INDUSTRIES™

Growth Through Our Employees – A Team Approach

1998 Annual Report

Corporate Profile

LSI Industries is an integrated design, manufacturing, and imaging company supplying its own high-quality lighting fixtures and graphics elements for both exterior and interior applications primarily in North America. The Company's major markets are the petroleum / convenience store market, the multi-site retail market (including restaurants, automobile dealerships, and national retail accounts), and the commercial / industrial lighting market. Additionally, LSI Industries produces and markets menu board systems and is a major supplier of outdoor, indoor, and landscape lighting for the commercial / industrial market.

Contents

LSI At-A-Glance

Commercial / Industrial Lighting Group

Exterior Lighting

From landscaping beds to sports arenas, LSI sets the standards for lighting fixtures that are attractive, durable, energy efficient and easy to maintain.

LSI Lighting Systems
Greenlee Lighting
Courtsider Lighting

Interior Lighting

Whether customers are reading a price tag, a menu, a catalog or a package, interior lighting is critical. LSI provides both contemporary and functional fixtures for commercial and industrial operations.

Abolite Lighting

Image Group

Exterior Image

The right package of exterior lighting and graphics can add visual impact, draw customers, increase revenues and improve security. LSI handles both new construction and refurbishing of existing locations.

LSI Petroleum / Convenience Store Division
LSI Automotive
LSI Images
SGI Integrated Graphic Systems
Grady McCauley

Interior Image

At the counter, by the shelf or on a point-of-purchase display, words and pictures come together to create an image. LSI helps retailers build awareness, sales and profits with colorful, dynamic image products.

SGI Integrated Graphic Systems
Grady McCauley

Manufacturing Support

Two divisions market their own unique products and services to OEM customers and also provide manufacturing support to the Commercial / Industrial Lighting Group and the Image Group.

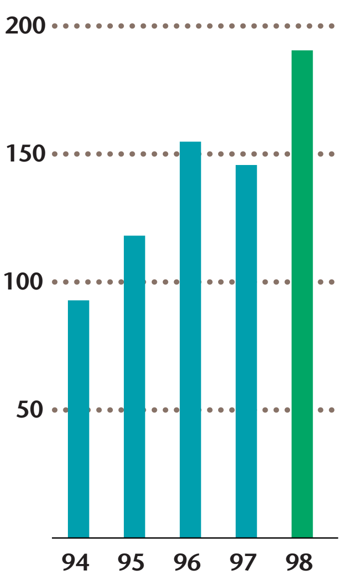
LSI Metal Fabrication
LSI Marcole

Financial Highlights

	1998	1997	1996
Income Statement Data			
(In thousands, except per share)			
Net sales	**$189,139**	$144,742	$152,733
Operating income	**$ 20,194**	$ 13,709	$ 13,411
Income from continuing operations	**$ 12,587**	$ 8,872	$ 8,270
Earnings per share from continuing operations			
Basic	**$ 1.32**	$ .99	$ 1.02
Diluted	**$ 1.29**	$ .97	$ .98
Balance Sheet Data			
(In thousands)			
Working capital	**$ 40,237**	$ 30,192	$ 36,146
Total assets	**$110,316**	$ 95,189	$ 79,496
Shareholders' equity	**$ 78,657**	$ 67,968	$ 54,737

