purchase 15,225 common shares of the Company in the open stock market during fiscal year 2018.

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 Plan.

NOTE 10 — LEASES AND PURCHASE COMMITMENTS

Purchase commitments, including minimum annual rental commitments, of the Company totaled $21,867,000 and $21,451,000 of June 30, 2019 and June 30, 2018, respectively. The Company leases certain of its facilities and equipment under operating lease arrangements. The facility leases contain the option to renew for periods ranging from one to seven years. Rental expense was $2,654,000 and $2,867,000 in fiscal 2019 and 2018, respectively. Minimum annual rental commitments under non-cancelable operating leases are indicated in the table below:

2020	2021	2022	2023	2024	After 2025
$2,210,630	$2,198,595	$2,158,112	$2,142,479	$1,866,851	$1,605,753

NOTE 11 — INCOME TAXES

The following information is provided for the years ended June 30:

(In thousands)	**2019**	2018
Components of (loss) before income taxes:		
United States	**$ (23,005)**	$ (23,332)
Foreign	**737**	—
(Loss) before income taxes	**$ (22,268)**	$ (23,332)
Provision for income taxes:		
Current	$ **88**	$ --
U.S. federal	**221**	922
State and local	**132**	35
Total current	**441**	957
Deferred	**(6,370)**	(4,748)
Total provision for income taxes	**$ (5,929)**	$ (3,791)

(In thousands)	**2019**	2018
Reconciliation to federal statutory rate:		
Federal statutory tax rate	**21.0%**	27.6%
State and local taxes, net of federal benefit	**3.3**	1.1
Foreign operations	**(0.3)**	--
Federal tax credits	**0.8**	0.9
Valuation allowance	**3.8**	3.5
Domestic production activities deduction	**--**	0.6
Uncertain tax position activity	**0.3**	0.4
Shared based compensation	**(1.3)**	(1.3)
Tax rate changes	**(0.2)**	(14.2)
Other	**(0.8)**	(2.3)
Effective tax rate	**26.6%**	16.3%

The Tax Cuts and Jobs Act (the "Act") was signed into law in December 2017 and makes numerous changes to the Internal Revenue Code. Among other changes, the Act reduces the U.S. corporate income tax rate to 21% effective January 1, 2018. Because the Act became effective mid-way through the Company's fiscal 2018 tax year, the Company will have a U.S. statutory income tax rate of 27.6% for fiscal 2018 and will have a 21% U.S statutory income tax rate for fiscal years thereafter. During the year ended June 30, 2018, the Company recognized a net deferred tax expense of $3,322,991 as a result of the revaluation of its deferred tax balances due to the tax rate changes caused by the Act. The company completed its accounting for the income tax effects of the Act during the year ended June 30, 2018.

The components of deferred income tax assets and (liabilities) at June 30, 2019 and 2018 are as follows:

(In thousands)	**2019**	2018
Uncertain tax positions	**$ 128**	$ 119
Reserves against current assets	**1,800**	1,348
Accrued expenses	**1,722**	2,028
Interest	**388**	--
Deferred compensation	**308**	402
Stock-based compensation	**926**	1,296
State net operating loss carryover and credits	**2,374**	2,194
Long term capital loss carryforward	**2,555**	2,555
Goodwill, acquisition costs and intangible assets	**8,949**	4,728
U.S. Federal net operating loss carryover and credits	**1,139**	232
Deferred income tax asset before valuation allowance	**20,289**	14,902
Valuation allowance	**(3,820)**	(4,749)
Deferred income tax asset	**16,469**	10,153
Depreciation	**(2,169)**	(2,045)
Deferred income tax liability	**(2,169)**	(2,045)
Net deferred income tax asset	**$ 14,300**	$ 8,108

The Company has deferred tax assets for US federal net operating loss carry forwards of $914,000 and $187,000 at June 30, 2019 and June 30, 2018, respectively. The amount recognized this year of $727,000 has an indefinite carry forward period. The remainder of $187,000 was acquired from Virticus Corporation and will expire over a 3-year period beginning in June 30, 2029. The acquired federal net operating loss is subject to Internal Revenue Code Section 382. The Company has determined, more likely than not, the amount will be realized before expiration.

