

LSI INDUSTRIES INC  
Form 10-Q  
May 05, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011.

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

Commission File No. 0-13375

LSI Industries Inc.

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

10000 Alliance Road

Cincinnati, Ohio 45242

(513) 793-3200

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

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  
\_\_\_\_ NO \_\_\_\_

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

Large accelerated filer

[ ]

Accelerated filer [ X ]

Non-accelerated filer

[ ]

Smaller reporting company [ ]

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

As of April 29, 2011 there were 24,047,752 shares of the Registrant's common stock outstanding.

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LSI INDUSTRIES INC.  
FORM 10-Q  
FOR THE QUARTER ENDED MARCH 31, 2011

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

This Form 10-Q contains certain forward-looking statements that are subject to numerous assumptions, risks or uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Forward-looking statements may be identified by words such as “estimates,” “anticipates,” “projects,” “plans,” “expects,” “intends,” “believes,” “seeks,” “may,” “will,” “should” or the negative versions of those words and similar expressions and by the context in which they are used. Such statements, whether expressed or implied, are based upon current expectations of the Company and speak only as of the date made. Actual results could differ materially from those contained in or implied by such forward-looking statements as a result of a variety of risks and uncertainties over which the Company may have no control. These risks and uncertainties include, but are not limited to, the impact of competitive products and services, product demand and market acceptance risks, potential costs associated with litigation and regulatory compliance, reliance on key customers, financial difficulties experienced by customers, the cyclical and seasonal nature of our business, the adequacy of reserves and allowances for doubtful accounts, fluctuations in operating results or costs whether as a result of uncertainties inherent in tax and accounting matters or

otherwise, unexpected difficulties in integrating acquired businesses, the ability to retain key employees of acquired businesses, unfavorable economic and market conditions, the results of asset impairment assessments and the other risk factors that are identified herein. You are cautioned to not place undue reliance on these forward-looking statements. In addition to the factors described in this paragraph, the risk factors identified in our Form 10-K and other filings the Company may make with the SEC constitute risks and uncertainties that may affect the financial performance of the Company and are incorporated herein by reference. The Company does not undertake and hereby disclaims any duty to update any forward-looking statements to reflect subsequent events or circumstances.

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

LSI INDUSTRIES INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

| (In thousands, except per share data)         | Three Months Ended<br>March 31 |            | Nine Months Ended<br>March 31 |            |
|-----------------------------------------------|--------------------------------|------------|-------------------------------|------------|
|                                               | 2011                           | 2010       | 2011                          | 2010       |
| Net sales                                     | \$ 64,628                      | \$ 53,466  | \$ 219,284                    | \$ 190,516 |
| Cost of products and services sold            | 48,304                         | 43,954     | 163,691                       | 148,107    |
| Loss on sale of a subsidiary                  | --                             | 639        | --                            | 639        |
| Total cost of products and services sold      | 48,304                         | 44,593     | 163,691                       | 148,746    |
| Gross profit                                  | 16,324                         | 8,873      | 55,593                        | 41,770     |
| Selling and administrative expenses           | 13,841                         | 12,687     | 41,839                        | 40,154     |
| Operating income (loss)                       | 2,483                          | (3,814)    | 13,754                        | 1,616      |
| Interest (income)                             | (29)                           | (4)        | (53)                          | (11)       |
| Interest expense                              | 40                             | 37         | 124                           | 110        |
| Income (loss) before income taxes             | 2,472                          | (3,847)    | 13,683                        | 1,517      |
| Income tax (benefit) expense                  | 357                            | (1,315)    | 4,352                         | 820        |
| Net income (loss)                             | \$ 2,115                       | \$ (2,532) | \$ 9,331                      | \$ 697     |
| Earnings (loss) per common share (see Note 5) |                                |            |                               |            |
| Basic                                         | \$ 0.09                        | \$ (0.10)  | \$ 0.38                       | \$ 0.03    |
| Diluted                                       | \$ 0.09                        | \$ (0.10)  | \$ 0.38                       | \$ 0.03    |
| Weighted average common shares outstanding    |                                |            |                               |            |
| Basic                                         | 24,291                         | 24,277     | 24,286                        | 24,078     |
| Diluted                                       | 24,363                         | 24,277     | 24,331                        | 24,085     |

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



## LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(In thousands, except share amounts)

|                                                                                                                                     | March 31,<br>2011 | June 30,<br>2010 |
|-------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------|
| <b>ASSETS</b>                                                                                                                       |                   |                  |
| <b>Current Assets</b>                                                                                                               |                   |                  |
| Cash and cash equivalents                                                                                                           | \$ 9,583          | \$ 17,417        |
| Accounts and notes receivable, net                                                                                                  | 37,866            | 35,254           |
| Inventories                                                                                                                         | 55,535            | 40,082           |
| Refundable income taxes                                                                                                             | 349               | 1,146            |
| Other current assets                                                                                                                | 4,735             | 5,512            |
| Total current assets                                                                                                                | 108,068           | 99,411           |
| Property, Plant and Equipment, net                                                                                                  | 44,870            | 44,911           |
| Goodwill, net                                                                                                                       | 10,766            | 10,766           |
| Other Intangible Assets, net                                                                                                        | 13,162            | 15,103           |
| Other Long-Term Assets, net                                                                                                         | 3,836             | 3,654            |
| Total assets                                                                                                                        | \$ 180,702        | \$ 173,845       |
| <b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>                                                                                       |                   |                  |
| <b>Current Liabilities</b>                                                                                                          |                   |                  |
| Current maturities of long-term debt                                                                                                | \$ 34             | \$ 33            |
| Accounts payable                                                                                                                    | 14,733            | 12,553           |
| Accrued expenses                                                                                                                    | 11,909            | 13,257           |
| Total current liabilities                                                                                                           | 26,676            | 25,843           |
| Other Long-Term Liabilities                                                                                                         | 3,288             | 3,784            |
| Commitments and contingencies (Note 13)                                                                                             | --                | --               |
| <b>Shareholders' Equity</b>                                                                                                         |                   |                  |
| Preferred shares, without par value;<br>Authorized 1,000,000 shares; none issued                                                    | --                | --               |
| Common shares, without par value;<br>Authorized 40,000,000 shares;<br>Outstanding 24,046,681 and 24,045,502<br>shares, respectively | 100,758           | 99,963           |
| Retained earnings                                                                                                                   | 49,980            | 44,255           |
| Total shareholders' equity                                                                                                          | 150,738           | 144,218          |
| Total liabilities & shareholders' equity                                                                                            | \$ 180,702        | \$ 173,845       |

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

## LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(In thousands)

|                                                               | Nine Months Ended<br>March 31 |           |
|---------------------------------------------------------------|-------------------------------|-----------|
|                                                               | 2011                          | 2010      |
| <b>Cash Flows from Operating Activities</b>                   |                               |           |
| Net income                                                    | \$ 9,331                      | \$ 697    |
| Non-cash items included in net income                         |                               |           |
| Depreciation and amortization                                 | 5,886                         | 5,903     |
| Loss on sale of a subsidiary                                  | --                            | 639       |
| Deferred income taxes                                         | (347)                         | (27)      |
| Deferred compensation plan                                    | 90                            | 5         |
| Stock option expense                                          | 708                           | 1,102     |
| Issuance of common shares as compensation                     | 32                            | 36        |
| Loss on disposition of fixed assets                           | 52                            | 28        |
| Allowance for doubtful accounts                               | 139                           | (124)     |
| Inventory obsolescence reserve                                | 628                           | 300       |
| Changes in certain assets and liabilities, net of acquisition |                               |           |
| Accounts and notes receivable                                 | (2,751)                       | 2,581     |
| Inventories                                                   | (16,081)                      | 1,769     |
| Refundable income taxes                                       | 797                           | 494       |
| Accounts payable and other                                    | 2,276                         | (446)     |
| Customer prepayments                                          | (972)                         | (709)     |
| Net cash flows provided by (used in) operating activities     | (212)                         | 12,248    |
| <b>Cash Flows from Investing Activities</b>                   |                               |           |
| Purchases of property, plant and equipment                    | (4,001)                       | (4,572)   |
| Proceeds from sale of fixed assets                            | 45                            | 505       |
| Acquisition of business, net of cash received                 | --                            | (675)     |
| Net cash flows (used in) investing activities                 | (3,956)                       | (4,742)   |
| <b>Cash Flows from Financing Activities</b>                   |                               |           |
| Payment of long-term debt                                     | (25)                          | (2,230)   |
| Cash dividends paid                                           | (3,606)                       | (3,606)   |
| Exercise of stock options                                     | 59                            | --        |
| Purchase of treasury shares                                   | (111)                         | (102)     |
| Issuance of treasury shares                                   | 17                            | 75        |
| Net cash flows (used in) financing activities                 | (3,666)                       | (5,863)   |
| Increase (decrease) in cash and cash equivalents              | (7,834)                       | 1,643     |
| Cash and cash equivalents at beginning of year                | 17,417                        | 13,986    |
| Cash and cash equivalents at end of period                    | \$ 9,583                      | \$ 15,629 |

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

LSI INDUSTRIES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1 - INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements are unaudited and are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of Management, the interim financial statements include all normal adjustments and disclosures necessary to present fairly the Company's financial position as of March 31, 2011, the results of its operations for the three month and nine month periods ended March 31, 2011 and 2010, and its cash flows for the nine month periods ended March 31, 2011 and 2010. These statements should be read in conjunction with the financial statements and footnotes included in the fiscal 2010 Annual Report on Form 10-K. Financial information as of June 30, 2010 has been derived from the Company's audited consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation:

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

Revenue Recognition:

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

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

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

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

warranties.

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

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

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

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## Credit and Collections:

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

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

| (In thousands)                       | March 31,<br>2011 | June 30,<br>2010 |
|--------------------------------------|-------------------|------------------|
| Accounts and notes receivable        | \$ 38,404         | \$ 35,653        |
| less Allowance for doubtful accounts | (538)             | (399)            |
| Accounts and notes receivable, net   | \$ 37,866         | \$ 35,254        |

## Cash and Cash Equivalents:

The cash balance includes cash and cash equivalents which have original maturities of less than three months. The Company maintains balances at financial institutions in the United States and Canada. The balances at financial institutions in Canada are not covered by insurance. As of March 31, 2011 and June 30, 2010, the Company had bank balances of \$4,706,000 and \$18,530,000, respectively, in excess of FDIC insured limits and therefore without insurance coverage.

