

LSI INDUSTRIES INC  
Form 10-Q  
May 10, 2010

**Table of Contents**

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010.**

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

**Commission File No. 0-13375**

**LSI Industries Inc.**

State of Incorporation   Ohio      IRS Employer I.D. No. 31-0888951  
10000 Alliance Road  
Cincinnati, Ohio 45242  
(513) 793-3200

Indicate by checkmark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES ☒ 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 ☒      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 ☒

As of April 22, 2010 there were 24,048,163 shares of the Registrant's common stock outstanding.

LSI INDUSTRIES INC.  
FORM 10-Q  
FOR THE QUARTER ENDED MARCH 31, 2010  
INDEX

	Begins on Page
<u>PART I. Financial Information</u>	
<u>ITEM 1. Financial Statements</u>	
<u>Condensed Consolidated Statements of Operations</u>	3
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	42
<u>ITEM 4. Controls and Procedures</u>	42
<u>PART II. Other Information</u>	
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>ITEM 6. Exhibits</u>	43
<u>Signatures</u>	43
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

***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. 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, 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. 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 has no obligation to update any forward-looking statements to reflect subsequent events or circumstances.*

**Table of Contents****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 March 31		Nine Months Ended March 31	
	2010	2009	2010	2009
Net sales	\$ 53,466	\$ 46,989	\$ 190,516	\$ 183,614
Cost of products and services sold	43,954	38,215	148,107	143,404
Loss on sale of a subsidiary	639		639	
Total cost of products and services sold	44,593	38,215	148,746	143,404
Gross profit	8,873	8,774	41,770	40,210
Selling and administrative expenses	12,687	11,612	40,154	39,589
Goodwill impairment		957		14,207
Operating income (loss)	(3,814)	(3,795)	1,616	(13,586)
Interest (income)	(4)	(18)	(11)	(101)
Interest expense	37	12	110	99
Income (loss) before income taxes	(3,847)	(3,789)	1,517	(13,584)
Income tax expense (benefit)	(1,315)	(1,322)	820	(427)
Net income (loss)	\$ (2,532)	\$ (2,467)	\$ 697	\$ (13,157)
Earnings (loss) per common share (see Note 5)				
Basic	\$ (0.10)	\$ (0.11)	\$ 0.03	\$ (0.60)
Diluted	\$ (0.10)	\$ (0.11)	\$ 0.03	\$ (0.60)
Weighted average common shares outstanding				
Basic	24,277	21,801	24,078	21,799

Diluted	24,277	21,801	24,085	21,799
---------	--------	--------	--------	--------

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

**Table of Contents**

LSI INDUSTRIES INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share amounts)	March 31, 2010	June 30, 2009
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 15,629	\$ 13,986
Accounts and notes receivable, net	28,904	29,681
Inventories	41,015	40,196
Refundable income taxes	3,125	3,619
Other current assets	5,113	4,635
Total current assets	93,786	92,117
Property, Plant and Equipment, net	44,661	42,043
Goodwill	10,766	1,558
Other Intangible Assets, net	15,903	12,981
Other Assets	2,190	4,419
<b>TOTAL ASSETS</b>	<b>\$ 167,306</b>	<b>\$ 153,118</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Current portion, long-term debt	\$ 31	\$
Accounts payable	10,163	9,249
Accrued expenses	9,857	10,368
Total current liabilities	20,051	19,617
Long-Term Debt	1,108	
Other Long-Term Liabilities	3,019	3,028
Commitments and contingencies (Note 12)		
Shareholders' Equity		
Preferred shares, without par value; Authorized 1,000,000 shares; none issued		
Common shares, without par value; Authorized 40,000,000 shares;		
Outstanding 24,045,502 and 21,579,741 shares, respectively	98,397	82,833

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

Retained earnings	44,731	47,640
Total shareholders' equity	143,128	130,473
 TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	 \$ 167,306	 \$ 153,118

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

Page 4

---



**Table of Contents**

LSI INDUSTRIES INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended March 31	
(In thousands)	2010	2009
Cash Flows from Operating Activities		
Net income (loss)	\$ 697	\$ (13,157)
Non-cash items included in net income (loss)		
Depreciation and amortization	5,903	5,896
Loss on sale of a subsidiary	639	
Goodwill impairment		14,207
Deferred income taxes	(27)	(779)
Deferred compensation plan	5	48
Stock option expense	1,102	908
Issuance of common shares as compensation	36	31
Loss on disposition of fixed assets	28	5
Allowance for doubtful accounts	(124)	(27)
Inventory obsolescence reserve	300	165
Changes in certain assets and liabilities, net of acquisition		
Accounts and notes receivable	2,581	8,776
Inventories	1,769	10,973
Accounts payable and other	48	(12,532)
Customer prepayments	(709)	(1,123)
Net cash flows from operating activities	12,248	13,391
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(4,572)	(1,156)
Proceeds from sale of fixed assets	505	2
Acquisition of business, net of cash received	(675)	
Net cash flows (used in) investing activities	(4,742)	(1,154)
Cash Flows from Financing Activities		
Payment of long-term debt	(2,230)	(1,282)
Proceeds from issuance of long-term debt		1,282
Cash dividends paid	(3,606)	(5,393)
Purchase of treasury shares	(102)	(175)
Issuance of treasury shares	75	52
Net cash flows (used in) financing activities	(5,863)	(5,516)
Increase in cash and cash equivalents	1,643	6,721

Cash and cash equivalents at beginning of year	13,986	6,992
Cash and cash equivalents at end of period	\$ 15,629	\$ 13,713
Supplemental Cash Flow Information		
Interest paid	\$ 109	\$ 58
Income taxes paid	\$ 455	\$ 377
Issuance of common shares as compensation	\$ 36	\$ 31
Issuance of common shares for acquisition	\$ 14,448	\$

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

**Table of Contents**

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, 2010, the results of its operations for the three and nine month periods ended March 31, 2010 and 2009, and its cash flows for the nine month periods ended March 31, 2010 and 2009. These statements should be read in conjunction with the financial statements and footnotes included in the fiscal 2009 annual report. Financial information as of June 30, 2009 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 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.

**Table of Contents**

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

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

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

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

**Credit and Collections:**

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

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

<i>(In thousands)</i>	March 31, 2010	June 30, 2009
Accounts and notes receivable	\$ 29,321	\$ 30,213
less Allowance for doubtful accounts	(417)	(532)
Accounts and notes receivable, net	\$ 28,904	\$ 29,681

**Cash and Cash Equivalents:**

The cash balance includes cash and cash equivalents which have original maturities of less than three months. At March 31, 2010 and June 30, 2009, there were no bank balances in excess of FDIC insurance limits.

**Table of Contents****Inventories:**

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

**Property, Plant and Equipment and Related Depreciation:**

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

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

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

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

<i>(In thousands)</i>	March 31, 2010	June 30, 2009
Property, plant and equipment, at cost	\$ 108,207	\$ 103,280
less Accumulated depreciation	(63,546)	(61,237)
Property, plant and equipment, net	\$ 44,661	\$ 42,043

The Company recorded \$1,327,000 and \$1,401,000 of depreciation expense in the third quarter of fiscal 2010 and 2009, respectively, and \$3,995,000 and \$4,338,000 of depreciation expense in the first nine months of fiscal 2010 and 2009, respectively.

**Intangible Assets:**

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

**Fair Value of Financial Instruments:**

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

**Table of Contents****Product Warranties:**

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

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

	Nine Months Ended March 31, 2010	Twelve Months Ended June 30, 2009
<i>(In thousands)</i>		
Balance at beginning of the period	\$ 223	\$ 257
Additions charged to expense	1,135	557
Addition from acquisition	5	
Deductions for repairs and replacements	(974)	(591)
Balance at end of the period	\$ 389	\$ 223

**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 \$1,209,000 and \$962,000 for the three month periods ended March 31, 2010 and 2009, respectively, and \$3,662,000 and \$3,028,000 for the nine month periods ended March 31, 2010 and 2009, respectively.

**Earnings Per Common Share:**

The computation of basic earnings per common share is based on the weighted average common shares outstanding for the period net of treasury shares held in the Company's non-qualified deferred compensation plan. The computation of diluted earnings per share is based on the weighted average common shares outstanding for the period and includes common share equivalents. Common share equivalents include the dilutive effect of stock options, contingently issuable shares and common shares to be issued under a deferred compensation plan, all of which totaled 233,000 shares and 229,000 shares for the three months ended March 31, 2010 and 2009, respectively, and 240,000 shares and 225,000 shares for the nine months ended March 31, 2010 and 2009, respectively. See also Note 5.

**Table of Contents**

**New Accounting Pronouncements**

In February 2010, the Financial Accounting Standards Board issued ASU 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*. The amendments in the ASU remove the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. The amended guidance was effective on February 24, 2010, the issuance date of the ASU. The Company adopted this ASU during the three months ended March 31, 2010.