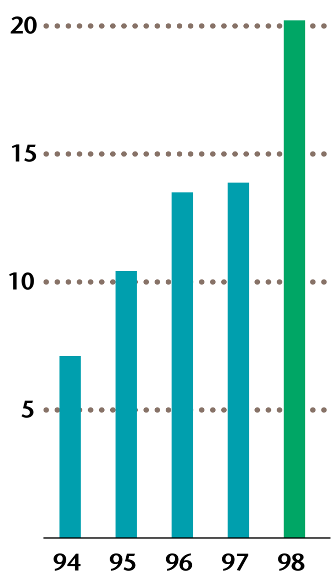
NET SALES

$ Millions



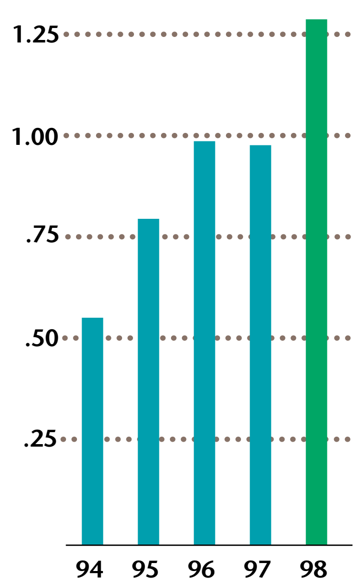
OPERATING INCOME

$ Millions



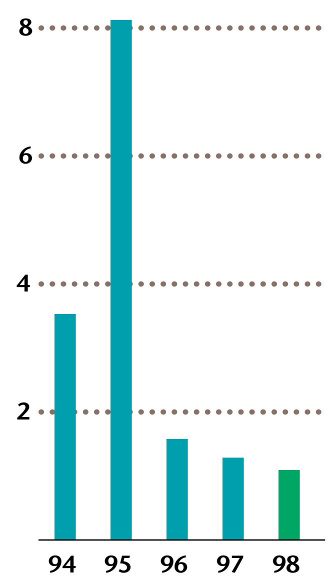
EARNINGS PER SHARE

*$/Share**



DEBT

$ Millions



** Diluted earnings per share from continuing operations*

Dear Shareholders and Employees,

This annual report represents one of the best years in LSI's history. With two acquisitions, record sales and record profits, fiscal 1998 set the stage for the future growth of our Company. Due to all the hard work our employees put forth to make this a record year, this annual report is dedicated to them.

A number of accomplishments were achieved during the past year, including the acquisition of two new companies. The first acquisition, Grady McCauley, located in North Canton, Ohio, was selected because of their capability to design, produce and implement interior graphics elements for the majority of our large national retail customers. In addition to their product capabilities, they also have a customer base that enhances the Company's opportunity to grow beyond the petroleum markets.

The second acquisition, Marcole Industries, located in Manchester, Tennessee, strengthens our manufacturing support level with a full line of electrical wiring harnesses that are used in our lighting and illuminated fascia products. In addition, Marcole markets wiring harness packages to the "White Goods" or appliance industry. Though small in size, they have great potential to increase our internal manufacturing support and our sales revenues.

Fiscal 1998 was a great year in the area of product development. As a continuation of the success of our Scottsdale® petroleum canopy light fixture, we developed what is known as the "Absolute Genius" Scottsdale Super Kit. The Super Kit gives us a huge retrofit capability of converting old 400-watt canopy lighting fixtures into state-of-the-art, energy-reduced Scottsdales in an average time of about four minutes per fixture.

Due to all the hard work our employees put forth to make this a record year, this annual report is dedicated to them.

The newest area light, the Challenger™, is now being sold in all of our major markets. It is being recognized as one of the most versatile outdoor lighting fixtures introduced in our industry. Several additional lighting fixtures for both indoor and outdoor applications were developed during fiscal 1998 with product introductions scheduled in early fiscal 1999.

Greenlee Lighting, located in Dallas, Texas, achieved the highest sales revenue in its 20-year history as a manufacturer of landscape lighting fixtures. In addition, Greenlee developed a new family of aluminum bullet fixtures offering a

more competitive lighting system for tree and shrub illumination.

During fiscal 1998, we made major organizational changes to improve the overall operations of our Houston, Texas graphics company, SGI Integrated Graphic Systems. We believed that with certain positive changes we could increase margins, and improve production and operational efficiencies. The results were record sales and improved profitability.

LSI Images, located in Independence, Kentucky, created a tremendous amount of interest in the Quick Service Restaurant industry in fiscal 1998. This division is setting the stage for what we believe will be a strong revenue growth potential with their new menu board system and patented, adjustable menu strip track.

LSI Metal Fabrication, also located in Independence, Kentucky, has matured into a very important manufacturing division for the entire Company. Over the past year they made many changes to support the metal fabricated parts for lighting, structural graphics, menu board components, and outside customer OEM products.