## Inventories:

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

## Property, Plant and Equipment and Related Depreciation:

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

|                               |                  |
|-------------------------------|------------------|
| Buildings                     | 28 - 40<br>years |
| Machinery<br>and<br>equipment | 3 - 10<br>years  |
| Computer<br>software          | 3 - 8<br>years   |

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

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

| (In thousands)                         |    | March 31,<br>2011 |    | June 30,<br>2010 |
|----------------------------------------|----|-------------------|----|------------------|
| Property, plant and equipment, at cost | \$ | 112,137           | \$ | 108,873          |
| less Accumulated depreciation          |    | (67,267)          |    | (63,962)         |
| Property, plant and equipment, net     | \$ | 44,870            | \$ | 44,911           |

The Company recorded \$1,297,000 and \$1,327,000 of depreciation expense in the third quarter of fiscal 2011 and 2010, respectively, and \$3,945,000, and \$3,995,000 of depreciation expense in the first nine months of fiscal 2011 and 2010, respectively.

#### Intangible Assets:

Intangible assets consisting of customer relationships, trade names and trademarks, patents, technology and software, and non-compete agreements are recorded on the Company's balance sheet. The definite-lived intangible assets are being amortized to expense over periods ranging between two and twenty years. The Company periodically evaluates definite-lived intangible assets for permanent impairment. Neither indefinite-lived intangible assets nor the excess of cost over fair value of assets acquired ("goodwill") are amortized, however they are subject to review for impairment. See additional information about goodwill and intangibles in Note 8.

#### Fair Value of Financial Instruments:

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

#### Product Warranties:

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

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

| (In thousands)                             | Nine<br>Months Ended<br>March 31,<br>2011 | Nine<br>Months Ended<br>March 31,<br>2010 | Fiscal<br>Year Ended<br>June 30,<br>2010 |
|--------------------------------------------|-------------------------------------------|-------------------------------------------|------------------------------------------|
| Balance at beginning of the period         | \$ 589                                    | \$ 223                                    | \$ 223                                   |
| Additions charged to expense               | 1,256                                     | 1,135                                     | 1,870                                    |
| Addition from acquisition                  | --                                        | 5                                         | 5                                        |
| Deductions for repairs and<br>Replacements | (1,165)                                   | (974)                                     | (1,509)                                  |
| Balance at end of the period               | \$ 680                                    | \$ 389                                    | \$ 589                                   |

#### Research and Development Costs:

Research and development expenses are costs directly attributable to new product development, including the development of new technology for both existing and new products, and consist of salaries, payroll taxes, employee

benefits, materials, supplies, depreciation and other administrative costs. All costs are expensed as incurred and are classified as operating expenses. The Company follows the requirements of ASC Subtopic 985-20, Software: Costs of Software to be Sold, Leased, or Marketed, by expensing as research and development all costs associated with development of software used in solid-state LED products. Research and development costs incurred related to both product and software development totaled \$1,103,000, and \$1,209,000 for the three month periods ended March 31, 2011 and 2010, respectively, and \$3,846,000 and \$3,662,000 for the nine month periods ended March 31, 2011 and 2010, respectively.

Earnings Per Common Share:

The computation of basic earnings per common share is based on the weighted average common shares outstanding for the period net of treasury shares held in the Company's non-qualified deferred compensation plan. The computation of diluted earnings per share is based on the weighted average common shares outstanding for the period and includes common share equivalents. Common share equivalents include the dilutive effect of stock options, contingently issuable shares and common shares to be issued under a deferred compensation plan, all of which totaled 316,000 shares and 233,000 shares for the three month periods ended March 31, 2011 and 2010, respectively, and 285,000 shares and 240,000 shares for the nine month periods ended March 31, 2011 and 2010, respectively. See further discussion in Note 5.

New Accounting Pronouncements:

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

In October 2009, the Financial Accounting Standards Board issued ASU 2009-13, "Multiple Deliverable Revenue Arrangements." This amended guidance enables companies to account for products or services (deliverables) separately rather than as a combined unit in certain circumstances. Accounting Standards Codification Subtopic 605-25, Revenue Recognition: Multiple-Element Arrangements, established the accounting and reporting guidance for arrangements under which the vendor will perform multiple revenue-generating activities. The Subtopic addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. The amended guidance was effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted the amended guidance on July 1, 2010. There was no impact on the consolidated results of operations, cash flows or financial position as a result of the amended guidance.

Comprehensive Income:

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

Subsequent Events:

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

Reclassifications:

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

Use of Estimates:

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

NOTE 3 - MAJOR CUSTOMER CONCENTRATIONS

The Company's Lighting Segment and Graphics Segment net sales to 7-Eleven, Inc. represented approximately \$7,254,000 or 14% of consolidated net sales in the three months ended March 31, 2010, and \$38,639,000 or 18% and \$33,055,000 or 17% of consolidated net sales in the nine months ended March 31, 2011 and 2010, respectively. There was no concentration of accounts receivable at March 31, 2011 or June 30, 2010.

NOTE 4 - BUSINESS SEGMENT INFORMATION

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

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

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

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

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

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

The Company's Corporate Administration activities are reported in a line item titled Corporate and Eliminations. This primarily includes intercompany profit in inventory eliminations, expense related to certain corporate officers and support staff, the Company's internal audit staff, the Company's Board of Directors, stock option expense, certain

consulting expenses, investor relations activities, a portion of the Company's legal, auditing and professional fee expenses, and certain research and development expense. Corporate identifiable assets primarily consist of cash, invested cash (if any), refundable income taxes, and deferred income tax assets.

Summarized financial information for the Company's reportable business segments is provided for the following periods and as of March 31, 2011 and June 30, 2010:

| (In thousands)                 | Three Months Ended<br>March 31 |            | Nine Months Ended<br>March 31 |            |
|--------------------------------|--------------------------------|------------|-------------------------------|------------|
|                                | 2011                           | 2010       | 2011                          | 2010       |
| Net Sales:                     |                                |            |                               |            |
| Lighting Segment               | \$ 46,711                      | \$ 35,458  | \$ 141,676                    | \$ 118,787 |
| Graphics Segment               | 10,537                         | 10,900     | 57,407                        | 52,321     |
| Electronic Components Segment  | 6,212                          | 4,014      | 16,053                        | 11,661     |
| All Other Category             | 1,168                          | 3,094      | 4,148                         | 7,747      |
|                                | \$ 64,628                      | \$ 53,466  | \$ 219,284                    | \$ 190,516 |
| Operating Income (Loss):       |                                |            |                               |            |
| Lighting Segment               | \$ 2,195                       | \$ (202)   | \$ 8,448                      | \$ 6,362   |
| Graphics Segment               | (80)                           | (1,062)    | 7,105                         | 2,486      |
| Electronic Components Segment  | 3,120                          | 657        | 5,963                         | 1,462      |
| All Other Category             | (522)                          | (974)      | (889)                         | (1,206)    |
| Corporate and Eliminations     | (2,230)                        | (2,233)    | (6,873)                       | (7,488)    |
|                                | \$ 2,483                       | \$ (3,814) | \$ 13,754                     | \$ 1,616   |
| Capital Expenditures:          |                                |            |                               |            |
| Lighting Segment               | \$ 697                         | \$ 549     | \$ 2,854                      | \$ 1,654   |
| Graphics Segment               | 49                             | 1,607      | 137                           | 1,963      |
| Electronic Components Segment  | 242                            | 53         | 658                           | 537        |
| All Other Category             | 11                             | 79         | 39                            | 89         |
| Corporate and Eliminations     | 89                             | 4          | 313                           | 329        |
|                                | \$ 1,088                       | \$ 2,292   | \$ 4,001                      | \$ 4,572   |
| Depreciation and Amortization: |                                |            |                               |            |
| Lighting Segment               | \$ 955                         | \$ 924     | \$ 2,855                      | \$ 2,791   |
| Graphics Segment               | 496                            | 505        | 1,510                         | 1,516      |
| Electronic Components Segment  | 238                            | 234        | 702                           | 617        |
| All Other Category             | 60                             | 97         | 189                           | 332        |
| Corporate and Eliminations     | 194                            | 215        | 630                           | 647        |
|                                | \$ 1,943                       | \$ 1,975   | \$ 5,886                      | \$ 5,903   |

|                               | March 31,<br>2011 | June 30,<br>2010 |
|-------------------------------|-------------------|------------------|
| Identifiable Assets:          |                   |                  |
| Lighting Segment              | \$ 99,740         | \$ 81,927        |
| Graphics Segment              | 30,810            | 36,077           |
| Electronic Components Segment | 32,757            | 23,136           |
| All Other Category            | 12,329            | 15,372           |
| Corporate and Eliminations    | 5,066             | C17,333          |
|                               | \$ 180,702        | \$ 173,845       |



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

| (In thousands)                                      | Three Months Ended<br>March 31 |          | Nine Months Ended<br>March 31 |          |
|-----------------------------------------------------|--------------------------------|----------|-------------------------------|----------|
|                                                     | 2011                           | 2010     | 2011                          | 2010     |
| Lighting Segment<br>inter-segment<br>net sales      | \$ 1,290                       | \$ 575   | \$ 2,753                      | \$ 5,674 |
| Graphics Segment<br>inter-segment<br>net sales      | \$ 200                         | \$ 175   | \$ 746                        | \$ 707   |
| Electronic Components<br>inter-segment<br>net sales | \$ 9,873                       | \$ 1,275 | \$ 18,701                     | \$ 3,978 |
| All other Category<br>inter-segment<br>net sales    | \$ 1,150                       | \$ 1,064 | \$ 4,280                      | \$ 5,870 |

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

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

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

| (In thousands) | Three Months Ended<br>March 31 |           | Nine Months Ended<br>March 31 |            |
|----------------|--------------------------------|-----------|-------------------------------|------------|
|                | 2011                           | 2010      | 2011                          | 2010       |
| Net Sales (a): |                                |           |                               |            |
| United States  | \$ 64,256                      | \$ 52,184 | \$ 217,619                    | \$ 187,938 |
| Canada         | 372                            | 1,282     | 1,665                         | 2,578      |
|                | \$ 64,628                      | \$ 53,466 | \$ 219,284                    | \$ 190,516 |

|                        | March 31,<br>2011 | June 30,<br>2010 |
|------------------------|-------------------|------------------|
| Long-lived Assets (b): |                   |                  |
| United States          | \$ 48,456         | \$ 48,220        |
| Canada                 | 250               | 345              |
|                        | \$ 48,706         | \$ 48,565        |

- a. Net sales are attributed to geographic areas based upon the location of the operation making the sale.
- b. Long-lived assets include property, plant and equipment, and other long term assets. Goodwill and intangible assets are not included in long-lived assets.