In February 2010, the Financial Accounting Standards Board issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. The ASU amends the disclosure requirements related to Fair Value Measurements and Disclosures Overall Subtopic (Subtopic 820-10) of the *FASB Accounting Standards Codification*, originally issued as FASB Statement No. 157, *Fair Value Measurements*. The intent of the amended guidance is improved disclosure and increased transparency related to Fair Value Measurement in financial reporting. This amended guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disaggregation requirement for the reconciliation disclosure of Level 3 measurements, which is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years. The Company adopted the new guidance during the three months ended March 31, 2010 and there was no impact on the Company's consolidated results of operations, cash flows or financial position.

**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 for the quarter ended March 31, 2010.

**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%, and \$33,055,000 or 17% of consolidated net sales in the three and nine months ended March 31, 2010, respectively. There were no concentrations of net sales for the three or nine months ended March 31, 2009. There was no concentration of accounts receivable at March 31, 2010 or 2009.

**Table of Contents**

**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 thirteen operating segments, it has only four reportable operating business segments (Lighting, Graphics, Technology, and Electronic Components) and an All Other Category.

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. 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. These products are used in visual image programs in several markets, including the petroleum/convenience store market, multi-site retail operations, sports and advertising. The Graphics Segment includes the operations of Grady McCauley, LSI Retail Graphics and LSI Integrated Graphic Systems, which have been aggregated as such facilities manufacture two-dimensional graphics with the use of screen and digital printing, fabricate three-dimensional structural graphics sold in the multi-site retail and petroleum/convenience store markets, and exhibit each of the similar economic characteristics and meet the other requirements for aggregation in segment reporting.

The Technology Segment designs and produces high-performance light engines, large format video screens using solid-state LED technology, and certain specialty LED lighting. The primary markets served with LED video screens are the entertainment market, outdoor advertising billboard and sports markets not served by our Graphics Segment. The Technology Segment includes the operations of LSI Saco Technologies.

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, which was acquired by the Company on July 22, 2009. See further discussion in Note 13.

The All Other Category includes the Company's operating segments that do not 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, the Company's Corporate Administration expense is included in the All Other Category.



**Table of Contents**

Summarized financial information for the Company's reportable business segments for the three and nine month periods ended March 31, 2010 and 2009, and as of March 31, 2010 and June 30, 2009 is as follows:

<i>(In thousands)</i>	Three Months Ended March 31		Nine Months Ended March 31	
	2010	2009	2010	2009
<b>Net sales:</b>				
Lighting Segment	\$ 35,458	\$ 33,562	\$ 118,787	\$ 126,489
Graphics Segment	10,900	11,327	52,321	46,354
Technology Segment	1,282	439	2,578	4,429
Electronic Components Segment	4,014		11,661	
All Other Category	1,812	1,661	5,169	6,342
	\$ 53,466	\$ 46,989	\$ 190,516	\$ 183,614
<b>Operating income (loss):</b>				
Lighting Segment	\$ (71)	\$ (209)	\$ 6,648	\$ (5,691)
Graphics Segment	(896)	72	2,629	1,742
Technology Segment	(37)	(187)	74	185
Electronic Components Segment	657		1,462	
All Other Category	(3,467)	(3,471)	(9,197)	(9,822)
	\$ (3,814)	\$ (3,795)	\$ 1,616	\$ (13,586)
<b>Capital expenditures:</b>				
Lighting Segment	\$ 549	\$ 145	\$ 1,654	\$ 878
Graphics Segment	1,607	117	1,963	213
Technology Segment		7	10	25
Electronic Components Segment	53		537	
All Other Category	83	(1)	408	40
	\$ 2,292	\$ 268	\$ 4,572	\$ 1,156
<b>Depreciation and amortization:</b>				
Lighting Segment	\$ 793	\$ 862	\$ 2,398	\$ 2,624
Graphics Segment	263	309	790	976
Technology Segment	71	111	251	332
Electronic Components Segment	234		617	
All Other Category	614	638	1,847	1,964
	\$ 1,975	\$ 1,920	\$ 5,903	\$ 5,896

March 31,  
2010

June 30,  
2009

**Identifiable assets:**

Lighting Segment	\$ 72,845	\$ 72,222
Graphics Segment	30,922	32,280
Technology Segment	12,677	12,317
Electronic Components Segment	22,721	
All Other Category	28,141	36,299
	\$ 167,306	\$ 153,118

**Table of Contents**

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

<i>(In thousands)</i>	Three Months Ended March 31		Nine Months Ended March 31	
	2010	2009	2010	2009
Lighting Segment intersegment net sales	\$ 575	\$ 1,092	\$ 5,674	\$ 5,131
Graphics Segment intersegment net sales	\$ 175	\$ 168	\$ 707	\$ 916
Technology Segment intersegment net sales	\$ 49	\$ 85	\$ 3,356	\$ 3,801
Electronic Components Segment intersegment net sales	\$ 1,275	\$	\$ 3,978	\$
All Other Category intersegment net sales	\$ 1,015	\$ 473	\$ 2,514	\$ 3,425

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, which consist primarily of cash and cash equivalents, refundable income taxes and certain intangible assets are included in the All Other Category.

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; one operation is in Canada. The geographic distribution of the Company's net sales and long-lived assets are as follows:

<i>(In thousands)</i>	Three Months Ended March 31		Nine Months Ended March 31	
	2010	2009	2010	2009
<b>Net sales (a):</b>				
United States	\$ 52,184	\$ 46,550	\$ 187,938	\$ 179,185
Canada	1,282	439	2,578	4,429
	\$ 53,466	\$ 46,989	\$ 190,516	\$ 183,614

	March 31, 2010	June 30, 2009
<b>Long-lived assets (b):</b>		
United States	\$ 46,454	\$ 45,898
Canada	397	564
	\$ 46,851	\$ 46,462

(a) Net sales are attributed to geographic

areas based  
upon the  
location of the  
operation  
making the sale.

- (b) Long-lived  
assets includes:  
property, plant  
and equipment,  
net; and other  
long term assets.  
Goodwill and  
intangible assets  
are not included  
in long-lived  
assets.

**Table of Contents****NOTE 5: EARNINGS PER COMMON SHARE**

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2010	2009	2010	2009
<b>BASIC EARNINGS (LOSS) PER SHARE</b>				
Net income (loss)	\$ (2,532)	\$ (2,467)	\$ 697	\$ (13,157)
Weighted average shares outstanding during the period, net of treasury shares (a)	24,044	21,572	23,845	21,574
Weighted average shares outstanding in the Deferred Compensation Plan during the period	233	229	233	225
Weighted average shares outstanding	24,277	21,801	24,078	21,799
Basic earnings (loss) per share	\$ (0.10)	\$ (0.11)	\$ 0.03	\$ (0.60)
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>				
Net income (loss)	\$ (2,532)	\$ (2,467)	\$ 697	\$ (13,157)
Weighted average shares outstanding Basic	24,277	21,801	24,078	21,799
Effect of dilutive securities (b): Impact of common shares to be issued under stock option plans, and contingently issuable shares, if any			7	
Weighted average shares outstanding (c)	24,277	21,801	24,085	21,799
Diluted earnings (loss) per share	\$ (0.10)	\$ (0.11)	\$ 0.03	\$ (0.60)

(a) Includes shares accounted for like treasury stock in accordance with Accounting

Standards  
Codification  
Topic 710,  
Compensation  
General.

- (b) Calculated using the Treasury Stock method as if dilutive securities were exercised and the funds were used to purchase common shares at the average market price during the period.
- (c) Options to purchase 2,138,119 common shares and 1,512,799 common shares during the three month periods ended March 31, 2010 and 2009, respectively, and options to purchase 2,021,633 common shares and 1,450,543 common shares during the nine month periods ended March 31, 2010 and 2009, respectively, were not included in the computation of diluted earnings per share because the exercise price

was greater than  
the average fair  
market value of  
the common  
shares.

**Table of Contents****NOTE 6: BALANCE SHEET DATA**

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

	March 31, 2010	June 30, 2009
Inventories		
Raw materials	\$ 19,408	\$ 20,498
Work-in-process	7,734	7,097
Finished goods	13,873	12,601
	\$ 41,015	\$ 40,196
Accrued Expenses		
Compensation and benefits	\$ 5,421	\$ 5,788
Customer prepayments	1,107	1,816
Accrued commissions	870	919
Other accrued expenses	2,459	1,845
	\$ 9,857	\$ 10,368

**NOTE 7: GOODWILL AND OTHER INTANGIBLE ASSETS**

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

The Company identified its reporting units in conjunction with its annual goodwill impairment testing. The Company relies upon a number of factors, judgments and estimates when conducting its impairment testing. These include operating results, forecasts, anticipated future cash flows and marketplace data, to name a few. There are inherent uncertainties related to these factors and judgments in applying them to the analysis of goodwill impairment. Due to economic conditions, the effects of the recession on the Company's markets and the decline in the Company's stock price since the previous goodwill impairment test, management believed that an additional goodwill impairment test was required as of December 31, 2008. Based upon the Company's analysis, it was determined that the goodwill associated with three of the five remaining reporting units that contain goodwill was either fully or partially impaired. The total amount of the goodwill impairment was \$13,250,000, of which \$11,185,000 was impaired in the Lighting Segment, \$716,000 was impaired in the Graphics Segment and \$1,349,000 was impaired in the All Other Category. The impairment charge was due to a combination of a decline in the market capitalization of the Company at December 31, 2008 and a decline in the estimated forecasted discounted cash flows since the annual goodwill impairment test was performed. The impairment charge was recorded in the second quarter of fiscal 2009.