In August, the Company announced the impending acquisitions of Mid-West Chandelier and Fairfax Lighting Co., related companies both privately owned and located in Kansas City, Kansas. The addition of the Mid-West and Fairfax broad line of interior fluorescent lighting fixtures to the LSI family will strengthen the Company's opportunities in the commercial / industrial, petroleum / convenience store, and multi-site restaurant markets. Mid-West and Fairfax are expected to be merged into LSI in the third quarter of fiscal 1999. We are extremely pleased that their employees will be joining LSI and contributing to the second half results.

Our people excelled in fiscal 1998. Their efforts in the areas of new product development, market expansion, and acquisitions have strengthened the Company's foundation and have positioned LSI for continued growth. I am very proud of our dedicated people, and I know they are committed to keeping LSI's future "bright" and profitable.

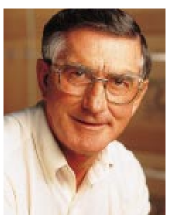
Sincerely,

Robert J. Ready
Chairman, President and CEO

People make the difference at LSI. From vendors to employees, customers to shareholders, everyone

contributes to making this Company a success. When we were founded 22 years ago, we had only five employees. Today, we

have 1,400 employees located throughout the country. Our customer base and our



shareholder list have grown right along with us as we have proven ourselves to be innovative problem solvers in the lighting and graphics industries. We dedicate this annual report to all the people who have contributed to our growth

in the past and to the people who will help us grow in the future.

Research & Development

The LSI cycle of growth begins with every customer who identifies their needs and communicates their requirements. Our engineering and application design departments explore various alternatives and determine appropriate solutions using the latest technology.

In regular planning meetings, representatives from sales, marketing and engineering work as a team to develop new products. Communication between departments, with vendors and with the customer is key not only at this stage, but also at every step along the way.

Design sessions that involved multiple LSI departments, vendors and customers led to the introduction of the highly successful Challenger™ lighting fixture in 1998. This versatile fixture offers customers both horizontal and vertical burn and a variety of reflector systems.

Concept & Design

With a specific client need and a wide range of innovative products at hand, LSI designers and sales representatives work together with the customer to assemble just the right combination of lighting and graphics elements. The visual impact can be tremendous.

Here, the newly introduced Urban fixture (left) and the Bistro fixture (right) are examples of a new line of high-end, interior lighting fixtures designed for casual dining establishments.

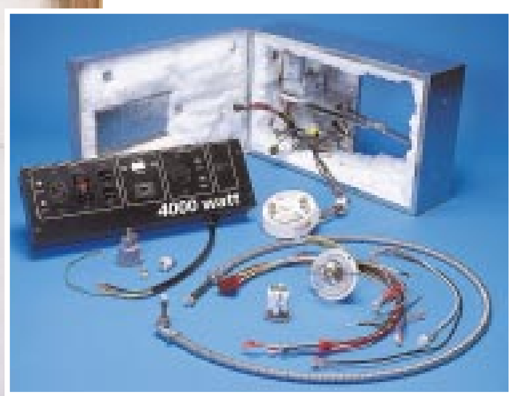
Above, lighting and landscaping add glitter to the Rock & Roll Hall of Fame in Cleveland, Ohio. Below, combined LSI lighting and graphics on the canopy, pumps and fascia give this Shell station a powerful new image.

One picture is worth a thousand words, and through the virtual reality and videoconferencing capabilities of the LSI Image Center, we can bring that picture right to the customer's desk. This exclusive, high-tech room enables us to coordinate efforts between LSI companies as well as with customers for maximum efficiency.

Marketing & Sales

The LSI cycle of growth continues to evolve as our marketing and sales people spread the word about the Company's innovative products and unique capabilities. From the initial sales presentation to service after the sale, one-on-one communication ensures that the project runs smoothly.