## NOTE 5 - EARNINGS PER COMMON SHARE

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

|                                                                                                                           | Three Months Ended<br>March 31 |            | Nine Months Ended<br>March 31 |         |
|---------------------------------------------------------------------------------------------------------------------------|--------------------------------|------------|-------------------------------|---------|
|                                                                                                                           | 2011                           | 2010       | 2011                          | 2010    |
| <b>BASIC EARNINGS<br/>(LOSS) PER SHARE</b>                                                                                |                                |            |                               |         |
| Net income (loss)                                                                                                         | \$ 2,115                       | \$ (2,532) | \$ 9,331                      | \$ 697  |
| Weighted average shares<br>outstanding<br>during the period, net<br>of treasury shares (a)                                | 24,047                         | 24,044     | 24,046                        | 23,845  |
| Weighted average shares<br>outstanding<br>in the Deferred<br>Compensation Plan<br>during the period                       | 244                            | 233        | 240                           | 233     |
| Weighted average shares<br>outstanding                                                                                    | 24,291                         | 24,277     | 24,286                        | 24,078  |
| Basic earnings (loss) per<br>share                                                                                        | \$ 0.09                        | \$ (0.10)  | \$ 0.38                       | \$ 0.03 |
| <b>DILUTED EARNINGS<br/>(LOSS) PER SHARE</b>                                                                              |                                |            |                               |         |
| Net income (loss)                                                                                                         | \$ 2,115                       | \$ (2,532) | \$ 9,331                      | \$ 697  |
| Weighted average shares<br>outstanding                                                                                    |                                |            |                               |         |
| Basic                                                                                                                     | 24,291                         | 24,277     | 24,286                        | 24,078  |
| Effect of dilutive<br>securities (b):                                                                                     |                                |            |                               |         |
| Impact of common shares<br>to be<br>issued under stock option<br>plans,<br>and contingently issuable<br>shares,<br>if any | 72                             | --         | 45                            | 7       |

| Weighted average shares           |         |           |         |         |
|-----------------------------------|---------|-----------|---------|---------|
| outstanding (c)                   | 24,363  | 24,277    | 24,331  | 24,085  |
| Diluted earnings (loss) per share |         |           |         |         |
|                                   | \$ 0.09 | \$ (0.10) | \$ 0.38 | \$ 0.03 |

- (a) Includes shares accounted for like treasury stock in accordance with Accounting Standards Codification Topic 710, Compensation - General.
- (b) Calculated using the "Treasury Stock" method as if dilutive securities were exercised and the funds were used to purchase common shares at the average market price during the period.
- (c) Options to purchase 1,837,945 common shares and 2,138,119 common shares at March 31, 2011 and 2010, respectively, and options to purchase 1,920,352 common shares and 2,021,633 common shares at March 31, 2011 and 2010, respectively, were not included in the computation of the three month and nine month, respectively, diluted earnings per share because the exercise price was greater than the average fair market value of the common shares.

## NOTE 6 - INVENTORIES

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

|                 | March 31, 2011 | June 30, 2010 |
|-----------------|----------------|---------------|
| Inventories:    |                |               |
| Raw materials   | \$ 33,041      | \$ 19,029     |
| Work-in-process | 7,364          | 8,891         |
| Finished goods  | 15,130         | 12,162        |
|                 | \$ 55,535      | \$ 40,082     |

## NOTE 7 - ACCRUED EXPENSES

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

|                           | March 31, 2011 | June 30, 2010 |
|---------------------------|----------------|---------------|
| Accrued Expenses:         |                |               |
| Compensation and benefits | \$ 6,879       | \$ 6,725      |
| Customer prepayments      | 1,261          | 2,233         |
| Accrued sales commissions | 1,203          | 884           |
| Accrued Income Taxes      | --             | 138           |
| Other accrued expenses    | 2,566          | 3,277         |
|                           | \$ 11,909      | \$ 13,257     |

## NOTE 8 - GOODWILL AND OTHER INTANGIBLE ASSETS

In accordance with Accounting Standards Codification (ASC) Topic 350, Intangibles – Goodwill and Other, the Company is required to perform an annual impairment test of its goodwill and indefinite-lived intangible assets. The Company performed this test as of July 1st of each fiscal year, with the last test performed as of July 1, 2010. The Company decided to change the annual testing from July 1st to March 1st in order to reduce administrative burden. The change from a testing date of July 1st to March 1st will result in two impairment tests in fiscal 2011 that are eight months apart. The Company also performs the test on an interim basis when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company uses a combination of the market approach and the income (discounted cash flow) approach in determining the fair value of its reporting units. Under ASC Topic 350, the goodwill impairment test is a two-step process. Under the first step, the fair value of the Company's reporting unit is compared to its respective carrying value. An indication that goodwill is impaired occurs when the fair value of a reporting unit is less than the carrying value. When there is an indication that goodwill is impaired, the Company is required to perform a second step. In step two, the actual impairment of goodwill is calculated by comparing the implied fair value of the goodwill with the carrying value of the goodwill.

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

Due to economic conditions, the effects of the recession on the Company's markets and the decline in the Company's stock price, management believed that an additional goodwill impairment test was required as of June 30, 2009. The impairment test performed as of June 30, 2009 was actually the Company's annual goodwill impairment test that was

to be performed in fiscal 2010 as of July 1, 2009; however, because the conditions that resulted in goodwill impairment were present as of June 30, 2009, the test was performed as of that date. There were no triggering events in fiscal 2010 related to goodwill impairment testing and, as a result, there was no impairment of goodwill recorded in fiscal 2010.

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

The Company performed a second annual goodwill impairment test, as of March 1, 2011, as a result of the change in the timing of the performance of the annual test as noted above. While the impairment test is not fully complete, management believes that the goodwill associated with the Company's four reporting units is not impaired. The impairment test is expected to be completed in the fourth quarter of fiscal 2011.

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

Goodwill  
(In thousands)

|                                     | Lighting<br>Segment | Graphics<br>Segment | Electronic<br>Components<br>Segment | All Other<br>Category | Total     |
|-------------------------------------|---------------------|---------------------|-------------------------------------|-----------------------|-----------|
| Balance as of June 30,<br>2010      |                     |                     |                                     |                       |           |
| Goodwill                            | \$ 34,913           | \$ 24,959           | \$ 9,208                            | \$ 6,850              | \$ 75,930 |
| Accumulated<br>impairment<br>Losses | (34,778)            | (24,701)            | --                                  | (5,685)               | (65,164)  |
|                                     | \$ 135              | \$ 258              | \$ 9,208                            | \$ 1,165              | \$ 10,766 |
| Balance as of March<br>31, 2011     |                     |                     |                                     |                       |           |
| Goodwill                            | \$ 34,913           | \$ 24,959           | \$ 9,208                            | \$ 6,850              | \$ 75,930 |
| Accumulated<br>impairment<br>Losses | (34,778)            | (24,701)            | --                                  | (5,685)               | (65,164)  |
|                                     | \$ 135              | \$ 258              | \$ 9,208                            | \$ 1,165              | \$ 10,766 |

Based upon the Company's analysis as of July 1, 2010, it was determined that its indefinite-lived intangible assets were not impaired. The Company performed a second annual indefinite-lived intangible asset impairment test, as of March 1, 2011, as a result of the change in the timing of the performance of the annual test. While the impairment test is not fully complete, management believes that the indefinite-lived intangible assets are not impaired. The impairment test is expected to be completed in the fourth quarter of fiscal 2011.

Based upon the Company's analysis as of July 1, 2009, it was determined that an intangible asset with a net carrying value of \$16,000 for a patent in the Lighting Segment was fully impaired and that an intangible asset with a carrying value of \$137,000 for a trade name in the All Other Category was also fully impaired. Accordingly, the Company recorded \$153,000 of intangible asset impairment expense in fiscal 2010.

The acquisition of LSI ADL Technology resulted in the following amortizable intangible assets being recorded on the Company's balance sheet as of the July 22, 2009 acquisition date: customer relationships \$2,880,000 (twelve year amortization period); technology \$780,000 (ten year amortization period); trade name \$460,000 (five year amortization period) and non-compete agreements \$710,000 (seven year amortization period). The weighted average amortization period of these four intangible assets is ten years three months.

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

| Intangible Assets<br>(In thousands) | Gross<br>Carrying<br>Amount | March 31, 2011              |               |
|-------------------------------------|-----------------------------|-----------------------------|---------------|
|                                     |                             | Accumulated<br>Amortization | Net<br>Amount |
| Amortized Intangible Assets         |                             |                             |               |
| Customer relationships              | \$ 10,352                   | \$ 5,545                    | \$ 4,807      |
| Patents                             | 70                          | 45                          | 25            |
| LED technology                      |                             |                             |               |
| firmware, software                  | 11,228                      | 7,222                       | 4,006         |
| Trade name                          | 460                         | 155                         | 305           |
| Non-compete agreements              | 890                         | 293                         | 597           |
|                                     | 23,000                      | 13,260                      | 9,740         |
| Indefinite-lived Intangible Assets  |                             |                             |               |
| Trademarks and trade names          | 3,422                       | --                          | 3,422         |
|                                     | 3,422                       | --                          | 3,422         |
| Total Intangible Assets             | \$ 26,422                   | \$ 13,260                   | \$ 13,162     |

|                                    | June 30, 2010         |                          |            |
|------------------------------------|-----------------------|--------------------------|------------|
| (In thousands)                     | Gross Carrying Amount | Accumulated Amortization | Net Amount |
| Amortized Intangible Assets        |                       |                          |            |
| Customer relationships             | \$ 10,352             | \$ 4,950                 | \$ 5,402   |
| Patents                            | 70                    | 42                       | 28         |
| LED technology                     |                       |                          |            |
| firmware, software                 | 11,228                | 6,043                    | 5,185      |
| Trade name                         | 460                   | 86                       | 374        |
| Non-compete agreements             | 890                   | 198                      | 692        |
|                                    | 23,000                | 11,319                   | 11,681     |
| Indefinite-lived Intangible Assets |                       |                          |            |
| Trademarks and trade names         | 3,422                 | --                       | 3,422      |
|                                    | 3,422                 | --                       | 3,422      |
| Total Intangible Assets            | \$ 26,422             | \$ 11,319                | \$ 15,103  |

| (In thousands)     | Amortization Expense of<br>Other Intangible Assets |                |
|--------------------|----------------------------------------------------|----------------|
|                    | March 31, 2011                                     | March 31, 2010 |
| Three Months Ended | \$ 646                                             | \$ 648         |
| Nine Months Ended  | \$ 1,941                                           | \$ 1,908       |

The Company expects to record amortization expense as follows: fiscal 2011 and 2012 -- \$2,588,000 per year; 2013 -- \$2,325,000; 2014 -- \$619,000; 2015 -- \$532,000; and after 2015 -- \$3,029,000.



