LSI INDUSTRIES INC
Form 10-K
September 06, 2012

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2012.

OR

o 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	Name of each exchange on which registered
Common shares, no par value	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 o No þ

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 o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

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

As of December 31, 2011, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $136,048,000 based upon a closing sale price of $6.00 per share as reported on The NASDAQ Global Select Market.

At August 17, 2012 there were 24,020,475 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 2012 Annual Meeting of Shareholders are incorporated by reference in Part III, as specified.

LSI INDUSTRIES INC.
2012 FORM 10-K ANNUAL REPORT
TABLE OF CONTENTS

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

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

PART I

ITEM 1. BUSINESS

Our Company

We are a leading provider of comprehensive corporate visual image solutions through the combination of extensive screen and digital graphics capabilities, a wide variety of high quality indoor and outdoor lighting products, lighting control systems, and related professional services. We also provide graphics and lighting products and professional services 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. In addition, we are a leading provider of digital solid-state LED (light emitting diode) video screens and LED specialty lighting to such markets or industries as sports stadiums and arenas, digital billboards, and entertainment. We design and develop all aspects of the solid-state LED video screens and lighting, from the electronic circuit board, to the software to drive and control the LEDs, to the structure of the LED product.

The Company seeks to expand its market share in the traditional Commercial/Industrial lighting market by combining its LED product innovation and lighting control solutions with a strong emphasis on high service levels, U.S. manufactured products and market focused solutions. We offer a complete line of competatively priced energy efficient exterior and interior lighting products. Our solutions are targeted to both energy retrofit and new construction markets.

We believe that national retailers and niche market companies 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, technology and 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 standard, high-production lighting products, custom graphics applications and professional services to create complete customer-focused visual image solutions. We also offer products and services 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 graphics and lighting products and 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, lighting products, lighting control systems, LED video screens, 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. We develop and manufacture lighting, lighting control systems, graphics and solid-state LED video screen and lighting products and distribute them through an extensive multi-channel distribution network that allows us to effectively service our target markets. Representative customers include BP, Chevron Texaco, 7-Eleven, ExxonMobil, Shell, Burger King, Dairy Queen, Taco Bell, Wendy's, Best Buy, CVS Caremark, JC Penney, Target Stores, Wal-Mart Stores, Chrysler, Ford, General Motors, Nissan, and Toyota. We service our customers at the corporate, franchise and local levels.

Our business is organized as follows: the Lighting Segment, which represented 74% of our fiscal 2012 net sales; the Graphics Segment, which represented 16% of our fiscal 2012 net sales; the Electronic Components Segment, which represented 7% of our fiscal 2012 net sales; and an All Other Category, which represented 3% of our fiscal 2012 net sales. Our most significant market, which includes sales of both the Lighting Segment and the Graphics Segment, is the petroleum / convenience store market with approximately 28%, 35%, and 34% of total net sales concentrated in this market in the fiscal years ended June 30, 2012, 2011, and 2010, respectively. See Note 2 of Notes to Consolidated Financial Statements beginning on page F-26 of this Form 10-K for additional information on business segments. Net sales by segment are as follows (in thousands):

	2012	2011	2010
Lighting Segment	$ 199,610	$ 197,632	$ 166,175
Graphics Segment	42,131	67,073	61,325
Electronic Components Segment	18,515	21,449	16,116
All Other Category	8,146	7,347	10,786
Total Net Sales	$ 268,402	$ 293,501	$ 254,402

Lighting Segment

Our Lighting Segment manufactures and markets outdoor and indoor lighting for the commercial, industrial and multi-site retail markets, including the petroleum / convenience store market. Our products are designed and manufactured to provide maximum value and meet the high-quality, competitively-priced product requirements of our niche markets. We generally avoid specialty or custom-designed, low-volume products for single order opportunities. We do, however, design proprietary products used by our national account customers in large volume, and occasionally also provide custom products for large, specified projects. Our concentration is on our high-volume, standard product lines that meet our customers' needs. By focusing our product offerings, we achieve significant manufacturing and cost efficiencies.

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 down-lighting, wall-wash lighting, canopy lighting, flood-lighting, area lighting and security lighting. Our engineering staff performs photometric analyses, wind load safety studies for all light fixtures and also designs our fixtures and lighting systems. Our lighting products utilize a wide variety of different light sources, including solid-state LED, high-intensity discharge metal-halide, and fluorescent. The major products and services offered within our lighting segment include: exterior area lighting, interior lighting, canopy lighting, landscape lighting, LED lighting, light poles, lighting analysis, photometric layouts, and solid state LED video screens for the sports and advertising markets. 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 LED color and white lightsource solutions for our Lighting, Graphics and Technology applications, which, when combined with the Company's lighting fixture expertise and 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 the present metal halide and fluorescent lighting fixtures.

Lighting Segment net sales of $199,610,000 in fiscal 2012 increased 1.0% from fiscal 2011 net sales of $197,632,000. The $2.0 million increase in Lighting Segment net sales is primarily the result of a $5.6 million or 6.2% net increase in lighting sales to our niche markets and national retail accounts, and a $4.6 million or 4.9% decrease in commissioned net sales to the commercial / industrial lighting market. The Company replaced certain commissioned sales representatives during fiscal 2012, which has the short-term effect of disrupting sales with a view towards strategic sales growth in the long-term. Lighting Segment sales to the international markets increased 1.8% to $13.0 million. Sales of lighting to the petroleum / convenience store market represented 28.1% and 28.5% of Lighting Segment net sales in fiscal years 2012 and 2011, respectively. Lighting Segment net sales of lighting to this, the Company's largest niche market, were down 0.4% from last year to $56,136,000. Included in the net change, and offsetting other increases, was a $9.7 million decrease related to the December 2010 conclusion of a program with 7-Eleven, Inc., who replaced traditional canopy, site and sign lighting with solid-state LED lighting. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled $68.9 million in fiscal 2012, representing a 14.8% increase from fiscal 2011 net sales of solid-state LED light fixtures of $60.0 million. The Lighting Segment's net sales related to LED video screens totaled $1.9 million, representing a 73.7% increase from fiscal 2011 sales of $1.1 million.

Lighting Segment net sales of $197,632,000 in fiscal 2011 increased 18.9% from fiscal 2010 net sales of $166,175,000. The $31.5 million increase in Lighting Segment net sales is primarily the net result of a $15.8 million or 21.3% net increase in lighting sales to our niche markets (petroleum / convenience store market net sales were up

18%, net sales to the automotive dealership market were up 57%, and net sales to the quick service restaurant market were up 20%) and national retail accounts, a $17.0 million or 22.0% increase in commissioned net sales to the commercial / industrial lighting market, and decreased net sales to the LED video sports screen market ($6.0 million or 85% decrease). Sales of lighting to the petroleum / convenience store market represented 29% of Lighting Segment net sales in fiscal years 2011 and 2010, respectively. Lighting Segment net sales of lighting to this, the Company's largest niche market, were up 18% from fiscal 2010 to $56,369,000, with approximately $10.2 million related to a program with 7-Eleven, Inc., who replaced traditional canopy, site and sign lighting with solid-state LED lighting. Lighting Segment fiscal 2010 net sales to 7-Eleven, Inc. were approximately $21.4 million for a similar LED replacement lighting program. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled $60.0 million in fiscal 2011, representing a 59% increase from fiscal 2010 net sales of solid-state LED light fixtures of $37.8 million.

Graphics Segment

The Graphics Segment manufactures and sells exterior and interior visual image elements related to graphics. These products are used in graphics displays and visual image programs in several markets, including the petroleum/convenience store market 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 corporations and design firms to establish and implement cost effective corporate visual image programs. Increasingly, we have become the primary supplier of exterior and interior graphics for our customers. We also offer installation or 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. In the past two years, we believe many of our retail customers have delayed their normal cycle of image refresh or conversions, and therefore will need to implement changes in the near future to maintain a safe, fresh or new image on their site in order to maintain or grow their market share.

The major products and services offered within our Graphics Segment include the following: signage and canopy graphics, pump dispenser graphics, building fascia graphics, decals, interior signage and marketing graphics, aisle markers, wall mural graphics, fleet graphics, prototype program graphics, and installation services for graphics products.

Graphics Segment net sales of $42,131,000 in fiscal 2012 decreased 37.2% from fiscal 2011 net sales of $67,073,000. The $24.9 million decrease in Graphics Segment net sales is primarily the net result of the completion of the program with 7-Eleven, Inc. ($23.8 million decrease), image conversion programs and sales to four petroleum / convenience store customers ($1.9 million net decrease), two grocery retailers ($1.4 million net increase), a national drug store retailer ($1.4 million increase), and changes in volume or completion of several other graphics programs. Sales of graphics products and services to the petroleum / convenience store market represented 42.9% and 70.7% of Graphics Segment net sales in fiscal years 2012 and 2011, respectively. Graphics Segment net sales of graphics to this, the Company's largest niche market, were down 61.9% from last year to $18,054,000, with approximately $23.8 million of the decrease related to the completion of the program with 7-Eleven, Inc., who replaced traditional sign lighting with solid-state LED lighting. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Graphics Segment net sales of graphic identification products that contain solid-state LED light sources and LED lighting for signage totaled $1.0 million in fiscal 2012 as compared to $3.9 million in the same period of the prior year.

Graphics Segment net sales of $67,073,000 in fiscal 2011 increased 9.4% from fiscal 2010 net sales of $61,325,000. The $5.7 million increase in Graphics Segment net sales is primarily the net result of image conversion programs and sales to twelve petroleum / convenience store customers ($8.7 million net increase), grocery market ($2.5 million decrease), a national drug store retailer ($3.2 million decrease), a fast food restaurant chain ($1.1 million increase), and changes in volume or completion of several other graphics programs. Sales of graphics products and services to the petroleum / convenience store market represented 71% and 63% of Graphics Segment net sales in fiscal years 2011 and 2010, respectively. Graphics Segment net sales of graphics to this, the Company's largest niche market, were up 23% from fiscal 2010 to $47,394,000, with approximately $29.7 million related to a program with 7-Eleven, Inc., who replaced traditional sign lighting with solid-state LED lighting. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Graphics Segment net sales of solid-state LED lighting for signage totaled $3.9 million in fiscal 2011 as compared to $13.2 million in the prior year.