The Company has deferred tax assets for research and development credits of $225,000, and $45,000, at June 30, 2019 and June 30, 2018, respectively. The amount recognized this year of $180,000 has a 15 year carry forward. The remainder of $45,000 was acquired from Virticus Corporation and will expire over a 2-year period beginning June 30, 2029. The acquired credit is limited by Internal Revenue Code Section 382. The Company has determined, more likely than not, the amount will be realized before expiration.

The Company has state net operating loss carryovers and credits of $2,374,000 and $2,194,000 at June 30, 2019 and June 30, 2018, respectively. The amount recognized in fiscal 2019 relates to net deferred tax assets of $180,000 of various state net operating losses.

Also related to the acquisition of Virticus Corporation, the Company has recorded a deferred state income tax asset related to a state net operating loss carryover and a state research and development credit in Oregon in the amount of $108,000 and $108,000, for fiscal years 2019 and 2018, respectively. The Company has determined this asset more likely than not, will not be realized and that a full valuation reserve is required. The Oregon net operating loss will expire over a period of 4 years, beginning in June 30, 2027.

As of June 30, 2019, and 2018, the Company has recorded a deferred state income tax asset net of federal tax benefits related to non-refundable New York state tax credits in the amount of $2,086,000 and $2,086,000, respectively. These credits do not expire, but pursuant to New York state legislation enacted in fiscal 2014, the Company has determined that this asset, more likely than not, will not be realized. As of June 30, 2019, and 2018, the Company has recorded a full valuation reserve in the amount of $2,086,000 and $2,086,000, respectively.

During fiscal 2015, the Company generated a capital loss from the sale of a Canadian subsidiary. During fiscal 2019, the Company entered into an agreement to sell its New Windsor, NY facility, which is expected to close in the first quarter of fiscal 2020 and result in a taxable capital gain. The Company expects to use $929,000 of the capital loss deferred tax asset, and therefore, released a valuation allowance for this amount this year. The remaining capital loss carryforward deferred tax asset of $1,626,000 has a full valuation allowance established against it because the Company has no expectation of generating capital gains to utilize the loss before it expires at the end of June 30, 2020.

Considering all issues discussed above, the Company has recorded valuation reserves of $3,820,000 and $4,749,000 as of June 30, 2019 and 2018, respectively.

At June 30, 2019, tax, interest, and penalties, net of potential federal tax benefits, were $586,000, $245,000, and $151,000, respectively, of the total reserve for uncertain tax positions of $982,000. The entire uncertain tax position of $586,000, net of federal tax benefit, would impact the effective tax rate if recognized. At June 30, 2018, tax, interest, and penalties, net of potential federal tax benefits, were $651,000, $259,000, and $159,000 respectively, of the total reserve for uncertain tax positions of $1,069,000. The entire uncertain tax position of $651,000 net of federal tax benefit, would impact the effective tax rate if recognized. The liability for uncertain tax position is included in Other Long-Term Liabilities.

The Company is recording estimated interest and penalties related to potential underpayment of income taxes as a component of tax expense in the Consolidated Statements of Operations. The Company recognized a $65,000 net tax benefit in fiscal 2019 and $20,000 net tax benefit in fiscal 2018, related to the change in reserves for uncertain tax positions. The Company recognized interest net of federal benefit and penalties of $14,000 and $7,000, respectively, in fiscal 2019 and $9,000 and $35,000, respectively, in fiscal 2018. The reserve for uncertain tax positions is not expected to change significantly in the next twelve months.