## NOTE 9 - REVOLVING LINES OF CREDIT AND LONG-TERM DEBT

The Company has a \$30 million unsecured revolving line of credit with its bank group in the U.S., all of which was available as of March 31, 2011. The line of credit expires in the third quarter of fiscal 2014. Annually in the third quarter, the credit facility is renewable with respect to adding an additional year of commitment, if the bank group so chooses, to replace the year just ended. Interest on the revolving lines of credit is charged based upon an increment over the LIBOR rate as periodically determined, or at the bank's base lending rate, at the Company's option. The increment over the LIBOR borrowing rate, as periodically determined, fluctuates between 175 and 215 basis points depending upon the ratio of indebtedness to earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the credit facility. The fee on the unused balance of the \$30 million committed line of credit is 25 basis points. Under terms of this credit facility, the Company has agreed to a negative pledge of assets and is required to comply with financial covenants that limit the amount of debt obligations, require a minimum amount of tangible net worth, and limit the ratio of indebtedness to EBITDA (earnings before income taxes, depreciation and amortization). The Company is in compliance with all of its loan covenants as of March 31, 2011.

The Company also has a \$5 million line of credit for its Canadian subsidiary. The line of credit expires in the third quarter of fiscal 2012. Interest on the Canadian subsidiary's line of credit is charged based upon a 200 basis point increment over the LIBOR rate or based upon an increment over the United States base rate if funds borrowed are denominated in U.S. dollars or an increment over the Canadian prime rate if funds borrowed are denominated in Canadian dollars. There are no borrowings against this line of credit as of March 31, 2011.

The Company assumed a mortgage loan with the acquisition of AdL Technology in July 2009. Monthly principal and interest payments of approximately \$10,000 are to be made through August, 2012 at an interest rate of 7.76%, at which time the balance is payable in full. The real estate of LSI ADL Technology has been pledged as collateral for the mortgage. The Company also assumed approximately \$2.2 million of additional long-term debt with the acquisition of AdL Technology and paid it off at the time of the acquisition.

| (In thousands)          | March 31, 2011 | June 30,<br>2010 |
|-------------------------|----------------|------------------|
| Total mortgage balance  | \$ 1,107       | \$ 1,132         |
| Less current maturities | 34             | 33               |
| Long-term debt          | \$ 1,073       | \$ 1,099         |

Maturities of long-term debt are as follows (in thousands):

| Fiscal year ended June 30 |          |
|---------------------------|----------|
| 2011                      | \$ 8     |
| 2012                      | 34       |
| 2013                      | 1,065    |
|                           | \$ 1,107 |

## NOTE 10 - CASH DIVIDENDS

The Company paid cash dividends of \$3,606,000, and \$3,606,000 in the nine months ended March 31, 2011 and 2010, respectively. In April 2011, the Company's Board of Directors declared a \$0.05 per share regular quarterly cash dividend (approximately \$1,202,000) payable on May 17, 2011 to shareholders of record May 10, 2011.

## NOTE 11 - EQUITY COMPENSATION

## Stock Options

The Company has an equity compensation plan that was approved by shareholders which covers all of its full-time employees, outside directors and certain advisors. The options granted or stock awards made pursuant to this plan are granted at fair market value at date of grant or award. Options granted to non-employee directors become exercisable 25% each ninety days (cumulative) from date of grant and options granted to employees generally become exercisable 25% per year (cumulative) beginning one year after the date of grant. If a stock option holder's employment with the Company terminates by reason of death, disability or retirement, as defined in the Plan, the Plan generally provides for acceleration of vesting. The number of shares reserved for issuance is 2,800,000, of which 672,109 shares were available for future grant or award as of March 31, 2011. This plan allows for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted and unrestricted stock awards, performance stock awards, and other stock awards. As of March 31, 2011, a total of 2,158,989 options for common shares were outstanding from this plan as well as two previous stock option plans (both of which had also been approved by shareholders), and of these, a total of 1,214,114 options for common shares were vested and exercisable. The approximate unvested stock option expense as of March 31, 2011 that will be recorded as expense in future periods is \$901,100. The weighted average time over which this expense will be recorded is approximately 19 months.

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

|                         | Three Months Ended |          | Nine Months Ended |          |
|-------------------------|--------------------|----------|-------------------|----------|
|                         | 3/31/11            | 3/31/10  | 3/31/11           | 3/31/10  |
| Dividend yield          | --                 | 3.09%    | 2.97%             | 3.09%    |
| Expected volatility     | --                 | 51%      | 56%               | 51%      |
| Risk-free interest rate | --                 | 2.44%    | 1.41%             | 2.40%    |
| Expected life           | --                 | 4.3 yrs. | 4.5 yrs.          | 4.3 yrs. |

At March 31, 2011, the 288,200 options granted in the first nine months of fiscal 2011 to employees and non-employee directors had per share exercise prices ranging from \$4.84 to \$8.92, fair values ranging from \$1.60 to \$3.37 per option, and remaining contractual lives of nine years three months to nine years eight months.

At March 31, 2010, the 644,000 options granted in the first nine months of fiscal 2010 to both employees and non-employee directors had per share exercise prices ranging from \$5.93 to \$8.40, fair values ranging from \$2.03 to \$2.87, and remaining contractual lives of between nine years and eight months and ten years.

The Company calculates stock option expense using the Black-Scholes model. Stock option expense is recorded on a straight line basis with an estimated 3.0% forfeiture rate effective July 1, 2010, with the previous estimated forfeiture rate having been 6.55%. The expected volatility of the Company's stock was calculated based upon the historic monthly fluctuation in stock price for a period approximating the expected life of option grants. The risk-free interest rate is the rate of a five year Treasury security at constant, fixed maturity on the approximate date of the stock option grant. The expected life of outstanding options is determined to be less than the contractual term for a period equal to the aggregate group of option holders' estimated weighted average time within which options will be exercised. It is the Company's policy that when stock options are exercised, new common shares shall be issued. The Company recorded \$129,500 and \$378,200 of expense related to stock options in three months ended March 31, 2011 and 2010, respectively, and \$708,800 and \$1,101,800 in the nine month periods ended March 31, 2011 and 2010, respectively. As of March 31, 2011, the Company expects that approximately 918,098 outstanding stock options having a weighted average exercise price of \$8.20 per share, intrinsic value of \$618,383 and weighted average remaining contractual terms of 8.3 years will vest in the future.

Information related to all stock options for the periods ended March 31, 2011 and 2010 is shown in the table below:

|                        | Shares    | Nine Months Ended March 31, 2011         |                                                         |    | Aggregate<br>Intrinsic<br>Value |
|------------------------|-----------|------------------------------------------|---------------------------------------------------------|----|---------------------------------|
|                        |           | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term |    |                                 |
| Outstanding at 6/30/10 | 2,123,086 | \$ 11.64                                 | 6.6 years                                               | \$ | 15,270                          |
| Granted                | 288,200   | \$ 5.29                                  |                                                         |    |                                 |
| Forfeitures            | (245,297) | \$ 11.22                                 |                                                         |    |                                 |
| Exercised              | (7,000)   | 8.40                                     |                                                         |    |                                 |
| Outstanding at 3/31/11 | 2,158,989 | \$ 10.85                                 | 6.6 years                                               | \$ | 704,471                         |

|                        |           |    |       |           |    |        |
|------------------------|-----------|----|-------|-----------|----|--------|
| Exercisable at 3/31/11 | 1,214,114 | \$ | 12.94 | 5.2 years | \$ | 56,346 |
|------------------------|-----------|----|-------|-----------|----|--------|

| Nine Months Ended March 31, 2010 |           |                                          |                                                         |                                 |
|----------------------------------|-----------|------------------------------------------|---------------------------------------------------------|---------------------------------|
|                                  | Shares    | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
| Outstanding at 6/30/09           | 1,537,212 | \$ 13.07                                 | 6.4 years                                               | \$ 33,800                       |
| Granted                          | 644,000   | \$ 8.26                                  |                                                         |                                 |
| Forfeitures                      | (8,876)   | \$ 12.48                                 |                                                         |                                 |
| Exercised                        | --        | \$ --                                    |                                                         |                                 |
| Outstanding at 3/31/10           | 2,172,336 | \$ 11.64                                 | 6.8 years                                               | \$ 106,455                      |
| Exercisable at 3/31/10           | 1,054,936 | \$ 12.98                                 | 4.8 years                                               | \$ 13,498                       |

The aggregate intrinsic value of options exercised during the nine month period ended March 31, 2011 was \$6,526. No options were exercised in the nine month period ended March 31, 2010.

Information related to unvested stock options for the nine months ended March 31, 2011 is shown in the table below:

|                                                  | Shares    | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--------------------------------------------------|-----------|------------------------------------------|---------------------------------------------------------|---------------------------------|
| Outstanding unvested<br>stock options at 6/30/10 | 1,071,875 | \$ 10.32                                 | 8.4 years                                               | \$ 10,193                       |
| Vested                                           | (366,700) | \$ 11.92                                 |                                                         |                                 |
| Forfeitures                                      | (48,500)  | \$ 10.52                                 |                                                         |                                 |
| Granted                                          | 288,200   | \$ 5.29                                  |                                                         |                                 |
| Outstanding unvested<br>stock options at 3/31/11 | 944,875   | \$ 8.16                                  | 8.4 years                                               | \$ 648,125                      |

#### Stock Compensation Awards

The Company awarded a total of 4,876 and 4,456 common shares, respectively, in the nine months ended March 31, 2011 and March 31, 2010 as stock compensation awards. These common shares were valued at their approximate \$30,900 and \$36,000 fair market values, respectively, on their dates of issuance, respectively, pursuant to the compensation programs for non-employee directors who receive a portion of their compensation as an award of Company common stock. Stock compensation awards are made in the form of newly issued common shares of the Company.