**Table of Contents**

Due to economic conditions, the effects of the recession on the Company's markets and the decline in the Company's stock price since the previous goodwill impairment test as of December 31, 2008, management believed that an additional goodwill impairment test was required as of March 31, 2009. Based upon the Company's analysis, it was determined that the goodwill associated with one reporting unit in the All Other Category was partially impaired in the amount of \$957,000. The impairment was due to a combination of a decline in the market capitalization of the Company at March 31, 2009 and a decline in the estimated forecasted discounted cash flows since the previous goodwill impairment test was performed. The impairment charge was recorded in the third quarter of fiscal 2009. A similar analysis was performed in fiscal 2009 as of July 1, 2008 for the annual impairment test and there was no impairment of goodwill.

The following tables present information about the Company's goodwill and other intangible assets on the dates or for the periods indicated.

<i>(In thousands)</i>	Lighting Segment	Graphics Segment	Electronic Components Segment	All Other Category	Total
Balance as of June 30, 2008	\$ 11,320	\$ 974	\$	\$ 3,731	\$ 16,025
Impairment	(11,185)	(716)		(2,566)	(14,467)
Balance as of June 30, 2009	135	258		1,165	1,558
Acquisition			9,208		9,208
Balance as of March 31, 2010	\$ 135	\$ 258	\$ 9,208	\$ 1,165	\$ 10,766

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; Technology \$780,000; trade name \$460,000 and non-compete agreements \$710,000. See further discussion in Note 13.

**Table of Contents**

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

<i>(In thousands)</i>	March 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			
Customer relationships	\$ 10,352	\$ 4,752	\$ 5,600
Patents	110	64	46
LED Technology firmware, software	11,228	5,651	5,577
Trade name	460	63	397
Non-compete agreements	890	166	724
	23,040	10,696	12,344
Indefinite-lived Intangible Assets			
Trademarks and trade names	3,559		3,559
	3,559		3,559
Total Intangible Assets	\$ 26,599	\$ 10,696	\$ 15,903

  

<i>(In thousands)</i>	June 30, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			
Customer relationships	\$ 7,472	\$ 4,173	\$ 3,299
Patents	110	59	51
LED Technology firmware, software	10,448	4,478	5,970
Trade name			
Non-compete agreements	630	528	102
	18,660	9,238	9,422
Indefinite-lived Intangible Assets			
Trademarks and trade names	3,559		3,559
	3,559		3,559
Total Intangible Assets	\$ 22,219	\$ 9,238	\$ 12,981

	Amortization Expense of Other Intangible Assets	
	March 31, 2010	March 31, 2009
Three Months Ended	\$ 648	\$ 519
Nine Months Ended	\$ 1,908	\$ 1,558

The Company expects to record amortization expense through fiscal 2015 as follows: 2010 \$2,559,000; 2011 through 2012 \$2,590,000 per year; 2013 \$2,327,000; 2014 \$621,000; and 2015 \$537,000.

**Table of Contents****NOTE 8: 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, 2010. The line of credit expires in the third quarter of fiscal 2013. 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 225 and 265 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, to maintain minimum levels of profitability and net worth, and is subject to certain maximum levels of leverage. A second U.S. revolving line of credit in the amount of \$10 million, which the Company chose to not renew, expired in the third quarter of fiscal 2010.

The Company also has a \$5 million line of credit for its Canadian subsidiary. The line of credit expires in the fourth quarter of fiscal 2010. Interest on the Canadian subsidiary's line of credit is charged based upon a 250 basis point increment over the LIBOR rate or based upon an increment over the United States base rates 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, 2010.

The Company assumed a mortgage loan with the acquisition of AdL Technology in July 2009. Monthly principal 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.

<i>(In thousands)</i>	March 31, 2010
Total mortgage balance	\$ 1,139
Less current maturities	31
Long-term debt	\$ 1,108

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. The Company is in compliance with all of its loan covenants as of March 31, 2010.

**NOTE 9: RESERVE FOR UNCERTAIN TAX POSITIONS**

For the three and nine month periods ended March 31, 2010, the Company recognized \$(5,000) and \$39,000 of tax (benefit) expense, respectively, related to the change in reserves for uncertain tax positions. For the three and nine month periods ended March 31, 2009, the Company recognized \$(25,000) and \$6,000 of tax (benefit) expense, respectively, related to the change in reserves for uncertain tax positions. As of March 31, 2010, the reserve for uncertain income tax positions is \$2,774,000, net of potential federal tax benefits. The Company is recording estimated interest and penalties related to potential underpayment of income taxes as a component of tax expense in the Condensed Consolidated Statements of Operations. The reserve for uncertain tax positions is not expected to change significantly in the next 12 months.

**Table of Contents**

The Company files a consolidated federal income tax return in the United States, and files various combined and separate tax returns in several state and local jurisdictions. With limited exceptions, the Company is no longer subject to U.S. Federal, state and local tax examinations by tax authorities for fiscal years ending prior to June 30, 2007.

**NOTE 10: CASH DIVIDENDS**

The Company paid cash dividends of \$3,606,000 and \$5,393,000 in the nine month periods ended March 31, 2010 and 2009, respectively. In April, 2010, the Company's Board of Directors declared a \$0.05 per share regular quarterly cash dividend (approximately \$1,202,000) payable on May 11, 2010 to shareholders of record as of May 4, 2010.

**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 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, any award shall be fully vested. The number of shares reserved for issuance is 2,800,000, of which 803,807 shares were available for future grant or award as of March 31, 2010. 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, 2010, a total of 2,172,336 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 1,054,936 options for common shares were vested and exercisable. The approximate unvested stock option expense as of March 31, 2010 that will be recorded as expense in future periods is \$2,662,000. The weighted average time over which this expense will be recorded is approximately 20 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 March 31		Nine Months Ended March 31	
	2010	2009	2010	2009
Dividend yield	3.09%		3.09%	5.16%
Expected volatility	51%		51%	41%
Risk-free interest rate	2.44%		2.40%	3.1%
Expected life	4.3 yrs.		4.3 yrs.	4.3 yrs.

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 exercise prices ranging from \$5.93 to \$8.40, fair values ranging from \$2.03 to \$2.87 per option, and remaining contractual lives of between nine years and eight months and ten years.

**Table of Contents**

At March 31, 2009, the 339,300 options granted in the first nine months of fiscal 2009 to both employees and non-employee directors had exercise prices ranging from \$4.60 to \$8.98, fair values ranging from \$1.12 to \$2.21 per option, and remaining contractual lives of between four years and eight months and nine years and eight months. The Company calculates stock option expense using the Black-Scholes method, and records the expense on a straight line basis with an estimated 6.6% forfeiture rate. 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 \$378,200 and \$262,500 of expense related to stock options in the three months ended March 31, 2010 and 2009, respectively, and \$1,101,800 and \$907,600 in the nine month periods ended March 31, 2010 and 2009, respectively. As of March 31, 2010, the Company expects that approximately 1,044,300 outstanding stock options having a weighted average exercise price of \$10.50, intrinsic value of \$85,500 and weighted average remaining contractual terms of 8.6 years will vest in the future.

Information related to all stock options for the periods ended March 31, 2010 and 2009 is shown in the table below:

		Nine Months Ended March 31, 2010		
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic 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		n/a		
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

**Table of Contents**

		Nine Months Ended March 31, 2009			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value	
Outstanding at 6/30/08	1,197,482	\$ 14.44	6.5 years	\$	
Granted	339,300	\$ 8.89			
Forfeitures	(24,195)	\$ 12.92			
Exercised		n/a			
Outstanding at 3/31/09	1,512,587	\$ 13.22	6.6 years	\$ 3,420	
Exercisable at 3/31/09	816,162	\$ 12.51	5.0 years	\$ 855	

No options were exercised in the nine month periods ended March 31, 2010 and March 31, 2009.

Information related to unvested stock options for the nine months ended March 31, 2010 is shown in the table below:

		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value	
Outstanding unvested stock options at 6/30/09	Shares 707,125	\$ 13.72	8.3 years	\$ 31,245	
Vested	(232,225)	\$ 14.58			
Forfeitures	(1,500)	\$ 14.01			
Granted	644,000	\$ 8.26			
Outstanding unvested stock options at 3/31/10	1,117,400	\$ 10.39	8.6 years	\$ 92,958	

**Stock Compensation Awards**

The Company awarded a total of 4,456 and 4,152 common shares, respectively, in the nine months ended March 31, 2010 and 2009, with the number of shares issued in each nine month period valued at their approximate \$36,000 and \$31,000 fair market values, respectively, on the dates of issuance pursuant to employee service awards and primarily the compensation program for non-employee Directors who receive a portion of their compensation as an award of Company stock. Stock compensation awards are made in the form of newly issued common shares of the Company.