The tax activity in the liability for uncertain tax positions was as follows:

(in thousands)	**2019**	2018
Balance at beginning of the fiscal year	**$ 736**	$ 842
Decreases — tax positions in prior period	**(120)**	(185)
Increases — tax positions in current period	**59**	41
Increases – tax positions in prior period	**---**	42
Settlements and payments	**---**	(4)
Lapse of statute of limitations	**---**	—
Balance at end of the fiscal year	**$ 675**	$ 736

The Company files a consolidated federal income tax return in the United States, and files various combined and separate tax returns in several state and local jurisdictions. With limited exceptions, the Company is no longer subject to U.S. Federal, state and local tax examinations by tax authorities for fiscal years ending prior to June 30, 2016. The Internal Revenue Service completed the audit of the tax year ended June 30, 2016.

NOTE 12 — SUPPLEMENTAL CASH FLOW INFORMATION

(In thousands)	**2019**	2018
Cash payments for:		
Interest	**$ 2,222**	$ 1,582
Income taxes	**$ 86**	$ 1,854
Non-cash investing and financing activities		
Issuance of common shares as compensation	**$ 355**	$ 319
Issuance of common shares to fund deferred compensation plan	**$ 290**	$ 429

NOTE 13 — COMMITMENTS AND CONTINGENCIES

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

The Company may occasionally issue a standby letter of credit in favor of third parties. As of June 30, 2019, there were no such standby letters of credit issued.

NOTE 14 – SEVERANCE COSTS

The Company recorded severance charges of $560,000 and $1,900,000 in fiscal 2019 and 2018, respectively. This severance expense was related to reductions in staffing not related to plant restructuring. See further discussion of restructuring expenses in Note 15.

The activity in the Company's accrued severance liability was as follows for the twelve months ended June 30, 2019 and 2018:

(In thousands)	**Fiscal Year Ended June 30, 2019**	Fiscal Year Ended June 30, 2018
Balance at beginning of the period	**$ 1,772**	$ 235
Accrual of expense	**560**	1,900
Payments	**(1,198)**	(363)
Adjustments	**—**	—
Balance at end of the period	**$ 1,134**	$ 1,772

Of the total $1,134,000 severance reserve reported as of June 30, 2019, $591,000 has been classified as a current liability and will be paid out over the next twelve months. The remaining $543,000 has been classified as a long-term liability.

NOTE 15 – RESTRUCTURING COSTS

On October 29, 2018, the Company announced plans to close its lighting manufacturing facility in New Windsor, New York. The closure was part of ongoing actions to align the Company's supply chain to more cost effectively serve the changing requirements of the lighting market. The Company moved production to its other existing facilities in the third and fourth quarters of fiscal 2019 with the completion of the transfer in May 2019. The closure allowed the Company to improve utilization of existing manufacturing capacity and will generate annual savings of approximately $4.0 million. Further, the Company previously announced that it entered into a definitive agreement to sell the New Windsor, New York manufacturing facility for approximately $12 million. It is likely the formal sale of the facility will occur in the first quarter of fiscal 2020 which is expected to generate a book gain. The sale of the facility is listed as an asset held for sale as of June 30, 2019. As of June 30, 2019, the Company has incurred restructuring costs of $1,650,000 related to the closure of the New Windsor, New York facility. The Company also incurred $1,119,000 of expense in fiscal 2019 to write-down inventory which is not included in the tables below.

In the first quarter of fiscal 2019, management approved the closure of its 12,000 square foot leased facility in Hawthorne, California. The facility was used as a warehouse and for light assembly of light fixtures. The Company has moved the light assembly to its Blue Ash, Ohio facility. The restructuring charges consist primarily of transportation costs to move inventory to Blue Ash, the impairment of equipment, costs to restore the leased facility, and severance benefits. As of June 31, 2019, the Company has incurred restructuring costs of $156,000 related to the closure of the Hawthorne facility. The Company also incurred $148,000 of expense to write-down inventory which is a re-valuation of the previous estimate and which is not included in the tables below.