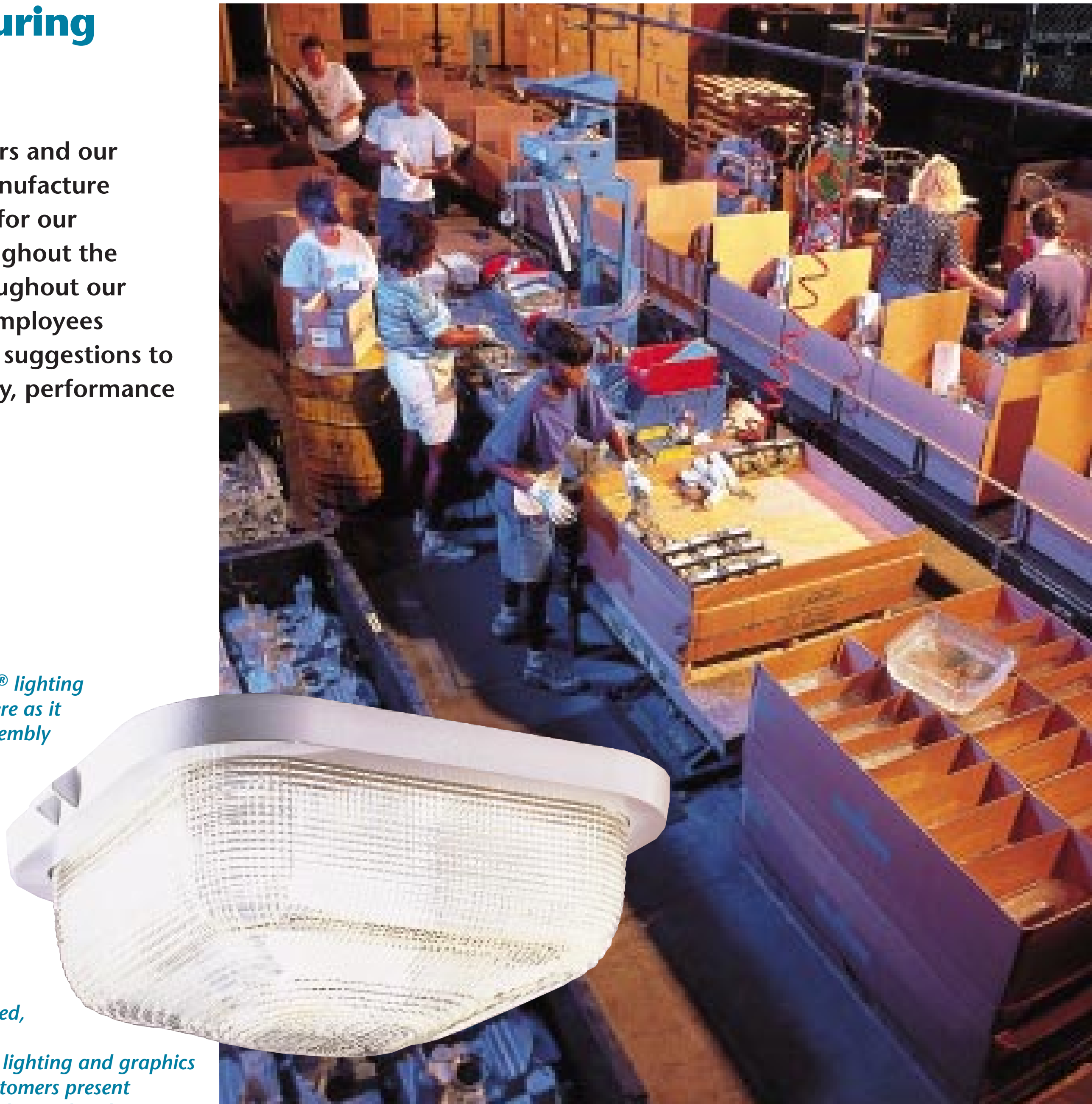
These landscape lighting fixtures provide customers with several design and material choices. The two composite fixtures (upper left) and the family of new aluminum bullet fixtures (lower right) all have high-volume potential in a variety of applications.



A new product line of electrical wiring harnesses was added to LSI's offering in February 1998 with the acquisition of LSI Marcole (Manchester, TN). As with every LSI acquisition, the combination of the two companies will produce greater results than either could have achieved alone.

Customer service representatives at LSI are the direct link to customers both before and after the sale. These dedicated employees assist customers and sales reps with order entry and problem solving on a day-to-day basis.