**Table of Contents**

**Deferred Compensation Plan**

The Company's Non-qualified Deferred Compensation Plan provides 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, 2010 there were 31 participants, all with fully vested account balances. A total of 232,123 common shares with a cost of \$2,483,000, and 222,832 common shares with a cost of \$2,455,900 were held in the Plan as of March 31, 2010 and June 30, 2009, 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 2010, the Company estimates the Rabbi Trust for the Nonqualified Deferred Compensation Plan will make net repurchases in the range of 16,000 to 18,000 common shares of the Company. During the nine months ended March 31, 2010 and 2009, the Company used approximately \$102,200 and \$174,900, 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: 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.

**NOTE 13: ACQUISITION**

On July 22, 2009, the Company completed the acquisition of certain net assets and 100% of the business of three related companies (AdL Technology, AdL Engineering and Kelmilfeen - collectively, AdL or AdL Technology), which were privately owned and based in Columbus, Ohio. This new 100% owned subsidiary operates under the name of LSI ADL Technology Inc. Consideration for the asset purchase of these businesses totaled \$15,781,480, and consisted of 2,469,676 shares of LSI's unregistered common stock (the fair value of which was determined based upon the closing market price of LSI's common shares on the acquisition date) and cash of \$1,333,875. The purchase price exceeded the fair value of the net assets being acquired, and therefore goodwill in the amount of \$9,208,000 was recorded with this acquisition. Additionally, LSI assumed long-term debt of \$3,368,874 in the purchase of substantially all net assets of these businesses. The goodwill associated with this acquisition consists largely of the synergies expected from combining AdL and LSI Industries and the vertical integration of the design and manufacture of electronic circuit boards used in many of the Company's products. None of the goodwill will be deductible by the Company for tax purposes. There were no contingent liabilities or assets associated with the purchase of AdL. There were \$520,000 of acquisition transaction costs included in the financial results for the nine month period ended March 31, 2010 in selling and administrative expenses, and \$640,000 of expense in cost of products sold 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 operations of LSI ADL Technology are included in the Company's operating results beginning July 23, 2009. The results of LSI ADL Technology are reported in a separate reportable business segment named the Electronic Components Segment.

**Table of Contents**

The recognized amounts of identifiable assets acquired and liabilities assumed with the acquisition of AdL Technology were as follows:

*(In thousands)*

Financial assets	\$	2,398
Inventory		3,677
Property, plant and equipment		3,094
Identifiable intangible assets		4,830
Financial liabilities		(7,426)
 Total identifiable net assets		 6,573
Goodwill		9,208
 Total purchase consideration	\$	 15,781

A liability of \$5,000 has been recognized in the opening balance sheet (included in financial liabilities above) for expected warranty claims on products sold by AdL Technology prior to acquisition.

LSI ADL Technology Inc. designs, engineers, and manufactures custom designed circuit boards, assemblies, and sub-assemblies used in various applications including the control of solid-state LED lighting. With the acquisition of AdL, we made a decision to further establish and advance our leadership position in LED lighting by vertically integrating our capabilities in connection with designing, engineering, and producing the solid-state electronics that control and power LEDs. LSI ADL Technology allows us to stay on the leading edge of product development, while at the same time provide opportunities to drive down manufacturing costs and control delivery of key components. LSI ADL's capabilities also have applications in our other LED product lines such as digital scoreboards, advertising ribbon boards and billboards. The management team and substantially all employees of the acquired companies remain with LSI ADL Technology.

**NOTE 14: SALE OF LSI MARCOLE**

On January 20, 2010, the Board of Directors approved a plan to close the LSI Marcole facility in Manchester, Tennessee. This facility manufactures wire harnesses used in the manufacture of LSI's light fixtures and also sells wire harness to select outside customers. The Company decided to sell this facility primarily due to low cost competition of wire harnesses produced outside the United States. While the Company expected to cease production at the facility by April 2, 2010, an interested buyer came forward and purchased certain assets and the business of LSI Marcole on March 30, 2010. The Company received \$500,000 of the sales proceeds in cash as well as interest bearing promissory notes in the amount of \$669,682 to be paid in full via quarterly payments through June 2011. The Company recorded a \$638,747 loss on the sale of certain LSI Marcole assets in cost of products and services sold in the third quarter of fiscal 2010. Subsequent to the sale of the LSI Marcole assets, the Company will continue to purchase wire harnesses from the new owner of the facility pursuant to a manufacturing and supply agreement. The operating results of LSI Marcole are reported under the All Other Category.

**Table of Contents**

The assets and liabilities of LSI Marcole were comprised of the following on the dates indicated:

<i>(In thousands)</i>	March 31, 2010	December 31, 2009	June 30, 2009
Accounts receivable, net	\$ 487	\$ 349	\$ 316
Notes receivable, current portion	632		
Inventory		1,520	1,491
Other current assets		143	160
Property, plant and equipment, net		978	1,024
Other assets	38	1	2
Total Assets	\$ 1,157	\$ 2,991	\$ 2,993

The net customer sales and operating (loss) of LSI Marcole for the periods indicated were as follows:

<i>(In thousands)</i>	Three Months Ended March 31		Nine Months Ended March 31	
	2010	2009	2010	2009
Net sales	\$ 1,088	\$ 906	\$ 2,886	\$ 3,358
Operating (loss)	\$ (816)	\$ (291)	\$ (1,034)	\$ (452)

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

The Company's forward looking statements and disclosures as presented earlier in this Form 10-Q in the Safe Harbor Statement should be referred to when reading Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Net Sales by Business Segment**

<i>(In thousands)</i>	Three Months Ended March 31		Nine Months Ended March 31	
	2010	2009	2010	2009
Lighting Segment	\$ 35,458	\$ 33,562	\$ 118,787	\$ 126,489
Graphics Segment	10,900	11,327	52,321	46,354
Technology Segment	1,282	439	2,578	4,429
Electronic Components Segment	4,014		11,661	
All Other Category	1,812	1,661	5,169	6,342
	\$ 53,466	\$ 46,989	\$ 190,516	\$ 183,614

**Operating Income (Loss) by Business Segment**

<i>(In thousands)</i>	Three Months Ended March 31		Nine Months Ended March 31	
	2010	2009	2010	2009
Lighting Segment	\$ (71)	\$ (209)	\$ 6,648	\$ (5,691)

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

Graphics Segment	(896)	72	2,629	1,742
Technology Segment	(37)	(187)	74	185
Electronic Components Segment	657		1,462	
All Other Category	(3,467)	(3,471)	(9,197)	(9,822)
	\$ (3,814)	\$ (3,795)	\$ 1,616	\$ (13,586)

Page 24

---

**Table of Contents****Summary Comments**

Third quarter fiscal 2010 net sales of \$53,466,000 increased \$6.5 million or 13.8% as compared to the third quarter of fiscal 2009. Net sales were favorably influenced by increased net sales of the Lighting Segment (up \$1.9 million or 5.6%), of the Technology Segment (up \$0.8 million or 192%), of the All Other Category (up \$0.2 million or 9.1%), and the addition of the Electronic Components Segment (effective with the July 22, 2009 acquisition of AdL Technology) which added \$4.0 million of net sales. Net sales were unfavorably influenced by decreased Graphics Segment net sales (down \$0.4 million or 3.8%). The Company sold its wire harness business in the third quarter of fiscal 2010 and incurred a pre-tax loss of \$639,000 which is included in the operating loss of the All Other Category. In fiscal 2009, the All Other Category recorded a pre-tax goodwill impairment of \$957,000 see the paragraph below regarding goodwill impairments recorded in fiscal 2009 and the section below on Non-GAAP Financial Measures. Net sales to the Petroleum / Convenience Store market, the Company's largest niche market, were \$16,512,000 or 31% of total net sales and \$11,329,000 or 24% of total net sales in the third quarter of fiscal 2010 and 2009, respectively. The \$5.2 million or 46% increase is primarily due to a program with 7-Eleven, Inc., who is replacing traditional canopy, site and sign lighting with solid-state LED lighting (\$6.8 million increase). About 93% of the retail petroleum sites scheduled to be involved in this customer's program to convert to solid-state LED lighting are completed as of the end of Company's 2010 third fiscal quarter with the remaining 7% expected to be completed in the Company's fourth fiscal quarter. The Company recently received purchase orders from this customer to continue the conversion to solid-state LED lighting at over 3,400 non-petroleum retail sites over the next twelve to eighteen months. Net sales to this petroleum / convenience store customer are reported in both the Lighting and Graphics segments.