#### Deferred Compensation Plan

The Company has a non-qualified deferred compensation plan providing for both Company contributions and participant deferrals of compensation. The Plan is fully funded in a Rabbi Trust. All Plan investments are in common shares of the Company. As of March 31, 2011 there were 28 participants, all with fully vested account balances. A total of 244,292 common shares with a cost of \$2,497,348, and 224,884 common shares with a cost of \$2,403,600 were held in the Plan as of March 31, 2011 and June 30, 2010, respectively, and, accordingly, have been recorded as treasury shares. The change in the number of shares held by this plan is the net result of share purchases and sales on the open stock market for compensation deferred into the Plan and for distributions to terminated employees. The Company does not issue new common shares for purposes of the non-qualified deferred compensation plan. The Company accounts for assets held in the non-qualified deferred compensation plan in accordance with Accounting Standards Codification Topic 710, Compensation – General. For fiscal year 2011, the Company estimates the Rabbi Trust for the Nonqualified Deferred Compensation Plan will make net repurchases in the range of 21,000 to 23,000 common shares of the Company. During the nine months ended March 31, 2011 and 2010, the Company used approximately \$111,100 and \$102,200, respectively, to purchase common shares of the Company in the open stock market for either employee salary deferrals or Company contributions into the non-qualified deferred compensation plan. The Company does not currently repurchase its own common shares for any other purpose.

## NOTE 12 - SUPPLEMENTAL CASH FLOW INFORMATION

| (In thousands)                            | Nine Months Ended<br>March 31 |           |
|-------------------------------------------|-------------------------------|-----------|
|                                           | 2011                          | 2010      |
| Cash payments:                            |                               |           |
| Interest                                  | \$ 116                        | \$ 109    |
| Income taxes                              | \$ 5,589                      | \$ 455    |
| Issuance of common shares as compensation | \$ 31                         | \$ 36     |
| Issuance of common shares for acquisition | \$ --                         | \$ 14,448 |

## NOTE 13 – COMMITMENTS AND CONTINGENCIES

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

The Company was named as one of several defendants in a lawsuit filed in August 2010 alleging patent infringement with respect to alleged two way communication features in the Company's solid-state LED video screens sold over the past four and one half years. The plaintiff was seeking unspecified damages related to the alleged patent infringement. The Company and the plaintiff concluded discussions related to this lawsuit, settled this matter and entered into a license agreement. While the Company believes its LED video screen designs do not infringe upon the plaintiff's patent, management believed it was in the best interest of the Company in the third quarter of fiscal 2011 to reach agreement with the plaintiff for settlement.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's condensed consolidated financial statements, accompanying notes and the "Safe Harbor" Statement, each as appearing earlier in this report, should be referred to in conjunction with this Management's Discussion and Analysis of Financial Condition and Results of Operations.

| Net Sales by Business<br>Segment<br>(In thousands) | Three Months Ended<br>March 31 |           | Nine Months Ended<br>March 31 |            |
|----------------------------------------------------|--------------------------------|-----------|-------------------------------|------------|
|                                                    | 2011                           | 2010      | 2011                          | 2010       |
|                                                    |                                |           |                               |            |
| Lighting Segment                                   | \$ 46,711                      | \$ 35,458 | \$ 141,676                    | \$ 118,787 |
| Graphics Segment                                   | 10,537                         | 10,900    | 57,407                        | 52,321     |
| Electronic Components<br>Segment                   | 6,212                          | 4,014     | 16,053                        | 11,661     |
| All Other Category                                 | 1,168                          | 3,094     | 4,148                         | 7,747      |
|                                                    | \$ 64,628                      | \$ 53,466 | \$ 219,284                    | \$ 190,516 |



Operating Income (Loss)  
by Business Segment  
(In thousands)

|                               | Three Months Ended<br>March 31 |             | Nine Months Ended<br>March 31 |          |
|-------------------------------|--------------------------------|-------------|-------------------------------|----------|
|                               | 2011                           | 2010        | 2011                          | 2010     |
| Lighting Segment              | \$ 2,195                       | \$ (202 )   | \$ 8,448                      | \$ 6,362 |
| Graphics Segment              | (80 )                          | (1,062 )    | 7,105                         | 2,486    |
| Electronic Components Segment | 3,120                          | 657         | 5,963                         | 1,462    |
| All Other Category            | (522 )                         | (974 )      | (889                          | (1,206 ) |
| Corporate and Eliminations    | (2,230 )                       | (2,233 )    | (6,873                        | (7,488 ) |
|                               | \$ 2,483                       | \$ (3,814 ) | \$ 13,754                     | \$ 1,616 |

### Summary Comments

Fiscal 2011 third quarter net sales of \$64,628,000 increased \$11.2 million or 20.9% as compared to the same period of fiscal 2010. See Note 4 to the financial statements for discussion of the retroactive reclassification of the Company's reportable business segments. Net sales were favorably influenced by increased net sales of the Lighting Segment (up \$11.3 million or 31.7%), and the Electronic Components Segment (up \$2.2 million or 54.8%). Net sales were unfavorably influenced by decreased Graphics Segment (down \$0.4 million or 3.4%), and All Other Category net sales (down \$1.9 million or 62.2%). In the third quarter of fiscal 2010, the Company recorded certain pre-tax acquisition-related fair value inventory adjustments totaling \$30,000 -- see the paragraph below regarding Non-GAAP Financial Measures. There were no such similar significant expenses in fiscal 2011. Net sales to the Petroleum / Convenience Store market, the Company's largest niche market, were \$17,934,000 or 28% of total net sales and \$16,512,000 or 31% of total net sales in the third quarter of fiscal 2011 and 2010, respectively. The \$1.4 million or 9% increase is primarily due to increased net sales to customers other than 7-Eleven, Inc. (for whom net sales decreased \$4.7 million as their program of replacing traditional canopy, site and sign lighting with solid-state LED lighting has substantially been completed). The Company had substantially completed 7-Eleven's conversion to solid-state LED lighting at the non-petroleum retail sites in the second quarter of fiscal 2011, with some additional sites flowing over to the Company's second half of fiscal 2011. Net sales to this petroleum / convenience store customer are reported in both the Lighting and Graphics segments.

Fiscal 2011 nine month net sales of \$219,284,000 increased \$28.8 million or 15.1% as compared to the same period of fiscal 2010. See Note 4 to the financial statements for discussion of the retroactive reclassification of the Company's reportable business segments. Net sales were favorably influenced by increased net sales of the Lighting Segment (up \$22.9 million or 19.3%), Graphics Segment (up \$5.1 million or 9.7%), and the Electronic Components Segment (up \$4.4 million or 37.7%). Net sales were unfavorably influenced by decreased All Other Category net sales (down \$3.6 million or 46.5%). In the first nine months of fiscal 2010, the Company recorded certain pre-tax acquisition deal costs and acquisition-related fair value inventory adjustments totaling \$1,160,000 -- see the paragraph below regarding Non-GAAP Financial Measures. There were no such similar significant expenses in fiscal 2011. Net sales to the Petroleum / Convenience Store market, the Company's largest niche market, were \$87,878,000 or 40% of total net sales and \$69,402,000 or 36% of total net sales in the first nine months of fiscal 2011 and 2010, respectively. The \$18.5 million or 27% increase is primarily due to a program with 7-Eleven, Inc., who replaced traditional canopy, site and sign lighting with solid-state LED lighting (\$5.6 million increase). The Company had substantially completed the conversion to solid-state LED lighting at the non-petroleum retail sites in the second quarter of fiscal 2011, with some additional sites flowing over to the Company's second half of fiscal 2011. Net sales to this petroleum / convenience

store customer are reported in both the Lighting and Graphics segments.

The Company's total net sales of products and services 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 2011       | FY 2010   | % Change |
| First Quarter  | \$ 16,673     | \$ 17,999 | (7.4)%   |
| Second Quarter | 17,585        | 18,533    | (5.1)%   |
| First Half     | 34,258        | 36,532    | (6.2)%   |
| Third Quarter  | 12,943        | 11,510    | 12.5%    |
| Nine Months    | \$ 47,201     | 48,042    | (1.8)%   |
| Fourth Quarter |               | 14,538    |          |
| Full Year      |               | \$ 62,580 |          |

Third quarter fiscal 2011 LED net sales of \$12,943,000 were up \$1.4 million or 12.5% from the same period of the prior year. The \$12,943,000 total LED net sales and the \$1.4 million increase are primarily the result of Lighting Segment LED net sales of \$12,261,000 (up \$3.9 million or 47%), Graphics Segment LED net sales of \$310,000 (down \$1.5 million or 83%) and All Other Category LED net sales of \$372,000 (down \$0.9 million or 71%). Nine month fiscal 2011 LED net sales of \$47,201,000 were down \$0.8 million or 1.8% from the same period of the prior year. The \$47,201,000 total LED net sales and the \$0.8 million reduction are primarily the result of Lighting Segment LED net sales of \$40,935,000 (up \$11.2 million or 38%), Graphics Segment LED net sales of \$4,601,000 (down \$11.1 million or 71%, primarily due to lower LED sports screen sales) and All Other Category LED net sales of \$1,665,000 (down \$0.9 million or 35%).

During the recession of 2008 through 2010, virtually all of our markets were adversely impacted and our business suffered as a result. During these difficult and uncertain economic conditions, we took a number of proactive steps to meet our operating challenges, including strict control of expenses, capital expenditure reductions, close management of accounts receivable and inventories, prudent staffing decisions, and maintaining a conservative financial position coupled with positive free cash flow. Economic conditions in many of the markets we serve now have continued to show improvement in the three quarters of fiscal 2011. We continue to adjust our expense levels to production rates we are experiencing and to manage working capital efficiently. We are also strategically positioning the business for future growth and are very positive about the longer term outlook and opportunities for the Company. LSI is still facing a period of challenging business conditions in the near term due to the general economic conditions, but expects to emerge a stronger and more efficient company as business conditions continue to improve.

#### Non-GAAP Financial Measures

The Company believes it is appropriate to evaluate its performance after making adjustments to the U.S. GAAP net income for the 2010 fiscal year. Adjusted net income and earnings per share, which exclude the impact of the LSI ADL Technology acquisition deal costs, acquisition-related fair value inventory adjustments, and the loss on the sale of LSI Marcole, 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.