Electronic Components Segment

The Electronic Components Segment includes the results of LSI ADL Technology and LSI Virticus. ADL Technology operates in Columbus, Ohio and designs, engineers and manufactures custom designed electronic circuit boards, assemblies and sub-assemblies used in various applications including the control of solid-state LED lighting. The Company acquired AdL Technology in fiscal 2010 as a vertical integration of circuit boards for LED lighting as well as the Company's other LED product lines such as digital scoreboards, advertising ribbons and billboards. LSI ADL Technology allows the Company to stay on the leading edge of product development, while at the same time providing opportunities to drive down manufacturing costs and control delivery of key components. LSI Virticus, acquired by the Company in March 2012, operates in Portland, Oregon and designs, engineers and assembles wireless, internet-based lighting control systems.

Electronic Components Segment net sales of $18,515,000 in fiscal 2012 decreased 13.7% from fiscal 2011 net sales of $21,449,000. (Beginning in March 2012, the operating results of LSI Virticus are combined with the operating results of LSI ADL Technology to represent the Electronic Components Segment. LSI Virticus sales represent a small share of total segment sales.) The $2.9 million decrease in Electronic Components Segment net sales is primarily the result of a $0.4 million decrease in sales to original equipment manufacturers, a $0.1 million decrease to medical markets, a $0.8 million decrease to retail markets, and a $1.1 million decrease to telecommunications markets. In addition to the Segment's decline in customer sales, its inter-segment sales decreased 13.9% due to inventory rationalization and reductions of LED circuit board assemblies used in light fixtures having solid-state LED technology.

Electronic Components Segment net sales of $21,449,000 in fiscal 2011 increased 33.1% from fiscal 2010 net sales of $16,116,000. The $5.3 million increase in Electronic Components Segment net sales is primarily the net result of a $2.9 million increase to industrial markets, $1.0 million decrease to telecommunications markets, $0.8 million increase to retail markets, $0.5 million increase to medical markets and $0.2 million decrease to transportation related markets. In addition to this segment's growth in customer sales, its inter-segment net sales grew 374% in support of LED lighting sales.

All Other Category

The All Other Category includes the results of all LSI operations that are not able to be aggregated into one of the three reportable business segments. Operating results of LSI Saco Technologies, LSI Images, LSI Adapt and LSI Marcole are included in the All Other Category. The major products and services offered by operations included in the All Other Category include: design, production, and support of high-performance light engines and large format video screens using LED technology; exterior and interior menu board systems primarily for the quick service restaurant market; and surveying, permitting and installation management services related to products of the Graphics Segment; and for fiscal 2010, electrical wire harnesses (for LSI's light fixtures and for the white goods or appliance industry). LSI Saco Technologies offers its customers expertise in developing and utilizing high-performance LED color and white lightsource solutions for both lighting and graphics applications. This technology has been applied in the Company's Lighting Segment 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 the traditional metal halide and fluorescent lighting fixtures. Additionally, this LED technology is used in the Company's Graphics Segment to light, accent and provide color lighting to graphics display and visual image programs of the Company's retail, quick service restaurant and sports market customers.

All Other Category net sales of $8,146,000 in fiscal 2012 increased 10.9% from fiscal 2011 net sales of $7,347,000. The $0.8 million increase in the All Other Category net sales is primarily the net result of increased net menu board sales to fast food chains ($1.2 million) and increased installation management revenue ($1.2 million), partially offset by decreased LED video screen and specialty LED lighting sales to the Entertainment and other markets ($1.7 million).

All Other Category fiscal 2011 net sales of $7,347,000 decreased $3.4 million or 31.9% from fiscal 2010 primarily as the net result of increased net sales of menu board systems ($0.2 million), decreased sales of LED video screens to the entertainment and other markets ($3.0 million), no sales of electrical wire harnesses ($2.9 million) and changes in volume or completion of other customer programs. The Company sold its wire harness operation and business at the end of the third quarter of fiscal 2010 and thereafter had no further sales of wire harnesses.

Goodwill and Intangible Asset Impairment

In fiscal 2012, we recorded a $258,000, non-cash full goodwill impairment charge in one of the reporting units in the Graphics Segment due to a decline in estimated discounted cash flows and a decline in the market capitalization of the

Company. There was no impairment of the Company's indefinite-lived intangible assets.

There were no impairments of goodwill or intangible assets in fiscal 2011.

Our Competitive Strengths

Single Source Comprehensive Visual Image Solution Provider. We believe that we are the only company serving our target markets that combines significant 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 the majority of our target markets as defined by our revenues, 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 combine existing graphics, lighting and image element offerings, develop products and add services to create comprehensive solutions for our customers.

Product Development Focus. We believe that our ability to successfully identify, patent and develop new products has allowed us to expand our market opportunity and enhance our market position. Our product development initiatives are designed to increase the value of our product offering by addressing the needs of our customers and target markets through innovative retrofit enhancements to existing products or the development of new products. In addition, we believe our product development 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.

Development of Innovative and Patentable Solid State Lighting Technology. We have developed an expanding portfolio of technology patents related to the design of LED based products which are used to establish performance based product leadership in the markets we serve.

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, including customers such as BP, 7-Eleven, Chevron, CVS Caremark and Burger King. 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.

Well-capitalized Balance Sheet. As part of our long-term operating strategy, we believe the Company maintains a conservative capital structure. With a strong 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 continue important R&D and capital spending.

Aggressive Use of Our Image Center Capabilities. Our image center and i-Zone marketing center capabilities provide us with a distinct competitive advantage to demonstrate the effectiveness of integrating graphics and lighting into a complete corporate visual image program. Our technologically advanced image centers, which demonstrate the depth and breadth of our product and service offerings, have become an effective component of our sales process.

Maintain our Vertically Integrated Business Model. We consider our company to be a vertically integrated manufacturer rather than a product assembler. We focus on developing unique customer-oriented products, solutions and technology, and outsource certain non-core processes and product components as necessary.

Sales, Marketing and Customers

Our lighting products are sold primarily throughout the United States, but also in Canada, Australia, Latin America, Europe and the Middle East (about 6% of total net sales are outside the United States) using a combination of regional sales managers, independent sales representatives and distributors. Although in some cases we sell directly to national firms, more frequently we are designated as a preferred vendor for product sales to customer-owned as well as franchised, licensed and dealer operations. Our graphics products, which are program-driven, LED video screens, electronic components, and other products and services sold by operations in the All Other Category are sold primarily through our own sales force. Our marketing approach and means of distribution vary by product line and by type of market.

Sales are developed by contacts with 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. Our sales are partially seasonal as installation of outdoor lighting and graphic systems in the northern states decreases during the winter months.

Our Image center and i-Zone marketing center capabilities are important parts of our sales process. The image center, unique within the lighting and graphics industry, is a facility 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 our image center and i-Zone marketing center capabilities result in 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 our Image center and i-Zone marketing center capabilities 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.

Manufacturing and Operations

We design, engineer and manufacture substantially all of our lighting and graphics products through a vertically integrated business model. By emphasizing high-volume production of standard product lines, we achieve significant manufacturing efficiencies. When appropriate, we utilize alliances with vendors to outsource certain products and assemblies. LED 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 any of our component parts.

The principal raw materials and purchased components used in the manufacturing of our products are steel, aluminum, wire harnesses, sockets, lamps, certain fixture housings, acrylic and glass lenses, lighting ballasts, inks, various graphics substrates such as decal material and vinyls, LEDs and electronic components. 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 quarterly or annual contracts with certain of our suppliers. Our Lighting operations generally carry a certain level of sub-assemblies in inventory and relatively small amounts of finished goods inventory, except for certain products that are stocked to meet quick delivery requirements. Most often, lighting products are made to order and shipped shortly after they are manufactured. Our Graphics operations manufacture custom graphics products for customers who frequently require us to stock certain amounts of finished goods in exchange for their commitment to that inventory. 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, or worldwide shortages of electronic components. LED products are generally made to order and shipped shortly after assembly is complete. Customers purchasing LED video screens routinely give us cash advances for large projects prior to shipment. Our Electronic Components operation purchases electronic components from multiple suppliers and manufactures custom electronic circuit boards. Most products are made to order and, as a result, this operation does not carry very much finished goods.

We believe we are a low-cost producer for our types of products, and as such, are in a position to promote our product lines with substantial marketing and sales activities.

We currently operate out of twelve manufacturing facilities and two sales facilities in eight U.S. states and Canada. During fiscal 2012, we added a facility with the acquisition of Virticus Corporation. During fiscal 2011, we consolidated our smallest Lighting manufacturing facility into our largest facility.

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.

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 harshest winter months. We had a backlog of orders, which we believe to be firm, of $32.2 million and $28.7 million at June 30, 2012 and 2011, respectively. All orders are believed to be shippable or installed within twelve months. The increase as of June 30, 2012 relates primarily to an increase of orders in our Lighting Segment.

We have approximately 1,246 full-time and 210 temporary employees as of June 30, 2012. We offer a comprehensive compensation and benefit program to most employees, including competitive wages, a discretionary bonus plan, a profit-sharing plan and retirement plan, and a 401(k) savings plan (for U.S. employees), a non-qualified deferred compensation plan (for certain employees), an equity compensation plan, and medical and dental insurance.

We file reports with the Securities and Exchange Commission (“SEC”) on Forms 10-K, 10-Q and 8-K. You may read and copy any materials filed with the SEC at its public reference room at 100 F. Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain that information by calling the SEC at 1-800-SEC-0330. 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 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.

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 than we have. 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 are attempting 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.

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

Our businesses operate in several market segments including commercial, industrial, retail, petroleum / convenience store and entertainment. 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.

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, the current uncertain macro-economic and political climate, including but not limited to the effects of 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 — mainly steel, aluminum, light bulbs and fluorescent tubes, lighting ballasts, sockets, wire harnesses, plastic, lenses, glass lenses, vinyls, inks, LEDs, electronic components and corrugated cartons. Materials comprise the largest component of costs, representing approximately 61% and 62% of the cost of sales in 2012 and 2011, respectively. While we have multiple sources of supply for each of our major requirements, significant shortages could disrupt the supply of raw materials. Further 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. 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 from electronic component suppliers have significantly increased for some component parts and prices of some of these electronic component parts have increased during this period of shortages. Fluorescent tubes and other light bulbs contain rare earth minerals, which have become more expensive and in short supply throughout the world, thereby affecting the Company's supply and cost of these light sources.