Fiscal 2010 nine month net sales of \$190,516,000, as compared to the first nine months of fiscal 2009, were favorably influenced by increased net sales of the Graphics Segment (up 12.9%), and the addition of the Electronic Components Segment (effective with the July 22, 2009 acquisition of AdL Technology) which added \$11.6 million of net sales. Net sales were unfavorably influenced by decreased Lighting Segment, Technology Segment and All Other Category net sales (down 6.1%, 41.8% and 18.5%, respectively, totaling \$10.7 million unfavorable). The Company sold its wire harness business in the third quarter of fiscal 2010 and incurred a pre-tax loss of \$639,000 which is included in the operating loss of the All Other Category. In the first nine months of fiscal 2009, the Company recorded pre-tax goodwill impairments totaling \$14,207,000 see the paragraph below regarding goodwill impairments recorded in fiscal 2009 and the section below on Non-GAAP Financial Measures. Net sales to the Petroleum / Convenience Store market, the Company's largest niche market, were \$69,402,000 or 36% of total net sales and \$40,012,000 or 22% of total net sales in the first nine months of fiscal 2010 and 2009, respectively. The \$29.4 million or 73% increase is primarily due to a program with 7-Eleven, Inc., who is replacing traditional canopy, site and sign lighting with solid-state LED lighting (\$30.9 million increase). Net sales to this petroleum / convenience store customer are reported in both the Lighting and Graphics segments.

The Company recorded significant goodwill impairment expenses in the first nine months of fiscal 2009, totaling \$14,207,000 (\$11.2 million in the Lighting Segment, \$0.7 million in the Graphics Segment and \$2.3 million in the All Other Category). The Company recorded a \$1.0 million goodwill impairment in the third quarter of fiscal 2009 in the All Other Category. These expenses are included in the \$(3,795,000) and \$(13,586,000) operating losses reported in the third quarter and first nine months of fiscal 2009, respectively. There were no such goodwill impairment expenses in the third quarter or first nine months of fiscal 2010.

**Table of Contents**

The Company also recorded significant acquisition-related and other professional fees expenses in the first nine months of fiscal 2010, totaling \$1,160,000 (\$640,000 of inventory adjustments related to acquisition accounting on the opening balance sheet of LSI ADL Technology; \$520,000 of acquisition transaction costs related to the acquisition of LSI ADL Technology). These expenses are included in the \$1,616,000 operating income reported in the first nine months of fiscal 2010. There were no such similar significant expenses in the first nine months of fiscal 2009. See also the section below on Non-GAAP Financial Measures.

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.

	FY 2010	FY 2009	% Increase
First Quarter	\$ 17,999	\$ 8,798	105%
Second Quarter	18,533	2,784	566%
First Half	36,532	11,582	215%
Third Quarter	11,510	3,086	273%
Nine Months	\$ 48,042	\$ 14,668	228%

As fiscal 2010 progressed, the Company continues to encounter the effects of a global economic recession with significant negative economic forces, including declining industrial production, rapidly increasing unemployment, roller coaster commodity pricing, and record low confidence levels, as well as issues such as malfunctioning credit markets which could affect many customers and a decimated housing market that indirectly could affect the Company's business. Taken as a whole, these factors continue to cause a substantial reduction in demand for our lighting and graphics products. Virtually all of our markets have been adversely impacted and our business has suffered as a result. During these difficult and uncertain economic conditions, we continue to take a number of proactive steps to right size LSI Industries to meet today's challenges. Such actions include strict control of expenses, capital expenditure reductions, close management of accounts receivable and inventories, headcount reductions, and maintaining a conservative financial position coupled with positive free cash flow. We still believe the economy will eventually improve. As we continue to adjust our expense levels to lower production rates and 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, notwithstanding the current economic recession that will likely continue to impact results during the next several quarters. LSI is still facing a period of challenging business conditions in the near term due to the general economic recession but expects to emerge a stronger and more efficient company as business conditions improve.

**Table of Contents****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 three and nine month periods ended March 31, 2010 and 2009. Adjusted net income and earnings per share, which excludes the loss on the sale of LSI Marcole, goodwill impairment and the impact of the LSI ADL Technology acquisition deal costs and acquisition-related fair value inventory adjustment, are non-GAAP financial measures. We believe that they are useful as supplemental measures in assessing the operating performance of our business. This measure is 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, excluding the acquisition related costs and the goodwill impairment.

(In thousands, except per share data; unaudited) Reconciliation of net (loss) to adjusted net (loss):	FY 2010	Third Quarter		Diluted EPS
			FY 2009	
Net (loss) as reported	\$ (2,532)	\$ (0.10)	\$ (2,467)	\$ (0.11)
Loss on sale of LSI Marcole, inclusive of the income tax effect	300 <sup>(1)</sup>	0.01		
Adjustment for the acquisition deal costs and acquisition-related fair value inventory adjustment, inclusive of the income tax effect	16 <sup>(2)</sup>			
Goodwill impairment, inclusive of the income tax effect			746 <sup>(3)</sup>	0.03
Adjusted net income (loss) and earnings (loss) per share	\$ (2,216)	\$ (0.09)	\$ (1,721)	\$ (0.08)

(In thousands, except per share data; unaudited) Reconciliation of net income (loss) to adjusted net income:	FY 2010	Nine Months		Diluted EPS
			FY 2009	
Net income (loss) as reported	\$ 697	\$ 0.03	\$ (13,157)	\$ (0.60)
Loss on sale of LSI Marcole, inclusive of the income tax effect	300 <sup>(1)</sup>	0.01		
Adjustment for the acquisition deal costs and acquisition-related fair value inventory adjustment, inclusive of the income tax effect	545 <sup>(4)</sup>	0.02		
			13,383 <sup>(5)</sup>	0.61

Goodwill impairment, inclusive of the income tax effect

Adjusted net income and earnings per share	\$	1,542	\$	0.06	\$	226	\$	0.01
--	----	-------	----	------	----	-----	----	------

The income tax effects of the adjustments in the tables above were calculated using the estimated U.S. effective income tax rates for the periods indicated, with appropriate consideration given for the permanent non-deductible portion of the goodwill impairments in fiscal 2009. The income tax effects were as follows (In thousands):

- (1) \$339
- (2) \$18
- (3) \$211
- (4) \$615
- (5) \$824



**Table of Contents****Results of Operations****THREE MONTHS ENDED MARCH 31, 2010 COMPARED TO THREE MONTHS ENDED MARCH 31, 2009****Lighting Segment**

<i>(In thousands)</i>	Three Months Ended March 31	
	2010	2009
Net Sales	\$ 35,458	\$ 33,562
Gross Profit	\$ 6,607	\$ 6,523
Operating Income (Loss)	\$ (71)	\$ (209)

Lighting Segment net sales of \$35,458,000 in the third quarter of fiscal 2010 increased 5.6% from third quarter fiscal 2009 net sales of \$33,562,000. The \$1.9 million increase in Lighting Segment net sales is primarily the net result of a \$6.0 million or 47% net increase in lighting sales to our niche markets (petroleum / convenience store market net sales were up significantly, net sales to the automotive dealership market were up 10%, and net sales to the quick service restaurant market were down 3%) and national retail accounts, and a \$4.1 million or 19.6% decrease in commissioned net sales to the commercial / industrial lighting market. Sales of lighting to the petroleum / convenience store market represented 30% and 20% of Lighting Segment net sales in the third quarter of fiscal years 2010 and 2009, respectively. Net sales of lighting to this, the Company's largest niche market, were up 58.4% from last year to \$10,621,000, with approximately \$4.2 million related to a program with one national petroleum / convenience store customer who is replacing traditional canopy, site and sign lighting with solid-state LED lighting. The Company expects to continue to make sales to this particular customer pursuant to new orders recently received for their non-petroleum convenience stores to be converted in calendar year 2010. 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 \$8.4 million in the third quarter of fiscal 2010, representing a 459% increase from third quarter fiscal 2009 net sales of solid-state LED light fixtures of \$1.5 million.

Gross profit of \$6,607,000 in the third quarter of fiscal 2010 increased \$0.1 million or 1% from the same period last year, and decreased from 18.8% to 18.3% 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 decreased margins, increased overhead absorption and reduced freight costs. The following items also influenced the Lighting Segment's gross profit margin: competitive pricing pressures; \$0.7 million increased benefits and compensation; \$0.3 million increased warranty costs; \$0.1 million decreased utilities; and \$0.1 million decreased depreciation expense.

Selling and administrative expenses of \$6,678,000 in the third quarter of fiscal year 2010 decreased \$0.1 million primarily as the net result of: increased employee compensation and benefits expense (\$0.2 million); decreased sales commission expense (\$0.1 million); increased research and development expense (\$0.2 million); decreased outside services expense (\$0.1 million); decreased customer relations expense (\$0.1 million); and increased bad debt expense (\$0.1 million).

**Table of Contents**

The Lighting Segment third quarter fiscal 2010 operating loss of \$(71,000) compares to an operating loss of \$(209,000) last year. This improvement of \$0.1 million was the net result of increased net sales, increased gross profit, and decreased selling and administrative expenses.