Manufacturing



We call on vendors and our employees to manufacture unique products for our customers. Throughout the process and throughout our operations, LSI employees continually make suggestions to improve efficiency, performance and quality.

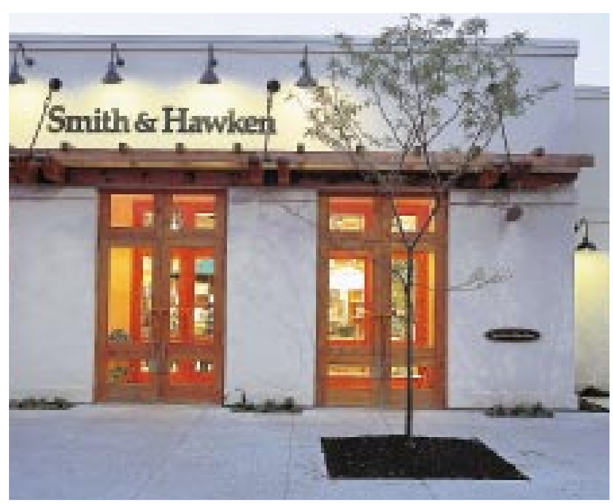
The LSI Scottsdale® lighting fixture, shown here as it comes off the assembly line, is one of the most successful lighting products ever introduced to the petroleum industry.

As a fully integrated, self-supporting manufacturer of lighting and graphics elements, LSI helps customers present powerful images both day and night.

Our Customers

Both interior and exterior lighting and graphics elements merge together during day and evening marketing hours to provide the customer with an attractive, functional image. Ultimately, customer satisfaction leads to an ongoing relationship and a strong return on investment for our shareholders.

LSI customers require lighting systems that make a visual impact while providing safety, security, energy savings, durability and easy maintenance. LSI lighting fixtures and graphics elements are designed and produced to meet these requirements.



Financial Results

Management's Discussion and Analysis of Financial Condition and Results of Operations

Sales by Business Segment

(In thousands)

	1998	1997	1996
Image Group	$138,886	$101,562	$110,808
Commercial / Industrial Lighting Group	50,253	43,180	41,925
	$189,139	$144,742	$152,733

Results of Operations

1998 Compared to 1997

Net sales of $189,139,000 in 1998 increased 31% over 1997 net sales of $144,742,000. Results of the Image Group in fiscal 1998 include the operations of the Company's new graphics subsidiary, Grady McCauley, which was acquired June 30, 1997. Results of the Commercial / Industrial Lighting Group include the operations of the Company's newest subsidiary, LSI Marcole, which was acquired February 6, 1998. Image Group net sales increased 37% and Commercial / Industrial Lighting Group net sales increased 16% in fiscal 1998 as compared to the prior year primarily as a result of growth in the multi-site retail market. The increase in Image Group sales is attributed to growth in substantially all markets and products, particularly graphics, petroleum lighting, and quick service restaurant, as well as to the inclusion of Grady McCauley in the operating results in fiscal 1998. Net sales of the Image Group to the petroleum / convenience store market represented 49% and 50% of net sales in fiscal 1998 and fiscal 1997, respectively. While sales prices were increased, inflation did not have a significant impact on sales in 1998 as competitive pricing pressures held price increases to a minimum.

Gross profit of $64,480,000 increased 33% over last year's gross profit of $48,542,000, and increased as a percentage of net sales to 34.1% in fiscal year 1998 as compared to 33.5% in the prior year. The increase in amount of gross profit is due primarily to the 31% increase in net sales. The increase in gross profit percentage is primarily related to the Company's graphics operations reporting an improved aggregate gross profit percentage, to changes in lighting product mix to higher margin products, and to improved manufacturing operating efficiencies in the Company's lighting business. Selling and administrative expenses increased to $44,286,000 from $34,833,000 primarily as a result of increased sales volume and the addition of Grady McCauley. As a percentage of net sales, selling and administrative expenses were at 23.4% in fiscal 1998 as compared to 24.1% in the prior year.