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(In thousands, except per share data; unaudited)

|                                                                                                                        | Third Quarter FY 2011 |                | Third Quarter FY 2010 |                |
|------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------|-----------------------|----------------|
|                                                                                                                        | Amount                | Diluted<br>EPS | Amount                | Diluted<br>EPS |
| Reconciliation of net income (loss)<br>to<br>adjusted net income (loss):                                               |                       |                |                       |                |
| Net income (loss) as reported                                                                                          | \$ 2,115              | \$ 0.09        | \$ (2,532)            | \$ (0.10)      |
| Loss on sale of LSI Marcole,<br>inclusive of the income tax effect                                                     | --                    | --             | 300(1)                | 0.01           |
| Adjustment for the<br>acquisition-related<br>fair value inventory<br>adjustment, inclusive of<br>the income tax effect | --                    | --             | 16(2)                 | --             |
| Adjusted net income and<br>earnings per share                                                                          | \$ 2,115              | \$ 0.09        | \$ (2,216)            | \$ (0.09)      |

(In thousands, except per share data; unaudited)

|                                                                                                                                                    | First Nine Months of FY 2011 |                | First Nine Months of FY 2010 |                |
|----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|----------------|------------------------------|----------------|
|                                                                                                                                                    | Amount                       | Diluted<br>EPS | Amount                       | Diluted<br>EPS |
| Reconciliation of net income to<br>adjusted net income:                                                                                            |                              |                |                              |                |
| Net income as reported                                                                                                                             | \$ 9,331                     | \$ 0.38        | \$ 697                       | \$ 0.03        |
| Loss on sale of LSI Marcole,<br>inclusive of the income tax effect                                                                                 |                              |                | 300(1)                       | 0.01           |
| Adjustment for the acquisition<br>deal costs and acquisition-<br>related fair value inventory<br>adjustment, inclusive of<br>the income tax effect | --                           | --             | 545(3)                       | 0.02           |
| Adjusted net income and<br>earnings per share                                                                                                      | \$ 9,331                     | \$ 0.38        | \$ 1,542                     | \$ 0.06        |

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

- (1) \$339
- (2) \$14
- (3) \$615

## Results of Operations

## THREE MONTHS ENDED MARCH 31, 2011 COMPARED TO THREE MONTHS ENDED MARCH 31, 2010

| Lighting Segment<br>(In thousands) | Three Months Ended<br>March 31 |           |
|------------------------------------|--------------------------------|-----------|
|                                    | 2011                           | 2010      |
| Net Sales                          | \$ 46,711                      | \$ 35,458 |
| Gross Profit                       | \$ 10,238                      | \$ 6,607  |
| Operating Income (Loss)            | \$ 2,195                       | \$ (202)  |

Lighting Segment net sales of \$46,711,000 in the third quarter of fiscal 2011 increased 31.7% from fiscal 2010 same period net sales of \$35,458,000. The \$11.3 million increase in Lighting Segment net sales is primarily the net result of a \$4.6 million or 24.8% 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 40%, and net sales to the quick service restaurant market were up 4%) and national retail accounts, and an \$6.6 million or 39.4% increase in commissioned net sales to the commercial / industrial lighting market. Sales of lighting to the petroleum / convenience store market represented 27% and 30% of Lighting Segment net sales in the third quarter of fiscal years 2011 and 2010 respectively. Lighting Segment net sales of lighting to this, the Company's largest niche market, were up 18% from last year to \$12,520,000, with approximately \$1.1 million related to a program with 7-Eleven, Inc., who replaced traditional canopy, site and sign lighting with solid-state LED lighting. The Company expects to continue to make sales to this particular customer for additional stores to be converted in the second half of fiscal 2011. 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 \$12.3 million in the third quarter of fiscal 2011, representing a 47% increase from fiscal 2010 third quarter net sales of solid-state LED light fixtures of \$8.4 million.

Gross profit of \$10,238,000 in the third quarter of fiscal 2011 increased \$3.6 million or 55.0% from the same period of fiscal 2010, and increased from 18.3% to 21.3% 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, \$0.8 million increased freight costs, \$0.1 million increased warranty costs, \$0.1 million increased utilities, \$0.2 million increased manufacturing supplies expense, \$0.1 million increased repairs and maintenance, and \$0.1 million decreased rental/lease expense.

Selling and administrative expenses of \$8,043,000 in the third quarter of fiscal 2011 increased \$1.2 million from the same period of fiscal 2010. The following items were the primary contributors to the increase: \$0.1 million increased employee compensation and benefits expense, \$1.0 million increased sales commission expense reflective of increased net sales, \$0.4 million increased customer relations expense, \$0.1 million decreased bad debt expense, \$0.2 million increased outside services expense; and \$0.1 million increased sales samples expense.

The Lighting Segment third quarter fiscal 2011 operating income of \$2,195,000 increased \$2.4 million from an operating loss of \$(202,000) in the same period of fiscal 2010. This improvement of \$2.4 million was the net result of increased net sales, increased gross profit (at higher margin percentages), and increased selling and administrative expenses.

## Graphics Segment

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(In thousands)

Three Months Ended  
March 31

2011

2010

|                         |    |        |    |         |
|-------------------------|----|--------|----|---------|
| Net Sales               | \$ | 10,537 | \$ | 10,900  |
| Gross Profit            | \$ | 2,905  | \$ | 1,458   |
| Operating Income (Loss) | \$ | (80)   | \$ | (1,062) |

Graphics Segment net sales of \$10,537,000 in the third quarter of fiscal 2011 decreased 3.3% from fiscal 2010 same period net sales of \$10,900,000. The \$0.4 million decrease in Graphics Segment net sales is primarily the net result of image conversion programs and sales to eight petroleum / convenience store customers (\$1.0 million net decrease), a grocery retailer (\$0.5 million decrease), the LED video sports screen market (\$0.1 million increase), a national drug store retailer (\$0.7 million decrease), and changes in volume or completion of several other graphics programs. Sales of graphics products and services to the petroleum / convenience store market represented 51% and 54% of Graphics Segment net sales in the third quarter of fiscal years 2011 and 2010, respectively. Graphics Segment net sales of graphics to this, the Company's largest niche market, were down 8% from last year to \$5,414,000. 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 products and services related to solid-state LED video screens and LED lighting for signage totaled \$0.3 million in the third quarter of fiscal 2011 as compared to \$1.9 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 \$2,905,000 in the third quarter of fiscal 2011 increased \$1.4 million or 99% from the same period fiscal 2010, and increased from 13.2% to 27.1% 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 slightly decreased net sales at increased margins, and decreased manufacturing overhead absorption. The following items also influenced the Graphics Segment's gross profit margin: competitive pricing pressures, \$0.4 million decreased freight costs, \$0.1 million increased benefits and compensation, and \$0.1 million decreased warranty costs.

Selling and administrative expenses of \$2,985,000 in the third quarter of fiscal 2011 increased \$0.5 million from the same period of fiscal 2010. The following items were the primary contributors to the increase: \$0.1 million increased benefits and compensation, \$0.1 million increased outside services, \$0.1 million increased royalties expense, increased expense related to a patent settlement agreement, and changes in other operating costs.

The Graphics Segment third quarter fiscal 2011 operating loss of \$(80,000) compares to an operating loss of \$(1,062,000) in the same period of fiscal 2010. The \$1.0 million increase in operating income was the net result of slightly decreased net sales, increased gross profit, and increased selling and administrative expenses.

Electronic Components Segment  
(In thousands)

|                  | Three Months Ended<br>March 31 |          |
|------------------|--------------------------------|----------|
|                  | 2011                           | 2010     |
| Net Sales        | \$ 6,212                       | \$ 4,014 |
| Gross Profit     | \$ 3,516                       | \$ 1,232 |
| Operating Income | \$ 3,120                       | \$ 657   |

Electronic Components Segment net sales of \$6,212,000 in the third quarter of fiscal 2011 increased 54.8% from fiscal 2010 same period net sales of \$4,014,000. The \$2.2 million increase in Electronic Components Segment net sales is primarily the net result of increased net sales to recurring customers served and the addition of a new customer. In addition to this segment's growth in customer sales, its inter-segment net sales grew 674% in support of LED lighting sales.

Gross profit of \$3,516,000 in the third quarter of fiscal 2011 increased \$2.3 million or 185% from the same period of fiscal 2010, and decreased from 23.3% to 21.9% as a percentage of Electronic Components Segment net sales (customer plus inter-segment net sales). The \$2.3 million 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 the third quarter of fiscal 2010 was reduced by \$30,000 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 increased benefits and compensation, and \$0.2 million increased manufacturing supplies.

Selling and administrative expenses of \$396,000 in the third quarter of fiscal year 2011 decreased \$0.2 million from the same period of fiscal 2010 primarily as the net result of \$0.2 million decreased employee compensation and benefits expense.

The Electronic Components Segment third quarter fiscal 2011 operating income of \$3,120,000 increased \$2.5 million from operating income of \$657,000 in the same period of fiscal 2010. The \$2.5 million increase in operating income was the result of increased net sales, increased gross profit and decreased selling and administrative expenses.

All Other Category  
(In thousands)

|                         | Three Months Ended<br>March 31 |          |
|-------------------------|--------------------------------|----------|
|                         | 2011                           | 2010     |
| Net Sales               | \$ 1,168                       | \$ 3,094 |
| Gross Profit (Loss)     | \$ 18                          | \$ (264) |
| Operating Income (Loss) | \$ (522)                       | \$ (974) |

All Other Category net sales of \$1,168,000 in the third quarter of fiscal 2011 decreased 62.2% from fiscal 2010 net sales of \$3,094,000. The \$1.9 million decrease in the All Other Category net sales is primarily the net result of net increased sales of menu board systems (\$0.1 million), decreased net sales of LED video screens to the entertainment market (\$1.1 million), no sales of electrical wire harnesses (\$1.1 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 \$18,000 in the third quarter of fiscal 2011 compares to a gross profit loss of \$(264,000) in the same period of fiscal 2010. The \$0.3 million increase in the All Other Category's gross profit margin was primarily influenced by the net result of: decreased net sales at increased margins, \$0.1 million decreased warranty expense, and \$0.2 million decreased indirect wage compensation and benefits.

Selling and administrative expenses of \$540,000 in the third quarter of fiscal 2011 decreased \$0.2 million from the same period of fiscal 2010. The following items were the primary contributors to the increase: \$0.1 million decreased royalties expense, and changes in other operating expenses.

The All Other Category third quarter fiscal 2011 operating loss of \$(522,000) compares to an operating loss of \$(974,000) in the same period of fiscal 2010. This \$0.5 million decreased operating loss was the net result of decreased net sales, increased gross profit, and decreased selling and administrative expense. Sales and resulting gross profit were not high enough to cover selling and administrative expenses.

Corporate and Eliminations  
(In thousands)

|                         | Three Months Ended<br>March 31 |            |
|-------------------------|--------------------------------|------------|
|                         | 2011                           | 2010       |
| Gross Profit (Loss)     | \$ (353)                       | \$ (160)   |
| Operating Income (Loss) | \$ (2,230)                     | \$ (2,233) |

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

Selling and administrative expenses of \$1,877,000 in the third quarter of fiscal 2011 were down \$0.2 million or 9.5% from the same period of the prior year. The reduction in expense is primarily related to \$0.1 million reduced compensation and benefits, and \$0.1 million reduced research and development expense.