The following table presents information about restructuring costs recorded in fiscal 2019:

(In thousands)	Total Fiscal 2019 Restructuring Costs
Severance and other termination benefits	$ 537
Lease obligation	99
Impairment of fixed assets and accelerated depreciation	427
Other	743
Total	$ 1,806

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

(In thousands)	**Total Fiscal 2019 Restructuring Costs**	Total Fiscal 2018 Restructuring Costs
Cost of Goods Sold	**$ 1,441**	$ --
Operating Expenses	**365**	--
Total	**$ 1,806**	$ --

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

(In thousands)	Total Fiscal 2019 Restructuring Expenses	Total Fiscal 2018 Restructuring Expenses
Lighting Segment	**$ 1,757**	$ --
Graphics Segment	**--**	--
Corporate and Eliminations	**49**	--
Total	**$ 1,806**	$ --

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

(In thousands)	Balance as of June 30, 2018	Restructuring Expense	Payments	Adjustments	Balance as of June 30, 2019
Severance and termination benefits	$ --	$ 537	$ (301)	$ --	$ 236
Facility repairs	--	99	(99)	--	--
Other restructuring costs	--	743	(743)	--	--
Total	$ --	$ 1,379	$ (1,143)	$ --	$ 236

Refer to Note 14 for information regarding additional severance expenses that are not included in the restructuring costs identified in this footnote.

NOTE 16 — RELATED PARTY TRANSACTIONS

The law firm of Keating Muething & Klekamp PLL, of which the son of one of the Company's previous independent outside directors is a partner, provides certain legal services to the Company. Wesco International, of which one of the Company's independent outside directors is a director, purchases lighting fixtures from the Company.

The Company has recorded expense for the following related party transactions in the fiscal years indicated:

(In thousands)	**2019**	2018
Keating Muething & Klekamp PLL	**$ 406**	$ 161

As of the balance sheet date indicated, the Company had the following liabilities recorded with respect to related party transactions:

(In thousands)	**June 30, 2019**	June 30, 2018
Keating Muething & Klekamp PLL	**$ —**	$ —

The Company has recognized revenue related to the following related party transactions in the fiscal years indicated:

(In thousands)	**2019**	2018
Wesco International	**$ 1,347**	$ 3,200

As of the balance sheet date indicated, the Company had the following accounts receivable recorded with respect to related party transactions:

(In thousands)	**June 30, 2019**	June 30, 2018
Wesco International	**$ 55**	$ 16

NOTE 17 — SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

(In thousands except per share data)	Quarter Ended Sept. 30	Quarter Ended Dec. 31	Quarter Ended March 31	Quarter Ended June 30	Fiscal Year
2019					
Net sales	$ 84,957	$ 89,541	$ 72,832	$ 81,522	$ 328,852
Gross profit	21,261	19,656	15,337	17,459	73,713
Net income (loss)	1,749	(15,782)	(3,168)	862	(16,339)
Earnings (loss) per share					
Basic	$ 0.07	$ (0.61)	$ (0.12)	$ 0.03	$ (0.63)
Diluted	$ 0.07	$ (0.61)	$ (0.12)	$ 0.03	$ (0.63)
Range of share prices					
High	$ 5.62	$ 4.63	$ 3.86	$ 3.72	$ 5.62
Low	$ 4.20	$ 3.15	$ 2.51	$ 2.59	$ 2.51
2018					
Net sales	$ 87,466	$ 92,305	$ 78,843	$ 83,409	$ 342,023
Gross profit	23,703	25,307	19,918	20,306	89,234
Net (loss) income	(15,629)	(1,468)	220	(2,664)	(19,541)
(Loss) per share					
Basic	$ (0.61)	$ (0.06)	$ (0.01)	$ (0.10)	$ (0.76) (a)
Diluted	$ (0.61)	$ (0.06)	$ (0.01)	$ (0.10)	$ (0.76) (a)
Range of share prices					
High	$ 9.27	$ 7.49	$ 8.88	$ 8.11	$ 9.27
Low	$ 4.99	$ 6.07	$ 6.70	$ 4.91	$ 4.91

(a) The total of the earnings per share for each of the four quarters does not equal the total earnings per share for the full year because the calculations are based on the average shares outstanding during each of the individual periods. There is no difference between basic and diluted shares due to losses

At August 30, 2019, there were approximately 653 shareholders of record. The Company believes this represents approximately 3,000 beneficial shareholders.