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

Approximately 28% of our net sales in fiscal year 2012 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 and convenience store industries and general market conditions. Our petroleum market business is 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 largest customers, whether due to actions by our competitors, customer financial constraints, industry factors or otherwise, could have an adverse effect on our business.

Difficulties with integrating acquisitions could adversely affect operating costs and expected benefits from those acquisitions.

We have pursued and may continue to seek potential acquisitions to complement and expand our existing businesses, increase our revenues and profitability, and expand our markets. We cannot be certain that we will be able to identify, acquire or profitably manage additional companies or successfully integrate such additional companies without substantial costs, delays or other problems. Also, companies acquired recently and in the future may not achieve revenues, profitability or cash flows that justify our investment in them. We expect to spend significant time and effort in expanding our existing businesses and identifying, completing and integrating acquisitions. We expect to face competition for acquisition candidates which may limit the number of acquisition opportunities available to us, possibly leading to a decrease in the rate of growth of our revenues and profitability, and may result in higher acquisition prices. The success of these acquisitions we do make will depend on our ability to integrate these businesses into our operations. We may encounter difficulties in integrating acquisitions into our operations, retaining key employees of acquired companies and in managing strategic investments. Therefore, we may not realize the degree or timing of the benefits anticipated when we first enter into a transaction.

If acquisitions are made in the future and goodwill and intangible assets are recorded on the balance sheet, circumstances could arise in which the goodwill and intangible assets could become impaired and therefore would be written off.

We have pursued and will continue to seek potential acquisitions to complement and expand our existing businesses, increase our revenues and profitability, and expand our markets through acquisitions. As a result of acquisitions, we have significant goodwill and intangible assets recorded on our balance sheet. We will continue to evaluate the recoverability of the carrying amount of our goodwill and intangible assets on an ongoing basis, and we may incur substantial non-cash impairment charges, which would adversely affect our financial results. There can be no assurance that the outcome of such reviews in the future will not result in substantial impairment charges. Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions as to prices, costs, holding periods or other factors that may result in changes in our estimates of future cash flows. Although we believe the assumptions we used in testing for impairment are reasonable, significant changes in any one of our assumptions could produce a significantly different result. If there were to be a decline in our market capitalization and a decline in estimated forecasted discounted cash flows, there could be an impairment of the goodwill and intangible assets. A non-cash impairment charge could be material to the earnings of the reporting period in which it is recorded.

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. Our revenues in our third quarter ending March 31 are also affected by the impact of weather on construction and installation programs and the annual budget cycles of major customers. 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 and 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 affect 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 very 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 affect 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company has fourteen facilities:

Description		Size	Location	Status
1)	LSI Industries Corporate Headquarters and lighting fixture	243,000 sq. ft. (includes 66,000 sq. ft. of office space)	Cincinnati, OH	Owned
2)	LSI Industries pole manufacturing and dry powder-coat painting	122,000 sq. ft.	Cincinnati, OH	Owned
3)	LSI Metal Fabrication and LSI Images manufacturing and dry powder-coat painting	98,000 sq. ft. (includes 5,000 sq. ft. of office space)	Independence, KY	Owned
4)	LSI Integrated Graphics office; screen printing manufacturing; and architectural graphics manufacturing	156,000 sq. ft. (includes 34,000 sq. ft. of office space)	Houston, TX	Leased
5)	LSI Industries sales and engineering office	9,000 sq. ft. (includes 3,000 sq. ft. of office space)	Dallas, TX	Leased
6)	Grady McCauley office and manufacturing	210,000 sq. ft. (includes 20,000 sq. ft. of office space)	North Canton, OH	Owned
7)	LSI MidWest Lighting office and manufacturing	163,000 sq. ft. (includes 6,000 sq. ft. of office space and 27,000 sq. ft. of leased warehouse space)	Kansas City, KS	Owned
8)	LSI Retail Graphics office and manufacturing	57,000 sq. ft. (includes 11,000 sq. ft. of office space)	Woonsocket, RI	Owned (a)
9)	LSI Lightron office and manufacturing	170,000 sq. ft. (includes 10,000 sq. ft. of office space)	New Windsor, NY	Owned and Leased (b)
10)	LSI Adapt offices	2,000 sq. ft.	North Canton, OH Charlotte, NC	Owned Leased
11)	LSI Saco Technologies office and manufacturing	29,000 sq. ft. (includes 6,000 sq. ft. of office	Montreal, Canada	Leased

		space)		
12)	LSI ADL Technology office and manufacturing	57,000 sq. ft. (includes 11,000 sq. ft. of office space)	Columbus, OH	Owned
13)	LSI Virticus office and manufacturing/assembly	11,000 sq. ft. (includes 5,000 sq. ft. of office space	Beaverton, OR	Leased

(a)This represents two facilities.
(b)The land at this facility is leased and the building is owned.

The Company considers these facilities (total of 1,327,000 square feet) adequate for its current level of operations.

ITEM 3. LEGAL PROCEEDINGS

Nothing to report.

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

(a) Common share information appears in Note 16 — SUMMARY OF QUARTERLY RESULTS (UNAUDITED) under "Range of share prices" beginning on page F-41 of this Form 10-K. Information related to "Earnings (loss) per share" and "Cash dividends paid per share" appears in SELECTED FINANCIAL DATA on page F-43 of this Form 10-K. LSI's shares of common stock are traded on the NASDAQ Global Select Market under the symbol "LYTS."

The Company's policy with respect to dividends is to pay a quarterly cash dividend representing a payout ratio of between 50% and 70% of the then current fiscal year net income forecast. Accordingly, the Board of Directors established a new indicated annual cash dividend rate of $0.24 per share beginning with the first quarter of fiscal 2012 consistent with the above dividend policy. This $0.24 per share indicated annual cash dividend rate was reaffirmed by the Company's Board of Directors for fiscal 2013 as well. In addition to the four quarterly dividend payments, the Company may declare a special year-end cash and/or stock dividend. The Company has paid annual cash dividends beginning in fiscal 1987 through fiscal 1994, and quarterly cash dividends since fiscal 1995.

At August 17, 2012, there were 500 shareholders of record. The Company believes this represents approximately 3,000 beneficial shareholders.

(b) The Company does not purchase into treasury its own common shares for general purposes. However, the Company does purchase its own common shares, through a Rabbi Trust, as investments of employees/participants of the LSI Industries Inc. Non-Qualified Deferred Compensation Plan. Purchases of Company common shares for this Plan in the fourth quarter of fiscal 2012 were as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased		(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
4/1/12 to 4/30/12	578	$	7.12	578	(1)
5/1/12 to 5/31/12	767	$	6.42	767	(1)
6/1/12 to 6/30/12	--	$	--	--	(1)
Total	1,345	$	6.76	1,345	(1)

(1)

All acquisitions of shares reflected above have been made in connection with the Company’s Non-Qualified Deferred Compensation Plan, which does not contemplate a limit on shares to be acquired.

The following graph compares the cumulative total shareholder return on the Company’s common shares during the five fiscal years ended June 30, 2012 with a cumulative total return on the NASDAQ Stock Market Index (U.S. companies) and the Dow Jones Electrical Equipment Index. The comparison assumes $100 was invested June 30, 2007 in the Company’s Common Shares and in each of the indexes presented; it also assumes reinvestment of dividends.

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ITEM 6. SELECTED FINANCIAL DATA

"Selected Financial Data" begins on page F-43 of this Form 10-K.

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 F-1 through F-14 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 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. With the current balance in the Company's short-term cash investments and absence of any outstanding variable rate debt, the adverse exposure to interest rate fluctuations has decreased considerably.

All of the Company's $35,000,000 available lines of credit are subject to interest rate fluctuations, should the Company borrow on these lines 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, light bulbs, fluorescent tubes, lighting ballasts, sockets, wire harnesses, plastic, lenses, glass, vinyls, inks, LEDs, electronic components, and corrugated cartons. The Company's operating results could be affected by the availability and price fluctuations of these materials. The Company uses multiple suppliers, has alternate suppliers for most materials, and has no significant dependence on any single supplier. Other than industry-wide electronic component supply shortages and the recent shortage in rare earth minerals used in fluorescent lamps, the Company has not experienced any significant supply problems in recent years. Supply shortages of certain electronic components and certain other parts in fiscal 2011 and fiscal 2012 have caused some production and shipment delays, and the Company is dealing with some increased supply chain lead times. Price risk for these materials is related to increases in commodity items that affect all users of the materials, including the Company's competitors. For the fiscal year ended June 30, 2012, the raw material component of cost of goods sold subject to price risk was approximately $128 million. The Company does not actively hedge or use derivative instruments to manage its risk in this area. The Company does, however, seek new vendors, negotiate with existing vendors, and at times commit to minimum volume levels to mitigate price increases. The Company negotiates supply agreements with certain vendors to lock in prices over a negotiated period of time. In response to rising material prices, the Company's Lighting Segment announced price increases ranging from 5% to 7%, depending on the product, effective with September 2011 orders. While competitors of the Company's lighting business have announced similar price increases, the lighting market remains very price competitive. 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

As a result of the operation of a subsidiary in Montreal, Canada, the Company is exposed to fluctuations in foreign currency exchange rates in the operation of its Canadian business. However, a substantial amount of this business is conducted in U.S. dollars, therefore, any potential risk is deemed immaterial. Additionally, the financial transactions and financial statements of this subsidiary are recorded 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 16 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 in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Company periodically reviews the design and effectiveness of its disclosure controls and internal control over financial reporting. The

Company makes modifications to improve the design and effectiveness of its disclosure controls and internal control structure, and may take other corrective action, if its reviews identify a need for such modifications or actions. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

As of the end of the period covered by this Form 10-K, an evaluation was completed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, regarding the design and effectiveness of our disclosure controls and procedures. Based on this evaluation, our management, including our principal executive officer and principal financial officer, has concluded that our disclosure controls and procedures were effective as of June 30, 2012.

Changes in Internal Control

There were 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, 2012, 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 F-15.