**Graphics Segment**

<i>(In thousands)</i>	Three Months Ended March 31	
	2010	2009
Net Sales	\$ 10,900	\$ 11,327
Gross Profit	\$ 1,458	\$ 2,267
Operating Income	\$ (896)	\$ 72

Graphics Segment net sales of \$10,900,000 in the third quarter of fiscal 2010 decreased 3.8% from third quarter fiscal 2009 net sales of \$11,327,000. The \$0.4 million decrease in Graphics Segment net sales is primarily the result of image conversion programs and sales to seven petroleum / convenience store customers (\$2.0 million net increase), the LED video sports screen market (\$1.1 million decrease), a national drug store retailer (\$0.5 million decrease), a lawn care company (\$0.4 million decrease) and a grocery retailer (\$0.3 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 54% and 41% of Graphics Segment net sales in the third quarter of fiscal years 2010 and 2009, respectively. Net sales of graphics to this, the Company's largest niche market, were up 27% from last year to \$5,891,000, with approximately \$3.0 million related to a program with one national petroleum / convenience store customer who is replacing traditional sign lighting with solid-state LED lighting. The Company expects to continue to make sales to this particular customer pursuant to new orders recently received for their non-petroleum convenience stores to be converted in calendar year 2010. 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 \$1.9 million in the third quarter of fiscal 2010 as compared to \$1.2 million in last year's third quarter.

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 an existing retail store. 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 \$1,458,000 in the third quarter of fiscal 2010 decreased \$0.8 million or 36% from the same period last year, and decreased from 19.7% to 13.2% as a percentage of Graphics Segment net sales (customer plus inter-segment net sales). The decrease in amount of gross profit is due to decreased Graphics net sales at lower margins. The following items also influenced the Graphics Segment's gross profit margin: competitive pricing pressures, and other manufacturing expenses in support of production requirements (\$0.1 million of increased indirect wage, compensation and benefits costs; \$0.1 million increased warranty expense; and \$0.1 million decreased depreciation and utilities).

**Table of Contents**

Selling and administrative expenses of \$2,354,000 in the third quarter of fiscal year 2010 increased \$0.2 million primarily as a net result of decreased compensation and benefits (\$0.1 million), increased bad debt expense (\$0.2 million), increased customer relations expense (\$0.1 million), and increased supplies expense (\$0.1 million). The Graphics Segment third quarter fiscal 2010 operating loss of \$(896,000) compares to operating income of \$72,000 in the same period last year. The \$1.0 million decrease in operating income was the result of decreased net sales, decreased gross profit and increased selling and administrative expenses.

**Technology Segment**

<i>(In thousands)</i>	Three Months Ended March 31	
	2010	2009
Net Sales	\$ 1,282	\$ 439
Gross Profit	\$ 200	\$ 43
Operating (Loss)	\$ (37)	\$ (187)

Technology Segment net sales of \$1,282,000 in the third quarter of fiscal 2010 increased 192% from third quarter fiscal 2009 net sales of \$439,000. The \$0.8 million increase in Technology Segment net sales is primarily the net result of increased sales of solid-state LED video screens to the entertainment market (\$1.1 million) and decreased sales of specialty LED lighting (\$0.2 million).

Gross profit of \$200,000 in the third quarter of fiscal 2010 increased \$157,000 from the same period last year, and changed from 8.2% to 15.0% as a percentage of Technology Segment net sales (customer plus inter-segment net sales). The increase is related to the increase in sales volume.

Selling and administrative expenses of \$237,000 in the third quarter of fiscal year 2010 were consistent with the third quarter of the prior year, and decreased to 17.8% as a percentage of Technology Segment net sales (customer plus inter-segment net sales) due to the increase in sales.

The Technology Segment third quarter fiscal 2010 operating loss of \$(37,000) compares to an operating loss of \$(187,000) last year. The decrease in the operating loss was the net result of increased net sales and gross profit.

**Table of Contents****Electronic Components Segment**

	Three Months Ended March 31	
(In thousands)	2010	2009
Net Sales	\$ 4,014	\$
Gross Profit	\$ 1,232	\$
Operating Income	\$ 657	\$

Electronic Components Segment results include the operations of LSI ADL Technology, a subsidiary that the Company acquired in July 2009. Therefore, the net sales and operating income in fiscal 2010 are incremental additions to the Company's results as there were no net sales or operating income in fiscal 2009. Operating income 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 final such inventory adjustment of \$38,000 is expected to unfavorably impact the fourth quarter of fiscal 2010 as the remaining specific inventory items are sold.

**All Other Category**

	Three Months Ended March 31	
(In thousands)	2010	2009
Net Sales	\$ 1,812	\$ 1,661
Gross Profit (Loss)	\$ (624)	\$ (59)
Operating (Loss)	\$ (3,467)	\$ (3,471)

All Other Category net sales of \$1,812,000 in the third quarter of fiscal 2010 increased 9.1% from third quarter fiscal 2009 net sales of \$1,661,000. The \$0.2 million increase in the All Other Category net sales is primarily the result of increased sales of electrical wire harnesses (\$0.2 million), decreased installation management sales (\$0.1 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 will therefore have no further sales of wire harnesses. The gross profit loss of \$(624,000) in the third quarter of fiscal 2010 compares to a loss of \$(59,000) in the third quarter of fiscal 2009. The \$0.6 million increased loss is primarily due to a \$(639,000) loss on the sale of the assets and business of the Company's wire harness operation.

Selling and administrative expenses of \$2,843,000, which includes Corporate administration expenses, in the third quarter of fiscal year 2010 decreased \$0.6 million primarily as a result of the \$1.0 million goodwill impairment charge recorded in the third quarter of fiscal year 2009 with no corresponding charge in fiscal 2010. Changes of expense between years include increased compensation and benefits expense (\$0.3 million), and decreased professional fees expense (\$0.1 million).

The All Other Category third quarter fiscal 2010 operating loss of \$(3,467,000) compares to an operating loss of \$(3,471,000) in the same period last year. A level operating loss was the net result of increased net sales and decreased gross profit, decreased goodwill impairment expense and increased other selling and administrative expenses.

**Table of Contents****Consolidated Results**

The Company reported net interest expense of \$33,000 in the third quarter of fiscal 2010 as compared to net interest income of \$6,000 in the same period last year. The Company borrowed on its Canadian line of credit occasionally in the third quarter of fiscal 2009 and essentially its only borrowings in the third quarter of fiscal 2010 were related to the mortgage loan assumed in the acquisition of AdL Technology. Commitment fees related to the unused portions of the Company's lines of credit, and interest income on invested cash are included in the net interest expense amounts above.

The \$1,315,000 income tax benefit in the third quarter of fiscal 2010 reflects an estimated full year effective tax rate of 53% for the Company's U.S. operations combined with a 30.4% effective tax rate for the Company's Canadian operation. The U.S. effective tax rate has increased as compared to prior years because of the significance of certain permanent book-tax differences relative to the amount of taxable income, as well as an increase in state income taxes. The income tax benefit in the third quarter of fiscal 2009 was \$1,322,000. The estimated full year fiscal 2009 effective tax rate was 29.4% for the Company's U.S. operations and was 30.9% for the Company's Canadian operations.

The Company reported a net loss of \$(2,532,000) in the third quarter of fiscal 2010 as compared to a net loss of \$(2,467,000) last year. The increased net loss is primarily the net result of increased gross profit on increased net sales, a fiscal 2010 third quarter loss on sale of a subsidiary, increased operating expenses, and increased net interest expense, partially offset by a goodwill impairment in fiscal 2009 and none in fiscal 2010. Diluted loss per share were \$(0.10) in the third quarter of fiscal 2010 as compared to a loss of \$(0.11) in the same period last year. The weighted average common shares outstanding for purposes of computing diluted earnings per share in fiscal 2010 were 24,277,000 shares as compared to 21,801,000 shares last year, with the increase in shares primarily related to the weighted effect of the 2,469,676 common shares issued in July 2009 for the acquisition of AdL Technology.

**NINE MONTHS ENDED MARCH 31, 2010 COMPARED TO NINE MONTHS ENDED MARCH 31, 2009****Lighting Segment**

<i>(In thousands)</i>	Nine Months Ended March 31	
	2010	2009
Net Sales	\$ 118,787	\$ 126,489
Gross Profit	\$ 27,430	\$ 27,857
Operating Income (Loss)	\$ 6,648	\$ (5,691)

**Table of Contents**

Lighting Segment net sales of \$118,787,000 in the first nine months of fiscal 2010 decreased 6.1% from nine month fiscal 2009 net sales of \$126,489,000. The \$7.7 million decrease in Lighting Segment net sales is primarily the result of a \$11.8 million or 24% net increase in lighting sales to our niche markets (petroleum / convenience store market net sales were up significantly, and net sales to the automotive dealership and quick service restaurant markets were down) and national retail accounts, and a \$19.5 million or 25.2% decrease in commissioned net sales to the commercial / industrial lighting market. Sales of lighting to the petroleum / convenience store market represented 34% and 18% of Lighting Segment net sales in the first nine months of fiscal years 2010 and 2009, respectively. Net sales of lighting to this, the Company's largest niche market, were up 79.1% from the same period last year to \$40,294,000, with approximately \$17.9 million related to a program with a national petroleum / convenience store customer who is replacing traditional canopy, site and sign lighting with solid-state LED lighting. The Company expects to continue to make sales to this particular customer pursuant to new orders recently received for their non-petroleum convenience stores to be converted in calendar year 2010. 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 \$29.7 million in the first nine months of fiscal 2010, representing over a 640% increase from last year's nine month net sales of solid-state LED light fixtures of \$4.0 million.