LSI INDUSTRIES INC. AND SUBSIDIARIES
SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 2019 and 2018
(In thousands)

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN4 E	COLUMN F
Description	Balance Beginning of Period	Additions Charged to Costs and Expenses	Additions From Company Acquired	(a) Deductions	Balance End of Period
Allowance for Doubtful Accounts:					
Year Ended June 30, 2019	$ 409	$ 776	$ —	$ (306)	$ 879
Year Ended June 30, 2018	$ 506	$ 214	$ —	$ (311)	$ 409
Inventory Obsolescence Reserve:					
Year Ended June 30, 2019	$ 3,632	$ 3,641	$ —	$ (2,668)	$ 4,605
Year Ended June 30, 2018	$ 2,815	$ 2,605	$ —	$ (1,788)	$ 3,632
Deferred Tax Asset Valuation Reserve:					
Year Ended June 30, 2019	$ 4,749	$ —	$ —	$ (929)	$ 3,820
Year Ended June 30, 2018	$ 5,556	$ —	$ 183	$ (990)	$ 4,749

(a) For Allowance for Doubtful Accounts, deductions are uncollectible accounts charged off, less recoveries.

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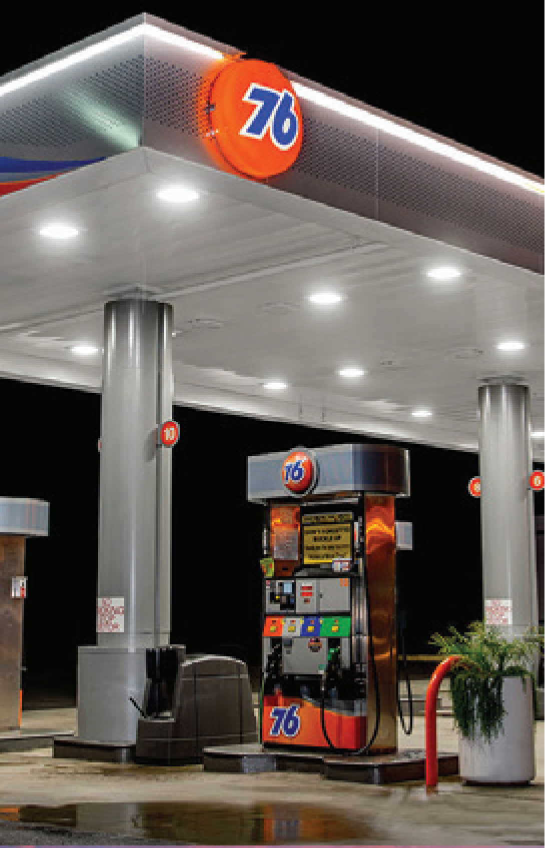