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 15, 2012, 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	Articles of Incorporation of LSI (incorporated by reference to Exhibit 3.1 to LSI's Form S-3 Registration Statement File No. 33-65043).
3.2	Amended Article Fourth of LSI's Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to LSI's Form 8-K filed November 19, 2009).
3.3	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	Form of Senior Indenture (incorporated by reference to Exhibit 4.3 to LSI's Form S-3 Registration Statement File No. 333-169266 filed on September 8, 2010).
4.2	Form of Subordinated Indenture (incorporated by reference to Exhibit 4.4 to LSI's Form S-3 Registration Statement File No. 333-169266 filed on September 8, 2010).
10.1	Credit Agreement by and among LSI as the Borrower, the banks party thereto as the lenders thereunder, PNC Bank National Association as the Administrative Agent and the Syndication Agent, Dated as of March 30, 2001 (incorporated by reference to Exhibit 4 to LSI's Form 10-K for the fiscal year ended June 30, 2001).
10.2	Amendment No. 6 to Credit Agreement dated January 12, 2007 among the Registrant, PNC Bank, National Association, in its capacity as Lender and The Fifth Third Bank (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed January 17, 2007).
10.3	Amendment to Credit Agreement dated March 27, 2012 among the Registrant, PNC Bank, National Association, in its capacity as administrative agent and syndication agent, PNC Bank, National Association, in its capacity as lender and The Fifth Third Bank.

10.4 Amendment to Credit Agreement dated April 11, 2011 among the Registrant, PNC Bank, National Association, in its capacity as syndication agent and administrative agent, PNC Bank, National Association, in its capacity as lender and The Fifth Third Bank (incorporated by reference to Exhibit 10.3 to LSI's Form 10-K filed August 26, 2011).

10.5 Amendment to Credit Agreement dated November 4, 2009 among the Registrant, PNC Bank, National Association, in the capacity as syndication agent and administrative agent, PNC Bank, National Association, in its capacity as lender and Fifth Third Bank (incorporated by reference to Exhibit 10.1 to LSI's Form 10-Q for the quarter ended September 30, 2009).

10.6 Loan Agreement dated January 12, 2007 among The Fifth Third Bank, LSI Saco Technologies Inc. and LSI, as guarantor (incorporated by reference to Exhibit 10.2 to LSI's Form 8-K filed January 17, 2007).

10.7 Continuing and Unlimited Guaranty Agreement dated January 12, 2007 executed by the Registrant (incorporated by reference to Exhibit 10.3 to LSI's Form 8-K filed January 17, 2007).

10.8 First Amendment to Loan Agreement and Guaranty dated as of June 8, 2007 among the Registrant, LSI Saco Technologies Inc., and Fifth Third Bank (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed June 11, 2007).

10.9* LSI Industries Inc. Retirement Plan (Amended and Restated as of July 1, 2012).

10.10* LSI Industries Inc. 1995 Directors' Stock Option Plan (Amended as of December 6, 2001) (incorporated by reference to Exhibit 10 to LSI's Form S-8 Registration Statement File No. 333-100038).

10.11* LSI Industries Inc. 1995 Stock Option Plan (Amended as of December 6, 2001) (incorporated by reference to Exhibit 10 to LSI's Form S-8 Registration Statement File No. 333-100039).

10.12* LSI Industries Inc. 2003 Equity Compensation Plan (Amended and Restated through November 19, 2009) (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed November 19, 2009).

10.13* Trust Agreement Establishing the Rabbi Trust Agreement by and between LSI Industries Inc. and Prudential Bank & Trust, FSB (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed January 5, 2006).

10.14* LSI Industries Inc. Nonqualified Deferred Compensation Plan (Amended and Restated as of November 18, 2010) (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed November 24, 2010).

10.15* Amended Agreement dated January 25, 2005 with Robert J. Ready (incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed January 27, 2005).

10.16* Amended Agreement dated January 25, 2005 with James P. Sferra (incorporated by reference to Exhibit 10.2 to LSI's Form 8-K filed January 27, 2005).

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

*	Management Compensatory Agreements

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.

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, 2012	BY:	/s/ Robert J. Ready
Date		Robert J. Ready Chairman of the Board and Chief Executive Officer

We, the undersigned directors and officers of LSI Industries Inc. hereby severally constitute Robert J. Ready and Ronald S. Stowell, 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/ Robert J. Ready Robert J. Ready Date: September 6, 2012	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ Ronald S. Stowell Ronald S. Stowell Date: September 6, 2012	Vice President, Chief Financial Officer, and Treasurer (Principal Financial and Accounting Officer)
/s/ Gary P. Kreider Gary P. Kreider Date: September 6, 2012	Director
/s/ Dennis B. Meyer Dennis B. Meyer Date: September 6, 2012	Director
/s/ Wilfred T. O'Gara Wilfred T. O'Gara Date: September 6, 2012	Director
/s/ Mark A. Serrianne Mark A. Serrianne Date: September 6, 2012	Director

/s/ James P. Sferra	Executive Vice President — Manufacturing, Secretary, and Director
James P. Sferra Date: September 6, 2012	

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)	2012	2011	2010
Lighting Segment	$ 199,610	$ 197,632	$ 166,175
Graphics Segment	42,131	67,073	61,325
Electronic Components Segment	18,515	21,449	16,116
All Other Category	8,146	7,347	10,786
Total Net Sales	$ 268,402	$ 293,501	$ 254,402

Operating Income (Loss) by Business Segment

(In thousands)	2012	2011	2010
Lighting Segment	$ 11,828	$ 9,901	$ 7,803
Graphics Segment	(1,938)	7,895	4,507
Electronic Components Segment	3,634	7,886	2,279
All Other Category	(1,114)	(543)	(1,807)
Corporate and Eliminations	(6,079)	(8,835)	(10,873)
Total Operating Income	$ 6,331	$ 16,304	$ 1,909

Summary Comments

Fiscal 2012 net sales of $268,402,000 decreased $25.1 million or 8.55% as compared to fiscal 2011. Net sales were favorably influenced by increased net sales of the Lighting Segment (up $2.0 million or 1.0%) and the All Other Category (up $0.8 million or 10.9%). Net sales were unfavorably influenced by Graphics Segment (down $24.9 million or 37.2%), and the Electronic Components Segment (down $2.9 million or 13.7%). Net sales to the petroleum / convenience store market, the Company's largest niche market, were $74,190,000 or 27.6% of total net sales and $103,763,000 or 35.4% of total net sales in fiscal 2012 and 2011, respectively. The $29.6 million or 28.5% drop is primarily due to the completion of the program with 7-Eleven, Inc., who replaced traditional canopy, site and sign lighting with solid-state LED lighting. Net sales to this petroleum / convenience store customer are reported in both the Lighting and Graphics segments.

The Company recorded goodwill impairment expense in fiscal 2012 totaling $258,000 in the Graphics Segment. There was no goodwill impairment expense in fiscal 2011 or fiscal 2010. The company recorded intangible asset impairment expenses in fiscal 2010 totaling $153,000 ($16,000 in the Lighting Segment and $137,000 in the All Other Category). There were no such intangible asset impairment expenses in fiscal 2012 or fiscal 2011.

The Company recorded acquisition-related and other professional fees expenses in fiscal 2012, totaling $610,000 ($25,000 of inventory adjustments related to acquisition fair value accounting on the opening balance sheet of LSI Virticus and $585,000 of acquisition transaction costs and related expenses for the acquisition of LSI Virticus). There were no such similar significant expenses in fiscal 2011. The Company also recorded significant acquisition-related and other professional fees expenses in fiscal 2010, totaling $1,198,000 ($678,000 of inventory adjustments related to acquisition fair value accounting on the opening balance sheet of LSI ADL Technology, and $520,000 of acquisition transaction costs related to the acquisition of LSI ADL Technology). See also the section below on Non-GAAP Financial Measures.

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

(In thousands)		LED Net Sales FY 2012		FY 2011	% Change
First Quarter	$	15,842	$	16,673	(5.0)%
Second Quarter		20,471		17,585	16.4%
First Half		36,313		34,258	6.0%
Third Quarter		17,285		12,943	33.5%
Nine Months		53,598		47,201	13.6%
Fourth Quarter		19,802		21,453	(7.7)%
Full Year	$	73,400	$	68,654	6.9%

LED net sales include sales of LED lighting products, certain graphics products containing LEDs, and LED video and sports screens. Fiscal 2012 total LED net sales of $73,400,000 and the $4.7 million or 6.9% increase over the prior year were primarily the net result of Lighting Segment LED net sales of $70.7 million (up $9.6 million or 15.7%), Graphics Segment LED net sales of $1.0 million (down $2.9 million or 75.0%) and All Other Category LED net sales of $1.7 million (down $2.0 million or 53.9%). (Net sales reflect the reclassification of the LED video screen product line from the Graphics Segment to the Lighting Segment. See Note 2.)

Fiscal 2011 net sales of $293,501,000 increased $39.1 million or 15.4% as compared to fiscal 2010. Net sales were favorably influenced by increased net sales of the Lighting Segment (up $31.5 million or 18.9%), the Graphics Segment (up $5.7 million or 9.4%), and the Electronic Components Segment (up $5.3 million or 33.1%). Net sales were unfavorably influenced by decreased net sales of the All Other Category (down $3.4 million or 31.9%). Net sales to the petroleum / convenience store market, the Company's largest niche market, were $103,763,000 or 35% of total net sales and $86,302,000 or 34% of total net sales of fiscal 2011 and 2010, respectively. The $18.5 million or 21% increase is primarily due to an increase of sales of solid-state LED lighting into this market.

Non-GAAP Financial Measures

The Company believes it is appropriate to evaluate its performance after making adjustments to net income for the 2012 and 2010 fiscal years reported in conformity with accounting principals generally accepted in the United States of America (U.S. GAAP). Adjusted net income and earnings per share, which exclude the impact of the acquisition transaction costs and related expenses (LSI Virticus and LSI ADL Technology), acquisition-related fair value inventory adjustments, the loss on the sale of LSI Marcole, and goodwill and intangible asset impairments, are non-GAAP financial measures. We believe that these adjusted supplemental measures are useful in assessing the operating performance of our business. These supplemental measures are used by our management, including our chief operating decision maker, to evaluate business results. We exclude these items because they are not representative of the ongoing results of operations of our business. Below is a reconciliation of this non-GAAP measure to net income for the periods indicated.