## Consolidated Results

The Company reported net interest expense of \$11,000 in the third quarter of fiscal 2011 as compared to net interest expense of \$33,000 in the same period of 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 \$357,000 income tax expense in the third quarter of fiscal 2011 represents a consolidated effective tax rate of 14.4%. This is the net result of an income tax rate of 33.9% 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, and by a full valuation reserve on the Company's Canadian tax position. Additionally, income tax benefits totaling \$0.5 million were recorded related to the release of uncertain tax position liabilities and adjustments to deferred income tax liabilities. The \$1,315,000 income tax benefit in the same period of the prior year represents a consolidated effective tax rate of 34.2%. This is the net result of an income tax rate of 53% for the Company's U.S. operations, combined with a 30.4% effective tax rate benefit for the Company's Canadian operations.

The Company reported net income of \$2,115,000 in the third quarter of fiscal 2011 as compared to a net loss of \$(2,532,000) in the same period of the prior year. 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 \$0.09 in the third quarter of fiscal 2011 as compared to diluted loss per share of \$(0.10) in the same period of fiscal 2010. The weighted average common shares outstanding for purposes of computing diluted earnings per share in the third quarter of fiscal 2011 were 24,363,000 shares as compared to 24,277,000 shares in the same period last year.

## NINE MONTHS ENDED MARCH 31, 2011 COMPARED TO NINE MONTHS ENDED MARCH 31, 2010

| Lighting Segment<br>(In thousands) | Nine Months Ended<br>March 31 |            |
|------------------------------------|-------------------------------|------------|
|                                    | 2011                          | 2010       |
| Net Sales                          | \$ 141,676                    | \$ 118,787 |
| Gross Profit                       | \$ 32,468                     | \$ 27,430  |
| Operating Income                   | \$ 8,448                      | \$ 6,362   |

Lighting Segment net sales of \$141,676,000 in the first nine months of fiscal 2011 increased 19.3% from fiscal 2010 same period net sales of \$118,787,000. The \$22.9 million increase in Lighting Segment net sales is primarily the net result of a \$12.0 million or 19.7% net increase in lighting sales to our niche markets (petroleum / convenience store market net sales were up 15%, net sales to the automotive dealership market were up 27%, and net sales to the quick service restaurant market were up 21%) and national retail accounts, and a \$10.8 million or 18.7% increase in commissioned net sales to the commercial / industrial lighting market. Sales of lighting to the petroleum / convenience store market represented 33% and 34% of Lighting Segment net sales in the first nine months of fiscal years 2011 and 2010 respectively. Lighting Segment net sales of lighting to this, the Company's largest niche market, were up 15% from last year to \$46,227,000, 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. The Company expects to continue to make sales to this particular customer for additional stores to be converted in the second half of fiscal 2011. 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 \$40.9 million in the first nine months of fiscal 2011, representing a 38% increase from the first nine months of fiscal 2010 net sales of solid-state LED light fixtures of \$29.7 million.

Gross profit of \$32,468,000 in the first nine months of fiscal 2011 increased \$5.0 million or 18.4% from the same period of fiscal 2010, and increased from 22.0% to 22.5% 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, \$1.8 million increased freight costs, \$0.2 million decreased benefits and compensation, \$0.3 million increased warranty costs, \$0.3 million increased utilities, \$0.2 million increased repairs and maintenance, \$0.2 million increased outside service costs, and \$0.4 million increased manufacturing supplies expense.

Selling and administrative expenses of \$24,020,000 in the first nine months of fiscal 2011 increased \$3.0 million from the same period of fiscal 2010. The following items were the primary contributors to the increase: \$0.1 million increased benefits and compensation expense, \$1.6 million increased sales commission expense reflective of increased net sales, \$0.3 million increased research and development expense, \$0.6 million increased customer relations expense, \$0.2 million increased outside services, \$0.1 million increased sales samples expense, \$0.1 million decreased communications expense, and \$0.1 million increased bad debt expense.

The Lighting Segment nine month fiscal 2011 operating income of \$8,448,000 increased \$2.1 million or 32.8% from operating income of \$6,362,000 in the same period of fiscal 2010. This increase of \$2.1 million was the net result of increased net sales, increased gross profit (at higher margin percentages), and increased selling and administrative expenses.

Graphics Segment  
(In thousands)

|                  |    | Nine Months Ended<br>March 31 |           |
|------------------|----|-------------------------------|-----------|
|                  |    | 2011                          | 2010      |
| Net Sales        | \$ | 57,407                        | \$ 52,321 |
| Gross Profit     | \$ | 15,391                        | \$ 10,600 |
| Operating Income | \$ | 7,105                         | \$ 2,486  |

Graphics Segment net sales of \$57,407,000 in the first nine months of fiscal 2011 increased 9.7% from fiscal 2010 same period net sales of \$52,321,000. The \$5.1 million increase in Graphics Segment net sales is primarily the net result of image conversion programs and sales to nine petroleum / convenience store customers (\$13.1 million net increase), a grocery retailer (\$1.2 million decrease), the LED video sports screen market (\$5.0 million decrease), a national drug store retailer (\$3.3 million decrease), and changes in volume or completion of several other graphics programs. Sales of graphics products and services to the petroleum / convenience store market represented 73% and 56% of Graphics Segment net sales in the first nine months of fiscal years 2011 and 2010, respectively. Graphics Segment net sales of graphics to this, the Company's largest niche market, were up 43% from last year to \$41,651,000, with approximately \$28.5 million related to a program with 7-Eleven, Inc., who replaced traditional sign lighting with solid-state LED lighting. The Company expects to continue to make sales to this particular customer for additional stores to be converted in the fourth quarter of fiscal 2011. 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 products and services related to solid-state LED video screens and LED lighting for signage totaled \$4.6 million in the first nine months of fiscal 2011 as compared to \$15.7 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 \$15,391,000 in the first nine months of fiscal 2011 increased \$4.8 million or 45% from the same period fiscal 2010, and increased from 20.0% to 26.5% 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 increased overhead absorption. The following items also influenced the Graphics Segment's gross profit margin: competitive pricing pressures, \$0.4 million increased freight costs, \$0.2 million increased benefits and compensation, \$0.1 million decreased warranty costs, \$0.1 million decreased rent/lease expense, and \$0.1 million increased manufacturing supplies.

Selling and administrative expenses of \$8,286,000 in the first nine months of fiscal 2011 increased \$0.2 million from the same period of fiscal 2010. The following items were the primary contributors to the increase: \$0.1 million increased supplies expense, \$0.1 million decreased bad debt expense, \$0.1 million decreased customer relations expense, \$0.1 million increased outside services expense, \$0.1 million decreased commissions expense, and increased expense related to a patent settlement agreement.

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The Graphics Segment nine month fiscal 2011 operating income of \$7,105,000 increased \$4.6 million or 186% from operating income of \$2,486,000 in the same period of fiscal 2010. The \$4.6 million increase in operating income was the result of increased net sales, increased gross profit, and increased selling and administrative expenses.

## Electronic Components Segment (In thousands)

|                  | Nine Months Ended<br>March 31 |           |
|------------------|-------------------------------|-----------|
|                  | 2011                          | 2010      |
| Net Sales        | \$ 16,053                     | \$ 11,661 |
| Gross Profit     | \$ 7,216                      | \$ 3,080  |
| Operating Income | \$ 5,963                      | \$ 1,462  |

Electronic Components Segment net sales of \$16,053,000 in the first nine months of fiscal 2011 increased 37.7% from fiscal 2010 same period net sales of \$11,661,000. The \$4.4 million increase in Electronic Components Segment net sales is primarily the net result of net increased sales to recurring customers served and the addition of a new customer. In addition to this segment's growth in customer sales, its inter-segment net sales grew 370% in support of LED lighting sales.

Gross profit of \$7,216,000 in the first nine months of fiscal 2011 increased \$4.1 million or 134% from the same period of fiscal 2010, and increased from 19.7% to 20.8% as a percentage of Electronic Components Segment net sales (customer plus inter-segment net sales). Approximately \$3.5 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 the first nine months of fiscal 2010 was reduced by \$640,000 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, \$0.3 million increased benefits and compensation, and \$0.3 million increased manufacturing supplies.

Selling and administrative expenses of \$1,253,000 in the first nine months of fiscal 2011 decreased \$0.4 million from the same period of fiscal 2010 primarily as the net result of decreased employee compensation and benefits expense (\$0.4 million).

The Electronic Components Segment first nine months fiscal 2011 operating income of \$5,963,000 increased \$4.5 million from operating income of \$1,462,000 in the same period of fiscal 2010. The \$4.5 million increase in operating income was the result of increased net sales, increased gross profit, and decreased selling and administrative expenses.

## All Other Category (In thousands)

|                         | Nine Months Ended<br>March 31 |            |
|-------------------------|-------------------------------|------------|
|                         | 2011                          | 2010       |
| Net Sales               | \$ 4,148                      | \$ 7,747   |
| Gross Profit            | \$ 1,183                      | \$ 912     |
| Operating Income (Loss) | \$ (889)                      | \$ (1,206) |

All Other Category net sales of \$4,148,000 in the first nine months of fiscal 2011 decreased 46.5% from fiscal 2010 net sales of \$7,747,000. The \$3.6 million decrease in the All Other Category net sales is primarily the net result of net

increased sales of menu board systems (\$0.3 million), decreased installation net sales (\$0.1 million), net decreased sales of LED video screens to the entertainment and other markets (\$0.9 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 \$1,183,000 in the first nine months of fiscal 2011 increased \$0.3 million or 30% from the same period fiscal of 2010, and increased from 6.7% to 14.0% 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; \$0.4 million increased installation costs, \$0.1 million decreased manufacturing supplies, \$0.1 million decreased utilities, \$0.1 million decreased warranty expense, and \$0.1 million decreased depreciation expense.

Selling and administrative expenses of \$2,072,000 in the first nine months of fiscal 2011 decreased nearly \$0.1 million or 2% as compared to the same period of the prior year. Changes of expense between years include \$0.2 million decreased benefits and compensation, \$0.1 million decreased royalty expense, and \$0.3 million increased bad debt expense.