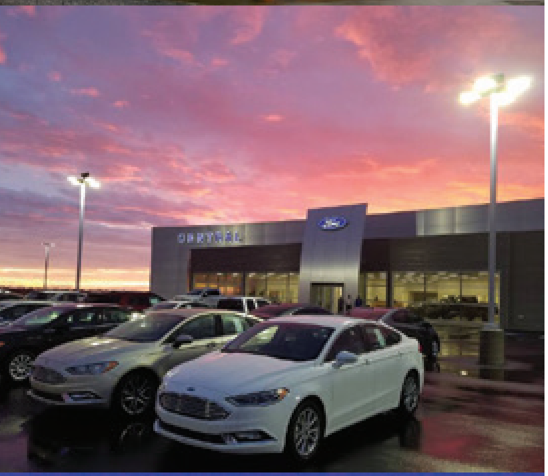

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- Area Lighting
- Direct Lighting
- Landscape Lighting
- Sports Lighting
- Indoor Lighting
- Hi-Bay Lighting
- Dimensional Logo
- Architectural Signage and Structures
- Department and Perimeter Signage and Décor
- Wayfinding and Aisle Markers/ Guides
- Wall Graphics, Murals, and Stencils
- Digital Menu Boards and Interactive Kiosks & Displays
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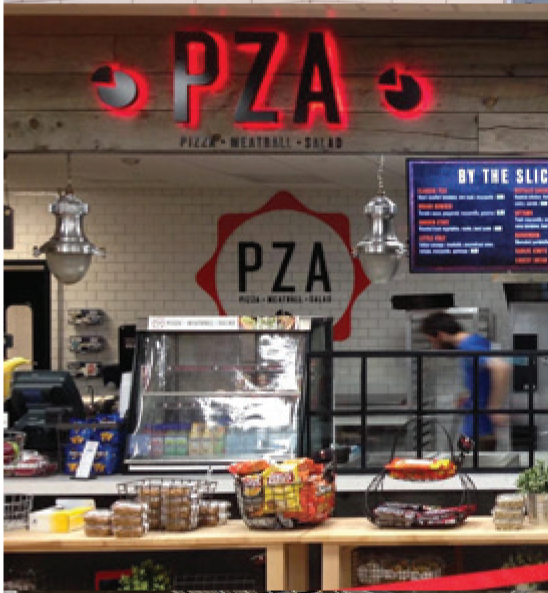

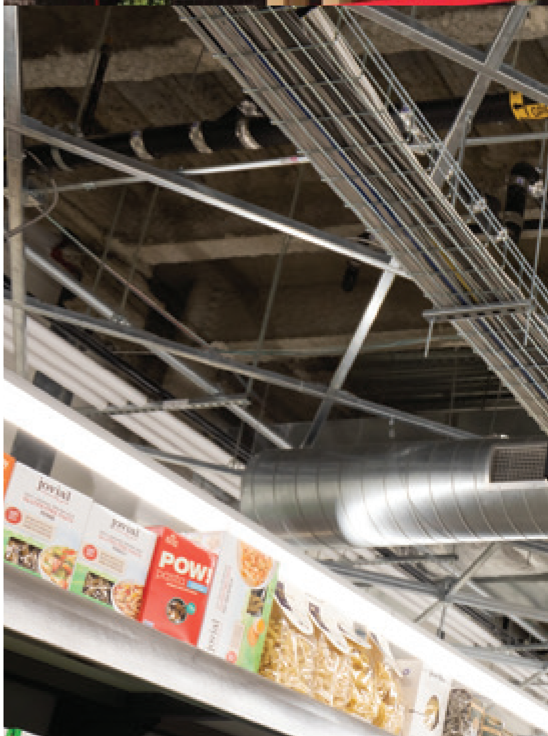

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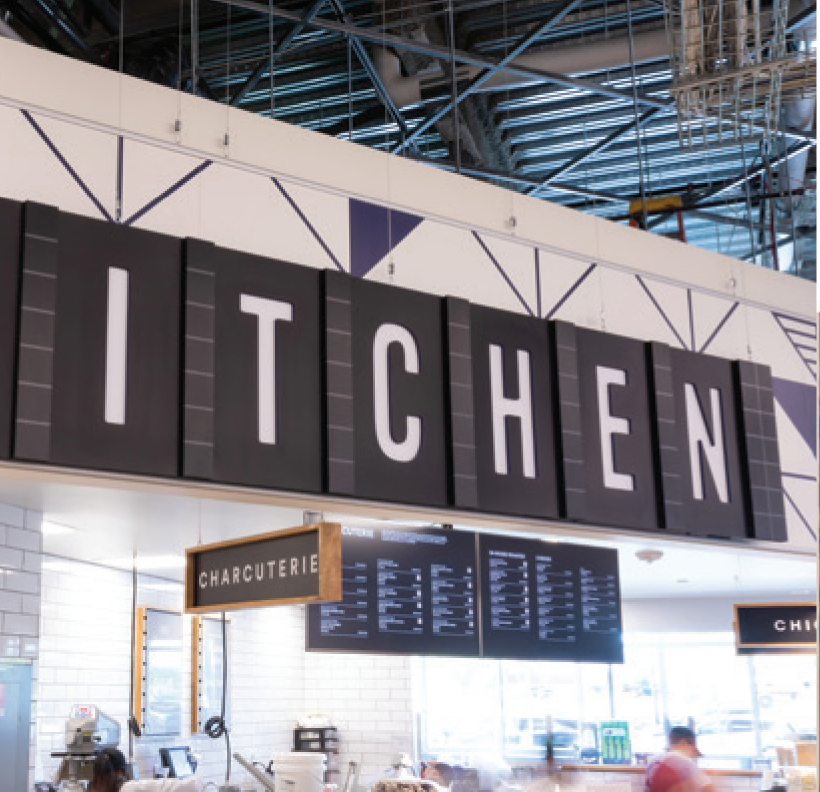