Gross profit of \$27,430,000 in the first nine months of fiscal 2010 decreased \$0.4 million or 2% from the same period last year, and increased from 21.1% to 22.0% as a percentage of Lighting Segment net sales (customer plus inter-segment net sales). The decrease in amount of gross profit is due to decreased Lighting net sales, partially offset by improved margins resulting from increased overhead absorption and reduced freight expense. The following items also influenced the Lighting Segment's gross profit margin: competitive pricing pressures; increased indirect wages, compensation and benefits costs (\$1.1 million); increased warranty costs (\$0.7 million); decreased utilities (\$0.4 million); decreased depreciation expense (\$0.2 million); decreased outside services (\$0.1 million) and decreased supplies (\$0.1 million).

Selling and administrative expenses of \$20,782,000 in the first nine months of fiscal year 2010 decreased \$12.8 million primarily as a result of the \$11.2 million goodwill impairment charge recorded in the second quarter of fiscal year 2009 with no similar charge in fiscal 2010. Additional changes in expense in the first nine months of fiscal 2010 as compared to last year include: increased employee compensation and benefits expense (\$0.5 million), decreased sales commission expense (\$1.1 million), increased research and development expense (\$0.5 million), decreased customer relations expense (\$0.6 million); decreased warranty expense (\$0.3 million) and decreased outside services expense (\$0.2 million).

The Lighting Segment nine month fiscal 2010 operating income of \$6,648,000 compares to an operating loss of \$(5,691,000) in the same period last year. This increase of \$12.3 million was the net result of decreased net sales and decreased gross profit, offset by decreased selling and administrative expenses (\$1.6 million decrease in spending and the absence of an \$11.2 million goodwill impairment charge).

**Graphics Segment**

<i>(In thousands)</i>	Nine Months Ended March 31	
	2010	2009
Net Sales	\$ 52,321	\$ 46,354
Gross Profit	\$ 10,600	\$ 10,015
Operating Income	\$ 2,629	\$ 1,742

**Table of Contents**

Graphics Segment net sales of \$52,321,000 in the first nine months of fiscal 2010 increased 12.9% from fiscal 2009 nine month net sales of \$46,354,000. The \$6.0 million increase in Graphics Segment net sales is primarily the result of image conversion programs and sales to eleven petroleum / convenience store customers (\$12.9 million net increase), a national drug store retailer (\$0.4 million increase), net sales of solid-state LED video screens to the sports market (\$0.5 million increase), a grocery retailer (\$5.8 million decrease), a lawn service company (\$0.4 million decrease) and changes in volume or completion of other graphics programs. Sales of graphics products and services to the petroleum / convenience store market represented 56% and 37% of Graphics Segment net sales in the first nine months of fiscal years 2010 and 2009, respectively. Net sales of graphics to this, the Company's largest niche market, increased \$11.6 million or 66% from the same period last year to \$29,108,000, with approximately \$14.9 million related to a program with one national petroleum / convenience store customer who is replacing traditional sign lighting with solid-state LED lighting. The Company expects to continue to make sales to this particular customer pursuant to new orders recently received for their non-petroleum convenience stores to be converted in calendar year 2010. 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 \$15.7 million in the first nine months of fiscal 2010 as compared to \$6.2 million in last year's nine month period.

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 an existing retail store. 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 \$10,600,000 in the first nine months of fiscal 2010 increased \$0.6 million or 6% from last year, and decreased from 21.1% to 20.0% as a percentage of Graphics Segment net sales (customer plus inter-segment net sales). The increase in amount of gross profit is due primarily to increased Graphics net sales. The following items also influenced the Graphics Segment's gross profit margin: competitive pricing pressures, and other manufacturing expenses in support of production requirements (\$0.3 million increased warranty expense; \$0.2 million decreased depreciation and utilities; \$0.1 million decreased rent expense; and \$0.1 million decreased supplies expense).

Selling and administrative expenses of \$7,971,000 in the first nine months of fiscal year 2010 decreased \$0.3 million primarily as a result of the \$0.7 million goodwill impairment charge recorded in the second quarter of fiscal year 2009 with no similar charge in fiscal 2010. Changes of expense between years include increased bad debt expense (\$0.4 million), increased customer relations expense (\$0.2 million), decreased compensation and benefits expense (\$0.1 million) and decreased travel expense (\$0.1 million).

**Table of Contents**

The Graphics Segment nine month fiscal 2010 operating income of \$2,629,000 compares to \$1,742,000 in the same period last year. The increase of \$0.9 million in operating income was the net result of increased net sales and increased gross profit, the absence of any goodwill impairment charge and increased other selling and administrative expenses (\$0.4 million increase in spending and the absence of a \$0.7 million goodwill impairment charge).

**Technology Segment**

	Nine Months Ended March 31	
(In thousands)	2010	2009
Net Sales	\$ 2,578	\$ 4,429
Gross Profit	\$ 857	\$ 1,420
Operating Income	\$ 74	\$ 185

Technology Segment net sales of \$2,578,000 in the first nine months of fiscal 2010 decreased 41.8% from nine month fiscal 2009 net sales of \$4,429,000. The \$1.9 million decrease in Technology Segment net sales is primarily the result of decreased sales of solid-state LED video screens to the entertainment market (\$1.6 million) and decreased sales of specialty LED lighting (\$0.3 million).

Gross profit of \$857,000 in the first nine months of fiscal 2010 decreased \$0.6 million from the same period last year, and changed from 17.3% to 14.4% as a percentage of Technology Segment net sales (customer plus inter-segment net sales). The decrease is related to the drop in sales volume.

Selling and administrative expenses of \$783,000 in the first nine months of fiscal year 2010 decreased \$0.5 million, and decreased to 13.2% from 15.0% as a percentage of Technology Segment net sales (customer plus inter-segment net sales). Selling and administrative expenses were down in line with reduced net sales, including \$0.1 million reduced bad debt expense and \$0.1 million reduced warranty expense.

The Technology Segment nine month fiscal 2010 operating income of \$74,000 compares to \$185,000 in the same period last year. The decrease in operating income of \$0.1 million was the net result of decreased net sales and gross profit, partially offset by decreased selling and administrative expenses.

**Electronic Components Segment**

	Nine Months Ended March 31	
(In thousands)	2010	2009
Net Sales	\$ 11,661	\$
Gross Profit	\$ 3,080	\$
Operating Income	\$ 1,462	\$

Electronic Components Segment results include the operations of LSI ADL Technology, a subsidiary that the Company acquired in July 2009. Therefore, the net sales and operating income in fiscal 2010 are incremental additions to the Company's results as there were no net sales or operating income in fiscal 2009. Operating income 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 final such inventory adjustment of \$38,000 is expected to unfavorably impact the fourth quarter of fiscal 2010 as the remaining specific inventory items are sold.



**Table of Contents****All Other Category**

<i>(In thousands)</i>	Nine Months Ended March 31	
	2010	2009
Net Sales	\$ 5,169	\$ 6,342
Gross Profit (Loss)	\$ (197)	\$ 918
Operating (Loss)	\$ (9,197)	\$ (9,822)

All Other Category net sales of \$5,169,000 in the first nine months of fiscal 2010 decreased 18.5% from nine month fiscal 2009 net sales of \$6,342,000. The \$1.2 million decrease in the All Other Category net sales is primarily the net result of decreased sales to a quick service restaurant menu board customer (\$1.2 million), decreased sales of electrical wire harnesses (\$0.4 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 will therefore have no further sales of wire harnesses.

The gross profit loss of \$(197,000) in the first nine months of fiscal 2010 compares to gross profit of \$918,000 in the same period of the prior year. The change is primarily the result of the \$639,000 loss recorded on the March 2010 sale of the assets and business of the Company's wire harness operation. The remaining \$0.5 million decrease in amount of gross profit is primarily due to decreased net sales and margins.

Selling and administrative expenses of \$9,000,000, which includes Corporate administration expenses, in the first nine months of fiscal year 2010 decreased \$1.7 million primarily as a result of the \$2.3 million goodwill impairment charge recorded in the first nine months of fiscal year 2009. Changes of expense between years include acquisition deal costs associated with the acquisition of LSI ADL Technology (\$0.5 million increased expense), increased compensation and benefits expense (\$0.4 million), decreased menu board patent settlement expense (\$0.2 million), decreased outside services expense (\$0.2 million), decreased professional fees (\$0.2 million), increased research and development expense (\$0.2 million) and decreased depreciation expense (\$0.1 million).