(In thousands, except per share data; unaudited)	FY 2012 Amount	FY 2012 Diluted EPS	FY 2011 Amount	FY 2011 Diluted EPS	FY 2010 Amount	FY 2010 Diluted EPS
Reconciliation of net income to adjusted net income:						
Net income as reported	$ 3,224	$ 0.13	$ 10,828	$ 0.44	$ 1,424	$ 0.06
Adjustment for the loss on sale of LSI Marcole, inclusive of the income tax effect	—	—	—	—	422(1)	0.02
Adjustment for the acquisition transaction costs, related expenses, and acquisition-related fair value inventory adjustments, inclusive of the income tax effect	373(2)	0.02	—	—	791(3)	0.03
Adjustment for goodwill and intangible asset impairments, inclusive of the income tax effect	258(4)	0.01	—	—	148(5)	0.01
Adjusted net income and earnings per share	$ 3,855	$ 0.16	$ 10,828	$ 0.44	$ 2,785	$ 0.12

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

(1)	$217
(2)	$237
(3)	$407
(4)	$0
(5)	$5

Results of Operations

2012 Compared to 2011

Lighting Segment

(In thousands)	2012	2011
Net Sales	$ 199,610	$ 197,632

Gross Profit	$	46,463	$	44,389
Operating Income	$	11,828	$	9,901

Lighting Segment net sales of $199,610,000 in fiscal 2012 increased 1.0% from fiscal 2011 net sales of $197,632,000. The $2.0 million increase in Lighting Segment net sales is primarily the net result of a $5.6 million or 6.2% net increase in lighting sales to our niche markets and national retail accounts, a $4.6 million or 4.9% decrease in commissioned net sales to the commercial / industrial lighting market, and a $0.8 million or 73.7% increase in LED video screen net sales. The Company chose to strategically replace certain commissioned sales representatives during fiscal 2012, which could have the short-term effect of disrupting sales, with a view towards accelerating sales growth in the long-term. Lighting Segment sales to the international markets increased 1.8% to $13.0 million. Sales of lighting to the petroleum / convenience store market represented 28.1% and 28.5% of Lighting Segment net sales in fiscal years 2012 and 2011, respectively. Lighting Segment net sales of lighting to this, the Company's largest niche market, were down 0.4% from last year to $56,136,000. Included in the net change, and offsetting other increases, was a $9.7 million decrease related to the December 2010 conclusion of a program with 7-Eleven, Inc., who replaced traditional canopy, site and sign lighting with solid-state LED lighting. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled $68.9 million in fiscal 2012, representing a 14.8% increase from fiscal 2011 net sales of solid-state LED light fixtures of $60.0 million. The Lighting Segment's net sales related to LED video screens totaled $1.9 million, representing a 73.7% increase from fiscal 2011 sales of $1.1 million.

Gross profit of $46,463,000 in fiscal 2012 increased $2.1 million or 4.7% from fiscal 2011, and increased from 22.1% to 23.0% as a percentage of Lighting Segment net sales (customer plus inter-segment net sales). The increase in amount of gross profit is due to the net effect of increased net sales, efficiencies gained in direct labor, decreased overhead absorption, increased employee compensation and benefits expense ($0.3 million), increased customer returns and concessions expense ($1.3 million), increased warranty expense ($0.8 million), decreased utility expense ($0.2 million), decreased outside service expense ($0.3 million), and decreased rent and lease expense ($0.2 million). An increase in warranty expense is directly related to the increase in sales of light fixtures having solid-state LED technology and therefore have a higher content of LSI developed proprietary components. Such warranty expenses are more common when new products containing new technologies are developed and introduced to the market. The Company has addressed the issues with the earlier product designs and it is anticipated that a decrease in warranty expense will occur in future quarters.

Selling and administrative expenses of $34,635,000 in fiscal 2012 increased $0.1 million or 0.4% from fiscal 2011 primarily as the net result of decreased employee compensation and benefits expense ($0.4 million), decreased bad debt expense ($0.5 million), increased research and development expense ($1.4 million), increased sales commission ($0.3 million), increased outside service expenses ($0.3 million), decreased royalty income ($0.2 million) and decreased customer relations expense ($1.2 million).

The Lighting Segment fiscal 2012 operating income of $11,828,000 increased $1.9 million or 19.5% from operating income of $9,901,000 in fiscal 2011. This increase of $1.9 million was primarily the net result of increased net sales, direct labor efficiencies, increased overhead spending, and decreased overhead absorption.

Graphics Segment

(In thousands)

	2012	2011
Net Sales	$ 42,131	$ 67,073
Gross Profit	$ 6,765	$ 17,013
Operating Income (Loss)	$ (1,938)	$ 7,895

Graphics Segment net sales of $42,131,000 in fiscal 2012 decreased 37.2% from fiscal 2011 net sales of $67,073,000. The $24.9 million decrease in Graphics Segment net sales is primarily the net result of the completion of the program with 7-Eleven, Inc. ($23.8 million decrease), image conversion programs and sales to four petroleum / convenience store customers ($1.9 million net decrease), two grocery retailers ($1.4 million net increase), a national drug store retailer ($1.4 million increase), and changes in volume or completion of several other graphics programs. Sales of graphics products and services to the petroleum / convenience store market represented 42.9% and 70.7% of Graphics Segment net sales in fiscal years 2012 and 2011, respectively. Graphics Segment net sales of graphics to this, the Company's largest niche market, were down 61.9% from last year to $18,054,000, with approximately $23.8 million of the decrease related to the completion of the program with 7-Eleven, Inc., who replaced traditional sign lighting with solid-state LED lighting. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Graphics Segment net sales of graphic identification products that contain solid-state LED light sources and LED lighting for signage totaled $1.0 million in fiscal 2012 as compared to $3.9 million in the same period of the prior year.

Image and brand programs, whether full conversions or enhancements, are important to the Company's strategic direction. Image programs include situations where our customers refurbish their retail sites around the country by replacing some or all of the lighting, graphic elements, menu board systems and possibly other items they may source from other suppliers. These image programs often take several quarters to complete and involve both our customers' corporate-owned sites as well as their franchisee-owned sites, the latter of which involve separate sales efforts by the Company with each franchisee. The Company may not always be able to replace net sales immediately when a large image conversion program has concluded. Brand programs typically occur as new products are offered or new departments are created within existing retail stores. Relative to net sales to a customer before and after an image or brand program, net sales during the program are typically significantly higher, depending upon how much business is awarded to the Company. Sales related to a customer's image or brand program are reported in either the Lighting Segment, Graphics Segment, or the All Other Category depending upon the product and/or service provided.

Gross profit of $6,765,000 in fiscal 2012 decreased $10.2 million or 60.2% from fiscal 2011, and decreased from 25.0% to 15.5% as a percentage of Graphics Segment net sales (customer plus inter-segment net sales). The decrease in amount of gross profit is due to the net effect of decreased net sales, decreased overhead absorption, decreased installation costs ($5.5 million) and decreased freight costs ($2.3 million). The following items also influenced the Graphics Segment's gross profit margin: competitive pricing pressures; increased benefits and compensation ($0.3 million); decreased warranty costs ($0.2 million); increased supplies expense ($0.2 million); increased repairs and maintenance expense ($01. million); and decreased utility expense ($0.1 million).

Selling and administrative expenses of $8,703,000 in fiscal 2012 decreased $0.4 million or 4.6% from fiscal 2011. The decrease in selling and administrative expenses is primarily the result of a decrease in employee compensation and benefits ($0.1 million), a decrease in customer relations expense ($0.2 million), a decrease in outside service expense ($0.2 million) and an increase in a goodwill impairment charge ($0.3 million).

The Graphics Segment fiscal 2012 operating loss of $(1,938,000) compares to operating income of $7,895,000 in fiscal 2011. The change from operating income in fiscal 2011 to an operating loss in fiscal 2012 was primarily the result of decreased net sales and decreased gross profit partially offset by decreased selling and administrative expenses.

Electronic Components Segment

(In thousands)

	2012	2011
Net Sales	$ 18,515	$ 21,449
Gross Profit	$ 5,815	$ 9,601
Operating Income	$ 3,634	$ 7,886

Electronic Components Segment net sales of $18,515,000 in fiscal 2012 decreased 13.7% from fiscal 2011 net sales of $21,449,000. (Beginning in March 2012, the operating results of LSI Virticus are combined with the operating results of LSI ADL Technology to represent the Electronic Components Segment. LSI Virticus sales represent a small share of total segment sales.) The $2.9 million decrease in Electronic Components Segment net sales is primarily the result of a $0.4 million decrease in sales to original equipment manufacturers, a $0.1 million decrease to medical markets, a $0.8 million decrease to retail markets, and a $1.1 million decrease to telecommunications markets. In addition to the Segment's decline in customer sales, its inter-segment sales decreased 13.9% due to inventory rationalization and reductions of LED circuit board assemblies used in light fixtures having solid-state LED technology.

Gross profit of $5,815,000 in fiscal 2012 decreased $3.8 million or 39.4% from fiscal 2011, and decreased from 20.4% to 14.3% as a percentage of net sales (customer plus inter-segment net sales). The decrease in amount of gross profit is the net result of decreased customer net sales; decreased intersegment net sales; increased compensation and benefits ($0.7 million); decreased repairs and maintenance expense ($0.1 million); and increased warranty expense ($0.4 million). An increase in warranty expense is directly related to the increase in sales of light fixtures having solid-state LED technology and therefore have a higher content of LSI developed proprietary components. Such warranty expenses are more common when new products containing new technologies are developed and introduced to the market. The Company has addressed the issues with the earlier product designs and it is anticipated that a decrease in warranty expense will occur in future quarters.

Selling and administrative expenses of $2,181,000 in fiscal 2012 increased $0.5 million or 27.2% compared to fiscal 2011. The increase is primarily the result of increased employee compensation and benefits ($0.2 million) and increased research and development costs ($0.2 million).

The Electronic Components Segment fiscal 2012 operating income of $3,634,000 decreased $4.3 million or 53.9% from operating income of $7,886,000 in fiscal 2011. The decrease in operating income was the net result of decreased customer net sales, decreased intersegment sales, decreased gross profit and increased selling and administrative expenses.

All Other Category

(In thousands)

	2012	2011
Net Sales	$ 8,146	$ 7,347
Gross Profit	$ 1,554	$ 2,089
Operating (Loss)	$ (1,114)	$ (543)

All Other Category net sales of $8,146,000 in fiscal 2012 increased 10.9% from fiscal 2011 net sales of $7,347,000. The $0.8 million increase in the All Other Category net sales is primarily the net result of increased net menuboard sales to fast food chains ($1.2 million), increased project management revenue ($1.2 million) offset by decreased LED video screen and specialty LED lighting sales to the Entertainment and other markets ($1.7 million).