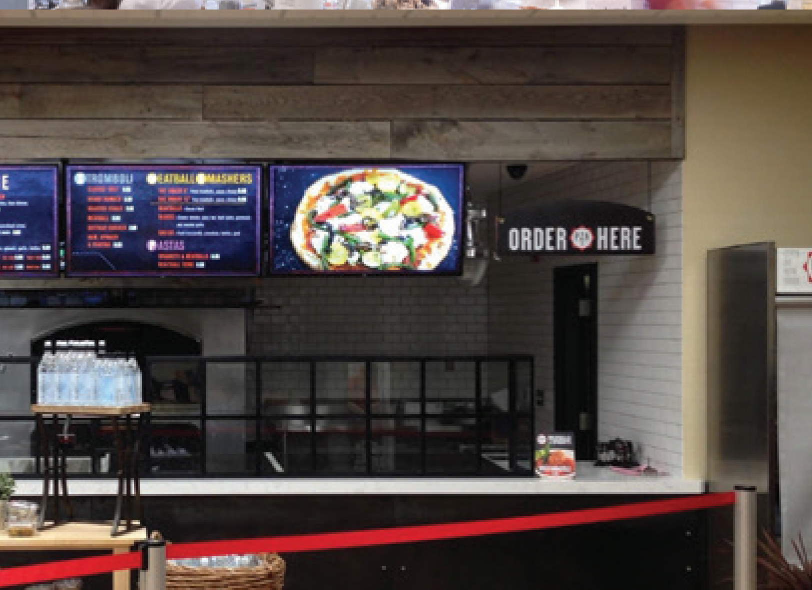

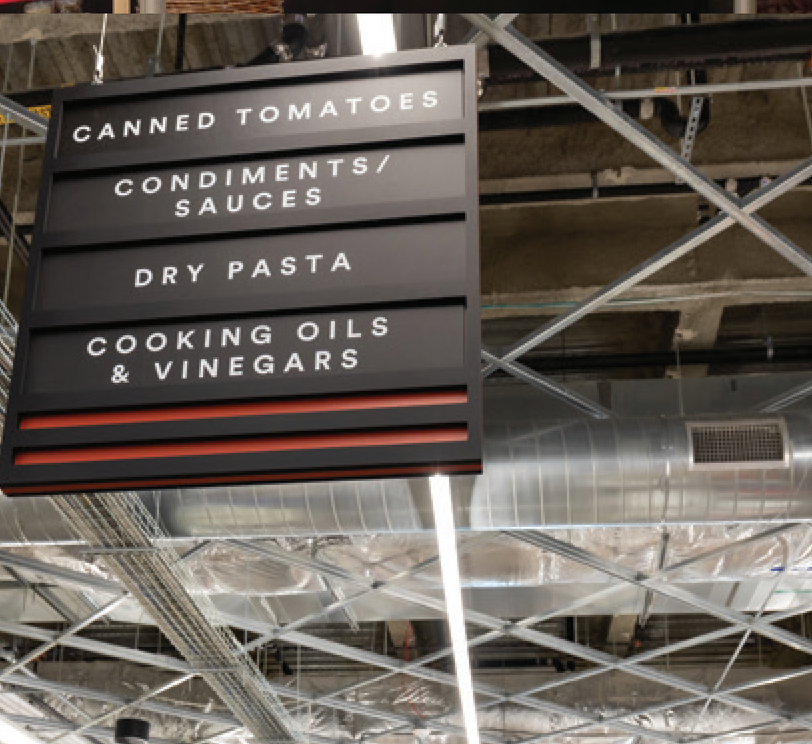

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