The All Other Category nine month fiscal 2010 operating loss of \$(9,197,000) compares to an operating loss of \$(9,822,000) in the same period last year. This \$0.6 million decreased loss was the net result of decreased net sales and decreased gross profit, and decreased selling and administrative expenses.

**Consolidated Results**

The Company reported net interest expense of \$99,000 in the first nine months of fiscal 2010 as compared to net interest income of \$2,000 last year. The Company borrowed on its lines of credit occasionally in the first nine months of fiscal 2009 and essentially its only borrowings in the first nine months of fiscal 2010 were related to the mortgage loan assumed in the acquisition of AdL Technology. Commitment fees related to the unused portions of the Company's lines of credit, and interest income on invested cash are included in the net interest expense amounts above.

## **Table of Contents**

The \$820,000 income tax expense (consolidated effective tax rate of 54.1%) in the first nine months of fiscal 2010 reflects an effective tax rate of 53% for the Company's U.S. operations combined with a 30.4% effective tax rate for the Company's Canadian operation. The U.S. effective tax rate has increased as compared to prior years because of the significance of certain permanent book-tax differences relative to the amount of taxable income, as well as an increase in state income taxes. The income tax benefit in the first nine months of fiscal 2009 was \$427,000 on the Company's pre-tax loss of \$(13,584,000). This result was due to the majority of the goodwill impairment expense of \$14.2 million not being deductible, resulting in a benefit of only \$824,000. The Company recorded a \$397,000 tax expense (which includes a \$333,000 benefit related to a release of an uncertain income tax position liability associated with a voluntary disclosure program) related to the operations of the Company which all nets to the \$427,000 income tax benefit in the first nine months of fiscal 2009.

The Company reported a net income of \$697,000 in the first nine months of fiscal 2010 as compared to a net loss of \$(13,157,000) in the same period last year. The increased net income is primarily the result of increased net sales, increased gross profit, goodwill impairment in fiscal 2009 and none in fiscal 2010, partially offset by increased operating expenses, increased net interest expense and increased income tax expense. Diluted earnings per share were \$0.03 in the first nine months of fiscal 2010 as compared to a loss of \$(0.60) in the same period last year. The weighted average common shares outstanding for purposes of computing diluted earnings per share in fiscal 2010 were 24,085,000 shares as compared to 21,799,000 shares last year, with the increase in shares primarily related to the weighted effect of the 2,469,676 common shares issued in July 2009 for the acquisition of AdL Technology.

## **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, 2010, the Company had working capital of \$73.7 million, compared to \$72.5 million at June 30, 2009. The ratio of current assets to current liabilities was 4.68 to 1 as compared to a ratio of 4.70 to 1 at June 30, 2009. The \$1.2 million increase in working capital from June 30, 2009 to March 31, 2010, which was influenced by the acquisition of AdL Technology in July 2009, was primarily related to increased cash and cash equivalents (\$1.6 million), increased inventory (\$0.8 million), and decreased accrued expenses (\$0.5 million), partially offset by increased accounts payable (\$0.9 million) and decreased net accounts receivable (\$0.8 million). The Company has a strategy of aggressively managing working capital, including reduction of the accounts receivable days sales outstanding (DSO) and reduction of inventory levels, without reducing service to our customers.

The Company generated \$12.2 million of cash from operating activities in the first nine months of fiscal 2010 as compared to a generation of \$13.4 million in the same period last year. This \$1.2 million decrease in net cash flows from operating activities is primarily the net result of greater net income (\$13.9 million favorable), a loss on the sale of a subsidiary (\$0.6 million favorable), goodwill impairment in fiscal 2009 and none in fiscal 2010 (\$14.2 million unfavorable), less of a decrease in accounts receivable (unfavorable change of \$6.2 million), less of a decrease in inventories (unfavorable change of \$9.2 million), less of a reduction in customer prepayments (favorable change of \$0.4 million), less of a reduction in accounts payable and other (favorable change of \$12.5 million), more of a reduction in the reserve for bad debts (unfavorable \$0.1 million), a larger increase in the inventory obsolescence reserve (favorable \$0.1 million), increased stock option expense (favorable \$0.2 million) and less of a decrease in deferred income tax assets rather than an increase (favorable \$0.8 million).

**Table of Contents**

Net accounts receivable were \$28.9 million and \$29.7 million at March 31, 2010 and June 30, 2009, respectively. The decrease of \$0.8 million in net receivables is primarily due to combined effects of a higher amount of net sales in the third quarter of fiscal 2010 as compared to the fourth quarter of fiscal 2009, decreased DSO, and the addition of LSI ADL Technology (\$2.3 million). The DSO decreased to 46 days at March 31, 2010 from 51 days at June 30, 2009. The Company believes that its receivables are ultimately collectible or recoverable, net of certain reserves, and that aggregate allowances for doubtful accounts are adequate.

Net inventories at March 31, 2010 increased \$0.8 million from June 30, 2009 levels. Based on a strategy of reducing inventory and in response to customer programs and the timing of shipments, an inventory increase occurred in the first nine months of fiscal 2010 in the Lighting Segment of approximately \$0.6 million (some of this inventory supports certain graphics programs), and inventory decreases occurred in the Graphics Segment of approximately \$0.4 million, in the Technology Segment of approximately \$1.2 million and in the All Other Category of approximately \$1.5 million (which was primarily related to the Company's sale of its wire harness operation). Additionally, the Company acquired AdL Technology (reported in the Electronic Components Segment), which increased net inventory in the first nine months of fiscal 2010 by \$3.5 million.

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, 2010. This line of credit is a \$30 million three year committed credit facility expiring in the third quarter of fiscal 2013. The Company previously also had a \$10 million committed credit facility that it chose not to renew and therefore let it expire in the third quarter of fiscal 2010. Additionally, the Company has a separate \$5 million line of credit, renewable annually in the fourth fiscal quarter, for the working capital needs of its Canadian subsidiary, LSI Saco Technologies. As of April 29, 2010, all \$5 million of this line of credit is available. The Company believes that \$35 million total renewed lines of credit plus cash flows from operating activities are adequate for the Company's fiscal 2010 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants.

The Company used \$4.7 million of cash related to investing activities in the first nine months of fiscal 2010 as compared to a use of \$1.2 million in the same period last year, an unfavorable change of \$3.5 million. The primary change between years relates to the amount of fixed assets purchased, \$4,572,000 in fiscal 2010 as compared to \$1,156,000 last year (\$3.4 million unfavorable). Spending in both periods is primarily for tooling and equipment. The Company received \$505,000 proceeds from the sale of fixed assets, almost entirely from the sale of the fixed assets of the Company's wire harness operation. The other change between years relates to the fiscal 2010 acquisition of AdL Technology, net of cash received (\$0.7 million unfavorable). The Company expects fiscal 2010 capital expenditures to be approximately \$7.0 million, exclusive of business acquisitions. The increase in expected capital expenditures for fiscal 2010 over previous estimates relates to the Company's strategy of devoting an additional \$4 million to increase manufacturing capacity and replace old technology with updated state-of-the-art equipment during this recessionary period so as to be fully prepared when the economy improves.

The Company used \$5.9 million of cash related to financing activities in the first nine months of fiscal 2010 as compared to a use of \$5.5 million in the same period last year. The \$0.3 million unfavorable change between periods is primarily related to the payment of long-term debt on the opening balance sheet of the acquired LSI ADL Technology as compared to the fiscal 2009 pay down of the Company's line of credit (\$2.2 million unfavorable) and lower cash dividend payments (\$1.8 million favorable). The \$1.8 million reduction in dividend payments between years is primarily the result of a lower per share quarterly dividend rate beginning in the second quarter of fiscal 2009.

## **Table of Contents**

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

On April 21, 2010, the Board of Directors declared a regular quarterly cash dividend of \$0.05 per share (approximately \$1,202,000) payable May 11, 2010 to shareholders of record on May 4, 2010. 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 an indicated annual cash dividend rate of \$0.20 per share beginning with the first quarter of fiscal 2010 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.

## **Table of Contents**

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 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 12 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 7.

## **Table of Contents**

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 in connection with 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 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.

### **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 will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 or the Company's fiscal year 2011. The Company does not expect any impact on its consolidated results of operations, cash flows or financial position when this amended guidance is adopted.

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, establishes 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 will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 or the Company's fiscal year 2011. The Company does not expect any impact on its consolidated results of operations, cash flows or financial position when this amended guidance is adopted.

**Table of Contents**

**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, 2009. 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, 2009.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

An evaluation was performed as of March 31, 2010 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, 2010, 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, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****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 second quarter of fiscal 2010 were as follows:

**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased  Under the Plans or Programs
1/1/10 to 1/31/10	513	\$ 5.71	513	(1)
2/1/10 to 2/28/10	458	\$ 6.40	458	(1)
3/1/10 to 3/31/10	413	\$ 7.09	413	(1)
Total	1,384	\$ 6.35	1,384	(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 375,000 shares of the Company to be held in the Plan. At March 31, 2010, the Plan held 232,123 shares of the Company.

**ITEM 6. EXHIBITS**

- a) Exhibits



- 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 10, 2010