The gross profit of $1,554,000 in fiscal 2012 decreased $0.5 million or 25.6% from fiscal 2011, and decreased from 16.2% to 11.1% as a percentage of net sales (customer plus inter-segment net sales). The decrease in amount of gross profit is the net result of competitive pricing pressures and mix of less profitable service revenue partially offset by increased customer net sales and increased intersegment sales.

Selling and administrative expenses of $2,668,000 in fiscal 2012 increased 1.4% from fiscal 2011 primarily as the net result of decreased benefit and wage expense ($0.4 million), increased research and development spending ($1.1 million), decreased bad debt expense ($0.3 million) and decreased commission expense ($0.1 million).

The All Other Category fiscal 2012 operating loss of $(1,114,000) increased $571,000 from the loss in fiscal 2011. The $0.6 million increase in operating loss was the net result of decreased gross profit on increased net sales.

Corporate and Eliminations

(In thousands)

	2012	2011
Gross Profit	$ (284)	$ (747)
Operating (Loss)	$ (6,079)	$ (8,835)

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

Administrative expenses of $5,795,000 in fiscal 2012 decreased $2.3 million or 28.4% from fiscal 2011. The decrease in expense is the net result of reduced compensation and benefits expense ($0.4 million), decreased depreciation expense ($0.2 million), increased acquisition transaction costs related to the acquisition of Virticus Corporation ($0.4 million), increased outside service expense ($0.1 million) and reduced research and development expenses ($2.4 million). Effective July 1, 2011, management implemented a policy whereby research and development expenses required to support LED video screen technology, which originate at the Company's Montreal facility in the All Other Category, are charged to other LSI locations based upon the usage of these research and development resources. In previous years, these same research and development costs were charged entirely to corporate administrative expense. This change resulted in a reduction in research and development expenses on corporate and a corresponding increase in research and development expenses in the Lighting Segment and the All Other Category. This change more closely aligns research and development resources required to support LED lighting products and video screen sales.

Consolidated Results

The Company reported net interest expense of $140,000 in fiscal 2012 as compared to net interest expense of $137,000 in fiscal 2011. Commitment fees related to the unused portions of the Company's lines of credit, interest expense on a mortgage, and interest income on invested cash are included in the net interest expense amounts above.

The $2,967,000 income tax expense in fiscal 2012 represents a consolidated effective tax rate of 47.9%. This is the net result of an income tax rate of 38.9% for the Company's U.S. operations influenced by certain temporary and permanent book-tax differences that were significant relative to the amount of taxable income, by the goodwill impairment of $258,000 for which there was no tax effect, by an increase in a valuation reserve on a state income tax net operating loss carryover, by certain U.S. federal and Canadian income tax credits, by a benefit related to uncertain income tax positions, and by a full valuation reserve on the Company's Canadian tax position. The $5,339,000 income tax expense in fiscal 2011 represents a consolidated effective tax rate of 33.0%. This is the net result of an income tax rate of 31.2% for the Company's U.S. operations, influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income, by certain U.S. federal and Canadian income tax credits, by a benefit related to uncertain income tax positions, by adjustments to deferred tax liabilities, and by a full valuation reserve on the Company's Canadian tax position.

The Company reported net income of $3,224,000 in fiscal 2012 as compared to net income of $10,828,000 in fiscal 2011. The decreased net income is primarily the result of decreased net sales and decreased gross profit, partially offset by decreased operating expenses and by decreased income tax expense. Diluted earnings per share were $0.13 in fiscal 2012 as compared to $0.44 in fiscal 2011. The weighted average common shares outstanding for purposes of computing diluted earnings per share in fiscal 2012 were 24,352,000 shares as compared to 24,339,000 shares in fiscal 2011.

2011 Compared to 2010

Lighting Segment

(In thousands)

		2011		2010
Net Sales	$	197,632	$	166,175
Gross Profit	$	44,389	$	37,295
Operating Income	$	9,901	$	7,803

Lighting Segment net sales of $197,632,000 in fiscal 2011 increased 18.9% from fiscal 2010 net sales of $166,175,000. The $31.5 million increase in Lighting Segment net sales is primarily the net result of a $19.8 million or 24.7% net increase in lighting sales to our niche markets (petroleum / convenience store market net sales were up 19%, net sales to the automotive dealership market were up 58%, and net sales to the quick service restaurant market were up 20%) and national retail accounts, a $17.5 million or 22.2% increase in commissioned net sales to the commercial / industrial lighting market, and decreased net sales to the LED video sports screen market ($6.0 million or 85% decrease). Sales of lighting to the petroleum / convenience store market represented 29% of Lighting Segment net sales in fiscal years 2011 and 2010. Lighting Segment net sales of lighting to this, the Company's largest niche market, were up 19% from fiscal 2010 to $61,066,000, with approximately $10.2 million related to a program with 7-Eleven, Inc., who replaced traditional canopy, site and sign lighting with solid-state LED lighting. Lighting Segment fiscal 2010 net sales to 7-Eleven, Inc. were approximately $21.4 million for a similar LED replacement lighting program. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled $60.0 million in fiscal 2011, representing a 59% increase from fiscal 2010 net sales of solid-state LED light fixtures of $37.8 million.

Gross profit of $44,389,000 in fiscal 2011 increased $7.1 million or 19% from fiscal 2010, and increased from 21.6% to 22.1% as a percentage of Lighting Segment net sales (customer plus inter-segment net sales). The increase in amount of gross profit is due to the net effect of increased net sales at increased margins, and increased overhead absorption. The following items also influenced the Lighting Segment's gross profit margin: competitive pricing pressures; $2.2 million increased freight costs; $0.3 million increased benefits and compensation; $0.3 million increased utilities; $0.2 million increased warranty costs; $0.2 million increased repairs and maintenance; $0.4 million increased outside service costs; $0.1 million increased depreciation expense; and $0.6 million increased manufacturing supplies expense.

Selling and administrative expenses of $34,488,000 in fiscal 2011 increased $5.0 million from fiscal 2010. The following items were the primary contributors to the increase: $2.9 million increased sales commission expense reflective of increased net sales; $0.4 million increased research and development expense; $0.8 million increased customer relations expense; $0.2 million increased outside services; $0.1 million increased sales samples expense; $0.1 million decreased communications expense; $0.1 million decreased royalty income; $0.1 million increased advertising; $0.5 million increased bad debt expense; and increased expense related to a patent settlement agreement.

The Lighting Segment fiscal 2011 operating income of $9,901,000 increased $2.1 million or 26.9% from operating income of $7,803,000 in fiscal 2010. This increase of $2.1 million was the net result of increased net sales, increased gross profit (at increased margin percentages), and increased selling and administrative expenses.

Graphics Segment

(In thousands)

		2011		2010
Net Sales	$	67,073	$	61,325
Gross Profit	$	17,013	$	13,671
Operating Income	$	7,895	$	4,507

Graphics Segment net sales of $67,073,000 in fiscal 2011 increased 9.4% from fiscal 2010 net sales of $61,325,000. The $5.7 million increase in Graphics Segment net sales is primarily the net result of image conversion programs and sales to twelve petroleum / convenience store customers ($8.7 million net increase), a grocery market ($2.5 million decrease), a national drug store retailer ($3.2 million decrease), a fast food restaurant chain ($1.1 million increase), and changes in volume or completion of several other graphics programs. Sales of graphics products and services to the petroleum / convenience store market represented 71% and 63% of Graphics Segment net sales in fiscal years 2011 and 2010, respectively. Graphics Segment net sales of graphics to this, the Company's largest niche market, were up 23% from fiscal 2010 to $47,394,000, with approximately $29.7 million related to a program with 7-Eleven, Inc., who replaced traditional sign lighting with solid-state LED lighting. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Graphics Segment net sales of solid-state LED lighting for signage totaled $3.9 million in fiscal 2011 as compared to $13.2 million in the prior year.

Image and brand programs, whether full conversions or enhancements, are important to the Company's strategic direction. Image programs include situations where our customers refurbish their retail sites around the country by replacing some or all of the lighting, graphic elements, menu board systems and possibly other items they may source from other suppliers. These image programs often take several quarters to complete and involve both our customers' corporate-owned sites as well as their franchisee-owned sites, the latter of which involve separate sales efforts by the Company with each franchisee. The Company may not always be able to replace net sales immediately when a large image conversion program has concluded. Brand programs typically occur as new products are offered or new departments are created within existing retail stores. Relative to net sales to a customer before and after an image or brand program, net sales during the program are typically significantly higher, depending upon how much business is awarded to the Company. Sales related to a customer's image or brand program are reported in the Lighting Segment, Graphics Segment, or the All Other Category depending upon the product and/or service provided.

Gross profit of $17,013,000 in fiscal 2011 increased $3.3 million or 24% from fiscal 2010, and increased from 22.0% to 25.0% as a percentage of Graphics Segment net sales (customer plus inter-segment net sales). The increase in amount of gross profit is due to the net effect of increased net sales at increased margins, and decreased overhead absorption. The following items also influenced the Graphics Segment's gross profit margin: competitive pricing pressures; $0.1 million decreased freight costs; $0.1 million decreased rent/lease expense; and $0.1 million increased property taxes.

Selling and administrative expenses of $9,118,000 in fiscal 2011 were relatively flat from fiscal 2010. The following items of expense changed between years as follows: $0.1 million decreased compensation and benefits; $0.1 million increased rent expense; $0.2 million decreased customer relations expense; $0.1 million increased outside services expense; $0.1 million increased royalty expense; and $0.1 million decreased sales commission expense.

The Graphics Segment fiscal 2011 operating income of $7,895,000 increased $3.4 million or 75% from operating income of $4,507,000 in fiscal 2010. The $3.4 million increase in operating income was the result of increased net sales, increased gross profit, and decreased selling and administrative expenses.

Electronic Components Segment

(In thousands)

		2011		2010
Net Sales	$	21,449	$	16,116
Gross Profit	$	9,601	$	3,847
Operating Income	$	7,886	$	2,279

Electronic Components Segment net sales of $21,449,000 in fiscal 2011 increased 33.1% from fiscal 2010 net sales of $16,116,000. The $5.3 million increase in Electronic Components Segment net sales is primarily the net result of a $2.9 million increase to industrial markets, $1.0 million decrease to telecommunications markets, $0.8 million increase to retail markets, $0.5 million increase to medical markets and $0.2 million decrease to transportation related markets. In addition to this segment's growth in customer sales, its inter-segment net sales grew 374% in support of LED lighting sales.