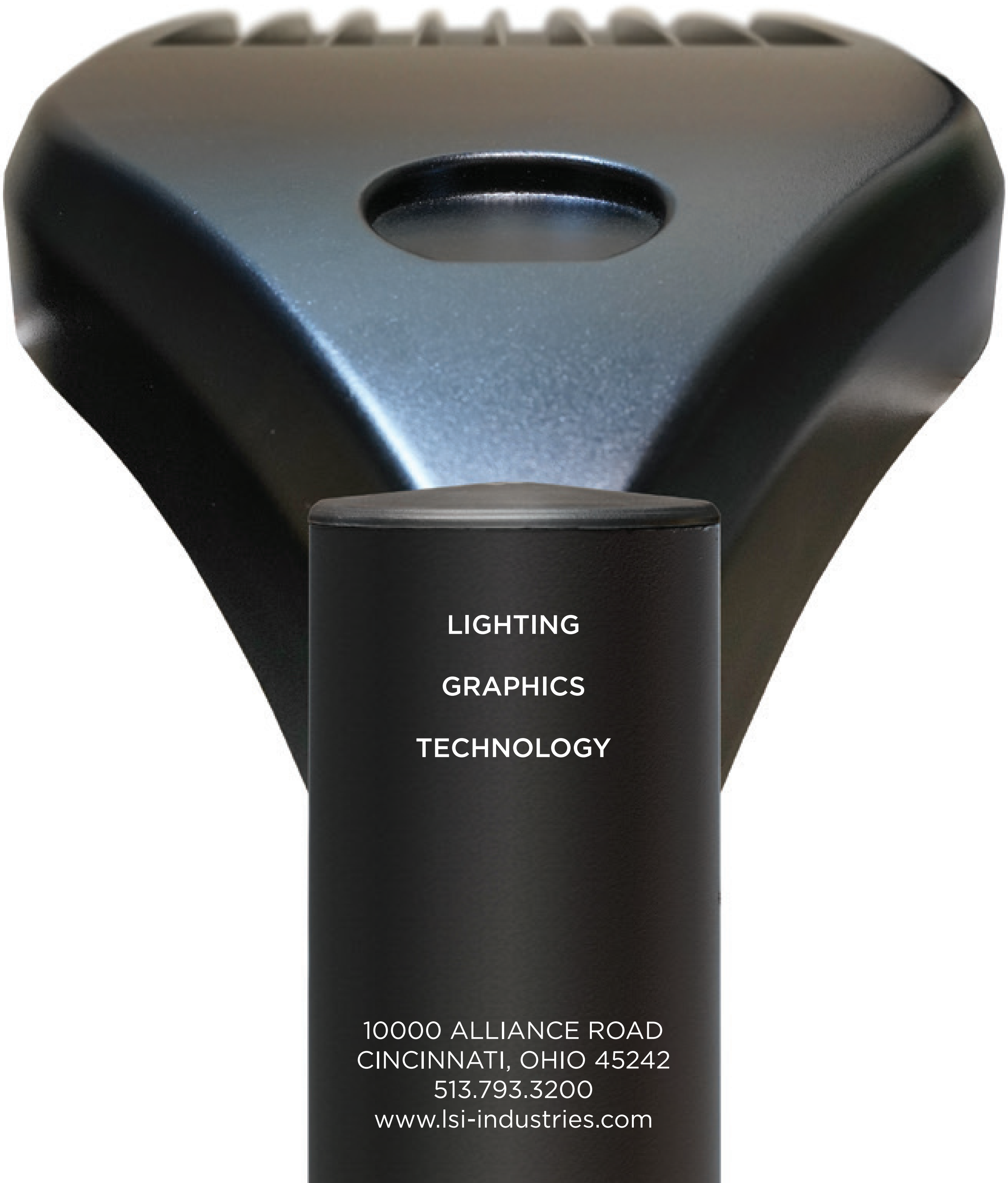

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