The All Other Category first nine months fiscal 2011 operating loss of \$(889,000) compares to an operating loss of \$(1,206,000) in the same period of fiscal 2010. This \$0.3 million decreased operating loss was the net result of decreased net sales, increased gross profit, and decreased selling and administrative expenses. Sales and resulting gross margins were not high enough to cover selling and administrative expenses.

| Corporate and Eliminations<br>(In thousands) | Nine Months Ended<br>March 31 |            |
|----------------------------------------------|-------------------------------|------------|
|                                              | 2011                          | 2010       |
| Gross Profit                                 | \$ (665)                      | \$ (252)   |
| Operating Income (Loss)                      | \$ (6,873)                    | \$ (7,488) |

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

Selling and administrative expenses of \$6,208,000 in the first nine months of fiscal 2011 were down \$1.0 million or 14.2% from the same period of the prior year. The reduction in expense is primarily related to the net result of \$0.1 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, \$0.1 million reduced research and development expenses, and no acquisition deal costs in the first nine months of fiscal 2011 as compared to \$0.5 million in the same period of the prior year.

## Consolidated Results

The Company reported net interest expense of \$71,000 in the first nine months of fiscal 2011 as compared to net interest expense of \$99,000 in the same period of 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 \$4,352,000 income tax expense in the first nine months of fiscal 2011 represents a consolidated effective tax rate of 31.8%. This is the net result of an income tax rate of 33.9% 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 \$820,000 income tax expense in the same period of the prior year represents a consolidated effective tax rate of 54.1%. This is the net result of an income tax rate of 53% for the Company's U.S. operations, combined with a 30.4% effective tax rate benefit for the Company's Canadian operations plus a full \$0.1 million valuation reserve for the Canadian net operating loss tax benefit and Canadian tax credits.

The Company reported net income of \$9,331,000 in the first nine months of fiscal 2011 as compared to net income of \$697,000 in the same period of the prior year. 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 \$0.38 in the first nine months of fiscal 2011 as compared to \$0.03 in the same period of fiscal 2010. The weighted average common shares outstanding for purposes of computing diluted earnings per share in the first nine months of fiscal 2011 was 24,331,000 shares as compared to 24,085,000 shares in the same period last year.

#### Liquidity and Capital Resources

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

At March 31, 2011, the Company had working capital of \$81.4 million, compared to \$73.6 million at June 30, 2010. The ratio of current assets to current liabilities was 4.05 to 1 as compared to a ratio of 3.85 to 1 at June 30, 2010. The \$7.8 million increase in working capital from June 30, 2010 to March 31, 2011 was primarily related to the net effect of increased net accounts receivable (\$2.6 million), increased inventory (\$15.5 million), and decreased accrued expenses (\$1.3 million), partially offset by decreased cash and cash equivalents (\$7.8 million), decreased refundable income taxes (\$0.8 million), decreased other current assets (\$0.8 million), and increased accounts payable (\$2.2 million).

The Company used \$0.2 million of cash in operating activities in the first nine months of fiscal 2011 as compared to a generation of \$12.2 million in the same period of the prior year. This \$12.5 million decrease in net cash flows from operating activities is primarily the net result of greater net income (favorable change of \$8.6 million), the prior year loss on sale of a subsidiary (unfavorable change of \$0.6 million), an increase rather than a decrease in accounts receivable (unfavorable change of \$5.3 million), an increase rather than a decrease in inventories (unfavorable change of \$17.9 million), more of a decrease in refundable income taxes (favorable \$0.3 million), an increase rather than a decrease in accounts payable and other (favorable change of \$2.7 million), more of a decrease in customer prepayments (unfavorable \$0.3 million), an increase rather than a decrease in the allowance for doubtful accounts (favorable \$0.3 million), more of an increase in the inventory obsolescence reserve (favorable \$0.3 million), decreased stock option expense (unfavorable \$0.4 million) and more of an increase in deferred income tax assets (unfavorable \$0.3 million).

Net accounts receivable and notes receivable were \$37.9 million and \$35.3 million at March 31, 2011 and June 30, 2010, respectively. The increase of \$2.6 million in net receivables is primarily due to combined effects of a slightly higher amount of net sales in the third quarter of fiscal 2011 as compared to the fourth quarter of fiscal 2010 at an increased DSO. The DSO increased to 50 days at March 31, 2011 from 48 days at June 30, 2010. The Company believes that its receivables are ultimately collectible or recoverable, net of certain reserves, and that aggregate allowances for doubtful accounts are adequate.

Net inventories of \$55.5 million at March 31, 2011 increased \$15.5 million from June 30, 2010 levels. Net inventory increases occurred in the first nine months of fiscal 2011 in the Lighting Segment of approximately \$11.2 million, in the Electronic Components Segment of approximately \$5.6 million, in the Graphics Segment of approximately \$0.1 million, and a net inventory decrease occurred and in the All Other Category of approximately \$1.1 million. The majority of the inventory increases were intentional as the Company increased its inventory of purchased electronic parts in the face of world-wide shortages and increased finished goods of certain LED lighting fixtures in anticipation of customer roll-out programs.

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 April 29, 2011. This line of credit is a \$30 million three year committed credit facility expiring in the third quarter of fiscal 2014. Additionally, the Company has a separate \$5 million line of credit for the working capital needs of its Canadian subsidiary, LSI Saco Technologies. This line of credit is a \$5 million multi-year committed credit facility expiring in the third quarter of fiscal 2013. As of April 29, 2011, 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 2011 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants.

The Company used \$4.0 million of cash related to investing activities in the first nine months of fiscal 2011 as compared to a use of \$4.7 million in the same period of the prior year, a favorable change of \$0.7 million. The change between years relates to the amount of fixed assets purchased, \$4,001,000 in the first nine months of fiscal 2011 as compared to \$4,572,000 in the same period of the prior year (\$0.6 million favorable), the larger amount of proceeds

from sale of assets in fiscal 2010 primarily related to the sale of LSI Marcole (\$0.5 million unfavorable) and the fiscal 2010 acquisition of AdL Technology, net of cash received (\$0.7 million favorable). Capital spending in both periods is primarily for tooling and equipment. The Company expects fiscal 2011 capital expenditures to be approximately \$5.0 million, exclusive of business acquisitions, if any.

The Company used \$3.7 million of cash related to financing activities in the first nine months of fiscal 2011 as compared to a use of \$5.9 million in the same period of the prior year. The \$2.2 million favorable change between periods is primarily related to the payment of long-term debt on the opening balance sheet of the acquired LSI ADL Technology in the first quarter of fiscal 2010 with no comparable payments in fiscal 2011 (\$2.2 million favorable).

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.

### Cash Dividends

On April 27, 2011 the Board of Directors declared a regular quarterly cash dividend of \$0.05 per share (approximately \$1,202,000) payable May 17, 2011 to shareholders of record on May 10, 2011. 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 \$0.20 per share beginning with the first quarter of fiscal 2011 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 collectibility 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 recognized when all products have been installed at each individual retail site of the customer on a proportional performance basis.

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

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

## Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification 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 Accounting Standards Codification 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. Also see Note 8.

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 Accounting Standards Codification 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 collectibility problems of customers' accounts, and then applying certain percentages against the various aging categories based on the due date of the remaining receivables. The resulting allowance for doubtful accounts receivable is an estimate based upon the Company's knowledge of its business and customer base, and historical trends. The 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.

### 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.

### 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. Management addresses the adequacy of its warranty reserves on a quarterly basis to ensure the reserve is accurate based upon the most current information.

### New Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board issued ASU 2010-29, "Business Combinations (Topic 805)." This amended guidance addresses the diversity in practice related to the interpretation of pro forma revenue and earnings disclosure requirements for business combinations. The objective of this update is for preparers to use a consistent method of reporting pro forma revenue and earnings as a result of a business combination. The amended guidance is for annual reporting periods beginning on or after December 15, 2010 or the Company's fiscal year 2012. The Company will follow this guidance when it is adopted on future acquisitions.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Registrant's exposure to market risk since June 30, 2010. Additional information can be found in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, which appears on page 15 of the Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

## ITEM 4. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

An evaluation was performed as of March 31, 2011 under the supervision and with the participation of the Registrant's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Registrant's disclosure controls and procedures pursuant to Rule 13a-15(b) and 15d-15(b) promulgated under the Securities Exchange Act of 1934. Based upon this evaluation, the Registrant's Chief Executive Officer and Chief Financial Officer concluded that the Registrant's disclosure controls and procedures were effective as of March 31, 2011, in all material respects, to ensure that information required to be disclosed in the reports the Registrant files and submits under the Exchange Act are recorded, processed, summarized and reported as and when required.

### Changes in Internal Control

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

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

- (c) The Company does not purchase into treasury its own common shares for general purposes. However, the Company does purchase its own common shares, through a Rabbi Trust, in connection with investments of employee/participants of the LSI Industries Inc. Non-Qualified Deferred Compensation Plan. Purchases of Company common shares for this Plan in the third quarter of fiscal 2011 were as follows:

## ISSUER PURCHASES OF EQUITY SECURITIES

| Period            | (a) Total<br>Number of<br>Shares<br>Purchased | (b) Average<br>Price Paid<br>per Share | (c) Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans or<br>Programs | (d) Maximum Number<br>(or Approximate Dollar<br>Value) of Shares that<br>May Yet Be Purchased<br>Under the Plans or<br>Programs |
|-------------------|-----------------------------------------------|----------------------------------------|--------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| 1/1/11 to 1/31/11 | --                                            | --                                     | --                                                                                               | (1)                                                                                                                             |
| 2/1/11 to 2/28/11 | 575                                           | \$7.73                                 | 575                                                                                              | (1)                                                                                                                             |
| 3/1/11 to 3/31/11 | 299                                           | \$7.48                                 | 299                                                                                              | (1)                                                                                                                             |
| Total             | 874                                           | \$7.64                                 | 874                                                                                              | (1)                                                                                                                             |

- (1) All acquisitions of shares reflected above have been made in connection with the Company's Non-Qualified Deferred Compensation Plan, which has been authorized for 475,000 shares of the Company to be held in and distributed by the Plan. At March 31, 2011, the Plan held 244,292 common shares of the Company and had distributed 125,847 common shares.

## ITEM 6. EXHIBITS

## Exhibits

- 18 Letter regarding change in accounting principles
- 31.1 Certification of Principal Executive Officer required by Rule 13a-14(a)
- 31.2 Certification of Principal Financial Officer required by Rule 13a-14(a)
- 32.1 Section 1350 Certification of Principal Executive Officer
- 32.2 Section 1350 Certification of Principal Financial Officer

## SIGNATURES

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

LSI Industries Inc.

By: /s/ Robert J. Ready  
Robert J. Ready  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Ronald S. Stowell  
Ronald S. Stowell

Vice President, Chief Financial  
Officer and Treasurer  
(Principal Financial and Accounting  
Officer)

May 5, 2011

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