Gross profit of $9,601,000 in fiscal 2011 increased $5.8 million or 150% from fiscal 2010, and increased from 17.9% to 20.4% as a percentage of Electronic Components Segment net sales (customer plus inter-segment net sales). Approximately $3.8 million of increased gross profit resulted from the significant increase in the amount of inter-segment business as well as from increased Electronic Components customer net sales. Gross profit of the Electronic Components Segment in fiscal 2010 was reduced by $678,000 related to the roll-out of fair value inventory adjustments for LSI ADL Technology's sales of products that were in finished goods or work-in-process inventory on the acquisition date and therefore were valued at fair value, as opposed to manufactured cost, in the opening balance sheet in accordance with the requirements of purchase accounting. The following items also influenced the Electronic Components Segment's gross profit margin: competitive pricing pressures; $0.2 million increase shipping costs; $0.4 million increased benefits and compensation; $0.1 million increased outside services; and $0.5 million increased manufacturing supplies.

Selling and administrative expenses of $1,715,000 in fiscal 2011 increased $0.1 million from fiscal 2010. The following items of expense changed between years as follows: $0.1 million increased employee compensation and benefits expense; $0.1 million increased supplies; and $0.1 million increased repairs and maintenance.

The Electronic Components Segment fiscal 2011 operating income of $7,886,000 increased $5.6 million from operating income of $2,279,000 in the same period of fiscal 2010. The $5.6 million increase in operating income was the result of increased net sales and increased gross profit, partially offset by increased selling and administrative expenses.

All Other Category

(In thousands)

		2011		2010
Net Sales	$	7,347	$	10,786
Gross Profit	$	2,089	$	1,267
Operating (Loss)	$	(543)	$	(1,807)

All Other Category net sales of $7,347,000 in fiscal 2011 decreased 31.9% from fiscal 2010 net sales of $10,786,000. The $3.4 million decrease in the All Other Category net sales is primarily the net result of net increased sales of menu board systems ($0.2 million), decreased sales of LED video screens to the entertainment and other markets ($3.0 million), no sales of electrical wire harnesses ($2.9 million) and changes in volume or completion of other customer programs. The Company sold its wire harness operation and business at the end of the third quarter of fiscal 2010 and therefore has no further sales or expenses related to wire harnesses.

The gross profit of $2,089,000 in fiscal 2011 increased $0.8 million or 65% from fiscal of 2010, and increased from 7.1% to 16.2% as a percentage of the All Other Category net sales (customer plus inter-segment net sales). The increase in amount of gross profit is due to the net effect of decreased net sales and increased margins. The following items also influenced the All Other Category's gross profit margin: competitive pricing pressures; $0.6 million decreased indirect wage compensation and benefits; $0.5 million increased installation costs; $0.1 million decreased manufacturing supplies; $0.1 million decreased utilities; $0.2 million decreased warranty expense; and $0.1 million decreased depreciation expense.

Selling and administrative expenses of $2,632,000 in fiscal 2011 decreased $0.4 million or 14% as compared to the prior year. Changes of expense between years include $0.2 million decreased benefits and compensation, $0.2 million decreased royalty expense, $0.1 million decreased depreciation expense, and $0.3 million increased bad debt expense.

The All Other Category fiscal 2011 operating loss of $(543,000) compares to an operating loss of $(1,807,000) in fiscal 2010. This $1.3 million decreased operating loss was the net result of decreased net sales, increased gross profit, and decreased selling and administrative expenses.

Corporate and Eliminations

(In thousands)

		2011		2010
Gross Profit	$	(747)	$	(347)
Operating (Loss)	$	(8,835)	$	(10,873)

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

Selling and administrative expenses of $8,088,000 in fiscal 2011 were down $2.4 million or 23.2% from the same period of the prior year. The reduction in expense is primarily related to the net result of $1.3 million reduced compensation and benefits expense, $0.1 million increased repair and maintenance expense, $0.1 million reduced audit and accounting fees, $0.1 million reduced outside consulting services, $0.4 million reduced research and development expenses, and no acquisition transaction costs in fiscal 2011 as compared to $0.5 million in the prior year.

Consolidated Results

The Company reported net interest expense of $137,000 in fiscal 2011 as compared to net interest expense of $125,000 in fiscal 2010. Commitment fees related to the unused portions of the Company's lines of credit, interest expense on a mortgage, and interest income on invested cash are included in the net interest expense amounts above.

The $5,339,000 income tax expense in fiscal 2011 represents a consolidated effective tax rate of 33.0%. This is the net result of an income tax rate of 31.2% for the Company's U.S. operations, influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income, by certain U.S. federal and Canadian income tax credits, by a benefit related to uncertain income tax positions, by adjustments to deferred income tax liabilities, and by a full valuation reserve on the Company's Canadian tax position. The $360,000 income tax expense in fiscal 2010 represents a consolidated effective tax rate of 20.2%. This is the net result of a U.S. federal income tax rate of 34% influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income, by certain U.S. federal and Canadian income tax credits, by a benefit related to uncertain income tax positions, by an increase in state income taxes, and by full valuation reserves on the Company's Canadian tax position and a certain state deferred income tax asset.

The Company reported net income of $10,828,000 in fiscal 2011 as compared to net income of $1,424,000 in fiscal 2010. The increased net income is primarily the result of increased net sales and increased gross profit, partially offset by increased operating expenses and increased income tax expense. Diluted earnings per share were $0.44 in fiscal 2011 as compared to $0.06 in fiscal 2010. The weighted average common shares outstanding for purposes of computing diluted earnings per share in fiscal 2011 was 24,339,000 shares as compared to 24,134,000 shares in fiscal

2010.

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, 2012, the Company had working capital of $83.7 million, compared to $84.5 million at June 30, 2011. The ratio of current assets to current liabilities was 4.65 to 1 as compared to a ratio of 4.92 to 1 at June 30, 2011. The $0.8 million decrease in working capital from June 30, 2011 to June 30, 2012 was primarily related to the net effect of increased cash and cash equivalents ($11.2 million) and decreased accrued expenses ($1.2 million), offset by decreased net accounts receivable ($0.6 million), decreased net inventory ($9.0 million), increased accounts payable ($1.9 million), increased accrued income tax ($0.6 million) and decreased refundable income tax ($1.6 million). The Company has a strategy of aggressively managing working capital, including the reduction of the accounts receivable days sales outstanding (DSO) and reduction of inventory levels, without reducing service to our customers.

The Company generated $24.4 million of cash from operating activities in fiscal 2012 as compared to a use of cash of $3.8 million in fiscal 2011. This $28.2 million increase in net cash flows from operating activities is primarily the net result of a decrease rather than an increase in accounts receivable (favorable change of $11.2 million), a decrease rather than an increase in inventories (favorable change of $19.4 million), a decrease rather than an increase in refundable income tax (favorable change of $2.2 million), an increase rather than a decrease in accounts payable (favorable change of $4.7 million), an increase rather than a decrease in customer prepayments (favorable change of $2.0 million), a decrease rather than an increase in accrued expenses and other (unfavorable change of $1.9 million), less of a decrease in deferred income tax assets (unfavorable $0.7 million), a decrease rather than an increase in the allowance for doubtful accounts (unfavorable change of $0.9 million), and less net income (unfavorable change of $7.6 million).

Net accounts receivable were $44.4 million and $45.0 million at June 30, 2012 and June 30, 2011, respectively. The decrease of $0.6 million in net receivables is primarily due to the net effect of a lower amount of net sales in the fourth quarter of fiscal 2012 as compared to the fourth quarter of fiscal 2011, partially offset by a higher DSO. The DSO increased to 55 days at June 30, 2012 from 53 days at June 30, 2011. The Company believes that its receivables are ultimately collectible or recoverable, net of certain reserves, and that aggregate allowances for doubtful accounts are adequate.

Net inventories at June 30, 2012 decreased $9.0 million from June 30, 2011 levels. Based on a strategy of balancing inventory reductions with customer service and the timing of shipments, net inventory decreases occurred in fiscal 2012 in the Lighting Segment of approximately $3.9 million, in the Graphics Segment of approximately $1.3 million, in the Electronic Components Segment of approximately $2.9 million and in the All Other Category of approximately $1.3 million.

Cash on hand, cash generated from operations and borrowing capacity under two line of credit facilities are the Company's primary source of liquidity. The Company has an unsecured $30 million revolving line of credit with its bank group, with all $30 million of the credit line available as of August 24, 2012. This line of credit is a $30 million three year committed credit facility expiring in the third quarter of fiscal 2015. Additionally, the Company has a separate $5 million line of credit, renewable annually in the third fiscal quarter, for the working capital needs of its Canadian subsidiary, LSI Saco Technologies. As of August 24, 2012, all $5 million of this line of credit is available. The Company believes that $35 million total lines of credit plus cash flows from operating activities are adequate for the Company's fiscal 2013 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants.

The Company used $6.4 million of cash related to investing activities in fiscal 2012 as compared to a use of $4.7 million in the prior year, an unfavorable change of $1.7 million. The Company spent less on capital expenditures for fixed assets than prior year ($1.3 million favorable change). Capital spending in both years is primarily for tooling and equipment. The Company also had a $3.0 million unfavorable change related to the acquisition of Virticus Corporation, consisting of the initial cash payment of $3.2 million less $0.2 million cash received. The Company expects fiscal 2013 capital expenditures to be approximately $9.0 million, exclusive of business acquisitions, if any. The majority of the fiscal 2013 capital expenditures is to invest in new machinery and equipment and to upgrade the company's Enterprise Resource Planning (ERP) software.

The Company used $6.8 million of cash related to financing activities in fiscal 2012 as compared to a use of $4.9 million in fiscal 2011. The increased use of cash is primarily related to increased dividend payments and payoff of the mortgage associated with LSI ADL.

The Company has, or could have, on its balance sheet financial instruments consisting primarily of cash and cash equivalents, short-term investments, revolving lines of credit, and long-term debt. The fair value of these financial instruments approximates carrying value because of their short-term maturity and/or variable, market-driven interest rates.

Off-Balance Sheet Arrangements

The Company has no financial instruments with off-balance sheet risk and has no off-balance sheet arrangements.

Contractual Obligations as of June 30, 2012 (a)	Total	Payments Due by Period Less than 1 year	1-3 years	3-5 years	More than 5 years
Acquisition Contingent Earn Out Obligations	$ 5,000	$ 1,000	$ 2,000	$ 2,000	$ --
Operating Lease Obligations	6,963	1,343	2,538	2,004	1,078
Purchase Obligations	20,706	20,186	368	47	105
Total Contractual Obligations	$ 32,669	$ 22,529	$ 4,906	$ 4,051	$ 1,183

(a) The liability for uncertain tax positions of $1.9 million is not included due to the uncertainty of timing of payments.

Cash Dividends

On August 15, 2012, the Board of Directors declared a regular quarterly cash dividend of $0.06 per share (approximately $1,442,000) payable September 4, 2012 to shareholders of record on August 28, 2012. The Company's cash dividend policy is that the indicated annual dividend rate will be set between 50% and 70% of the expected net income for the current fiscal year. Consideration will also be given by the Board to special year-end cash or stock dividends. The declaration and amount of any cash and stock dividends will be determined by the Company's Board of Directors, in its discretion, based upon its evaluation of earnings, cash flow, capital requirements and future business developments and opportunities, including acquisitions. Accordingly, the Board established the indicated annual cash dividend rate of $0.24 per share beginning with the first quarter of fiscal 2013 consistent with the above dividend policy.

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

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

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

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

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

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

Income Taxes

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

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

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

Asset Impairment

Carrying values of goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment in accordance with ASC Topic 350, Intangibles – Goodwill and Other. The Company’s impairment review involves the estimation of the fair value of goodwill and indefinite-lived intangible assets using a combination of a market approach and an income (discounted cash flow) approach, at the reporting unit level, that requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease an impairment charge. Company management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as adverse business conditions, economic factors and technological change or competitive activities may signal that an asset has become impaired.

Carrying values for long-lived tangible assets and definite-lived intangible assets, excluding goodwill and indefinite-lived intangible assets, are reviewed for possible impairment as circumstances warrant as required by ASC Topic 360, Property, Plant, and Equipment. Impairment reviews are conducted at the judgment of Company management when it believes that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the forecast for a product, changes in technology or in the way an asset is being used, a history of negative operating cash flow, or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review. The Company's initial impairment review to determine if a potential impairment charge is required is based on an undiscounted cash flow analysis at the lowest level for which identifiable cash flows exist. The analysis requires judgment with respect to changes in technology, the continued success of product lines and future volume, revenue and expense growth rates, and discount rates.

Credit and Collections

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

Warranty Reserves

The Company maintains a warranty reserve which is reflective of its limited warranty policy. The warranty reserve covers the estimated future costs to repair or replace defective product or installation services, whether the product is returned or it is repaired in the field. The warranty reserve is first determined based upon known claims or issues, and then by the application of a specific percentage of sales to cover general claims. The percentage applied to sales to calculate general claims is based upon historical claims as a percentage of sales and management's expectation of future claim activity. Management addresses the adequacy of its warranty reserves on a quarterly basis to ensure the reserve is accurate based upon the most current information.

Inventory Reserves

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

New Accounting Pronouncements

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

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

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, 2012, based on the criteria set forth in “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, 2012. 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 attestation report on the effectiveness of the Company’s internal control over financial reporting, which is presented in the financial statements.

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

Ronald S. Stowell
Vice President, Chief Financial Officer, and Treasurer
(Principal Financial Officer)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
LSI Industries Inc.

We have audited LSI Industries Inc. (an Ohio Corporation) and subsidiaries' (the "Company") internal control over financial reporting as of June 30, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

In our opinion, LSI Industries Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of June 30, 2012, based on criteria established in 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), the Company's consolidated balance sheets as of June 30, 2012 and 2011, and the related consolidated statements of income, shareholders' equity, cash flows, and financial statement schedule as of and for each of the three years in the period ended June 30, 2012, and our report dated September 6, 2012 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Cincinnati, Ohio
September 6, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
LSI Industries Inc.

We have audited the accompanying consolidated balance sheets of LSI Industries Inc. (an Ohio corporation) and subsidiaries (the "Company") as of June 30, 2012 and 2011, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2012. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LSI Industries Inc. and subsidiaries as of June 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated September 6, 2012 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Cincinnati, Ohio
September 6, 2012

LSI INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF INCOME
For the years ended June 30, 2012, 2011, and 2010
(In thousands, except per share data)

	2012	2011	2010
Net sales	$ 268,402	$ 293,501	$ 254,402
Cost of products and services sold	208,089	221,156	198,030
Loss on sale of subsidiary	—	—	639
Total cost of products and services sold	208,089	221,156	198,669
Gross profit	60,313	72,345	55,733
Selling and administrative expenses	53,724	56,041	53,671
Goodwill and intangible asset impairments	258	—	153
Operating income	6,331	16,304	1,909
Interest (income)	(25)	(43)	(28)
Interest expense	165	180	153
Income before income taxes	6,191	16,167	1,784
Income tax expense	2,967	5,339	360
Net income	$ 3,224	$ 10,828	$ 1,424
Earnings per common share (see Note 3)			
Basic	$ 0.13	$ 0.45	$ 0.06
Diluted	$ 0.13	$ 0.44	$ 0.06
Weighted average common shares outstanding			
Basic	24,298	24,287	24,128
Diluted	24,352	24,339	24,134

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

LSI INDUSTRIES INC.
CONSOLIDATED BALANCE SHEETS
June 30, 2012 and 2011
(In thousands, except shares)

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 15,255	$ 4,056
Accounts and notes receivable, less allowance for doubtful accounts of $385 and $826, respectively	44,412	44,974
Inventories	41,276	50,298
Refundable income taxes	227	1,795
Other current assets	5,453	4,977
Total current assets	106,623	106,100
Property, Plant and Equipment, at cost		
Land	6,947	6,848
Buildings	37,660	37,228
Machinery and equipment	68,964	68,064
Construction in progress	531	427
	114,102	112,567
Less accumulated depreciation	(71,576)	(68,283)
Net property, plant and equipment	42,526	44,284
Goodwill, net	12,921	10,766
Other Intangible Assets, net	11,074	12,514
Other Long-Term Assets, net	2,082	2,357
Total assets	$ 175,226	$ 176,021

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

	2012	2011
LIABILITIES & SHAREHOLDERS’ EQUITY		
Current Liabilities		
Current maturities of long-term debt	$--	$35
Accounts payable	11,512	9,568
Accrued expenses	11,409	11,973
Total current liabilities	22,921	21,576
Other Long-Term Liabilities	2,937	3,227
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 24,035,564 and 24,047,485 shares, respectively	101,399	100,944
Retained earnings	47,969	50,274
Total shareholders’ equity	149,368	151,218
Total liabilities & shareholders’ equity	$175,226	$176,021

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, 2012, 2011, and 2010
(In thousands, except per share data)

	Common Shares Number of Shares	Common Shares Amount	Retained Earnings	Total
Balance at June 30, 2009	21,580	$ 82,833	$ 47,640	$ 130,473
Net income	—	—	1,424	1,424
Stock compensation awards	7	46	—	46
Purchase of treasury shares, net	(2)	52	—	52
Deferred stock compensation	—	(49)	—	(49)
Stock option expense	—	2,633	—	2,633
Stock options exercised, net	—	—	—	—
Common shares issued for acquisition	2,469	14,448	—	14,448
Dividends — $0.20 per share	—	—	(4,809)	(4,809)
Balance at June 30, 2010	24,054	99,963	44,255	144,218
Net income	—	—	10,828	10,828
Stock compensation awards	6	41	—	41
Purchase of treasury shares, net	(20)	(96)	—	(96)
Deferred stock compensation	—	126	—	126
Stock option expense	—	851	—	851
Stock options exercised, net	7	59	—	59
Dividends — $0.20 per share	—	—	(4,809)	(4,809)
Balance at June 30, 2011	24,047	100,944	50,274	151,218
Net income	—	—	3,224	3,224
Stock compensation awards	7	48	—	48
Purchase of treasury shares, net	(21)	(141)	—	(141)
Deferred stock compensation	—	124	—	124
Stock option expense	—	410	—	410
Stock options exercised, net	3	14	—	14
Dividends — $0.23 per share	—	—	(5,529)	(5,529)
Balance at June 30, 2012	24,036	$ 101,399	$ 47,969	$ 149,368

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, 2012, 2011, and 2010
(In thousands)

	2012	2011	2010
Cash Flows From Operating Activities			
Net income	$ 3,224	$ 10,828	$ 1,424
Non-cash items included in net income			
Depreciation and amortization	7,805	7,877	7,849
Loss on sale of a subsidiary	—	—	639
Goodwill and intangible asset impairment	258	—	153
Deferred income taxes	309	1,003	(1,564)
Deferred compensation plan	124	126	(49)
Stock option expense	410	851	2,633
Issuance of common shares as compensation	48	41	46
Loss on disposition of fixed assets	18	15	41
Allowance for doubtful accounts	(445)	427	(142)
Inventory obsolescence reserve	343	276	176
Change in certain assets and liabilities, net of acquisitions			
Accounts and notes receivable	1,010	(10,147)	(3,751)
Inventories	8,894	(10,492)	2,826
Refundable income taxes	1,568	(649)	2,473
Accounts payable	1,722	(2,985)	2,487
Accrued expenses and other	(1,299)	645	1,071
Customer prepayments	371	(1,622)	417
Net cash flows provided by (used in) operating activities	24,360	(3,806)	16,729
Cash Flows From Investing Activities			
Purchases of property, plant, and equipment	(3,436)	(4,731)	(6,150)
Proceeds from sale of fixed assets	3	55	521
Acquisition of businesses, net of cash received	(2,973)	—	(675)
Net cash flows (used in) investing activities	(6,406)	(4,676)	(6,304)
Cash Flows From Financing Activities			
Payment of long-term debt	(1,099)	(33)	(2,237)
Cash dividends paid	(5,529)	(4,809)	(4,809)
Purchase of treasury shares	(154)	(118)	(111)
Issuance of treasury shares	13	22	163
Exercise of stock options	14	59	—
Net cash flows (used in) financing activities	(6,755)	(4,879)	