The Company reported net interest income of $37,000 in fiscal 1998 as compared to net interest income of $487,000 in fiscal 1997 reflective of the significantly reduced amount of short-term cash investments during the year. Cash which had been invested was used at the end of fiscal 1997 for the acquisition of Grady McCauley. The Company's effective tax rate increased to 37.5% in fiscal 1998 as compared to 37.0% in fiscal 1997 primarily due to an increase in the rate of federal income tax.

Net income of $12,587,000 in fiscal 1998 increased 42% over $8,872,000 in fiscal 1997. The increased net income resulted from increased gross profit on higher net sales, partially offset by increased operating expenses, increased income taxes, and from the reporting of a larger amount of net interest income in fiscal 1997 as compared to fiscal 1998. Diluted earnings per share of $1.29 increased 33% in fiscal 1998 from $.97 per share in fiscal 1997. The weighted average common shares outstanding for purposes of computing diluted earnings per share increased 7% in 1998 to 9,790,000 shares from 9,188,000 shares in 1997 primarily as a result the common shares used in the acquisition of Grady McCauley in June 1997.

Certain recently issued accounting pronouncements will affect the Company's future financial statements and / or disclosures. See Note 1 to these financial statements for additional discussion.

1997 Compared to 1996

Net sales of $144,742,000 for 1997 compared to 1996 net sales of $152,733,000 — a 5% reduction. Image Group net sales decreased 8% while Commercial / Industrial Lighting Group net sales increased 3% during fiscal 1997. The Company recorded strong sales growth in the multi-site retail market which was more than offset by reduced sales in the petroleum / convenience store market and commercial / industrial lighting market. Sales in the Image Group to the petroleum / convenience store market, representing 50% of net sales in fiscal 1997, decreased 12%. The reduction in net sales is primarily related to significant re-imaging and re-lighting programs for customers last year that did not repeat this year, as well as to lower volume of printed graphics sales. The Company has one customer, Chevron U.S.A., who accounted for 12% of net sales (reported in the Image Group) in fiscal 1996. The Company believes that it continues to maintain a good business relationship with this continuing customer; however, the level of total net sales, which for fiscal 1997 was under ten percent of the Company's total net sales, is never assured in the future. While sales prices were increased, inflation did not have a significant impact on sales in fiscal 1997 as competitive pricing pressures held price increases to a minimum.

Gross profit of $48,542,000 was increased slightly over last year's gross profit; however, as a percentage of net sales, fiscal year 1997 performance improved to 33.5% as compared to 31.8% of net sales. With a 5% reduction in net sales between years, the increase in gross profit as a percentage of net sales is primarily due to improved manufacturing operating efficiencies in the Company's lighting business, and to changes in lighting product mix to higher margin products, partially offset by lower utilization of manufacturing capacity in the Image Group's graphics operations. Selling and administrative expenses decreased to $34,833,000 from $35,101,000 primarily as a result of decreased sales volume as well as some non-recurring expenses in 1996, but increased to 24% of net sales in fiscal 1997 from 23% last year.

The Company reported net interest income of $487,000 in fiscal 1997 as compared to net interest expense of $344,000 in fiscal 1996. The change reflects the Company's use of the net proceeds from the February 1996 Public Offering of Common Shares. Substantially all outstanding debt in February 1996 was retired with a portion of the net proceeds. Remaining proceeds from the Public Offering were invested during the year in high grade, short-term cash investments. Cash which had been invested was used at the end of fiscal 1997 for an acquisition of a business (see also LIQUIDITY AND CAPITAL RESOURCES). The Company's effective tax rate increased to 37.0% from 36.4% the prior year.

Income from continuing operations of $8,872,000 increased 7% over $8,270,000 in fiscal 1996. The increased income resulted from an increased gross profit percentage on lower net sales, decreased operating expenses, and from the reporting of net interest income rather than net interest expense, partially offset by an increased income tax provision. Diluted earnings per share from continuing operations in fiscal 1997 of $.97 compares to $.98 per share in fiscal 1996. The weighted average common shares outstanding increased 9% in 1997 to 9,188,000 shares from 8,456,000 shares in 1996 primarily as a result of the effect of the 1.2 million common shares issued in the Company's February 1996 Public Offering. Net income of $8,872,000, or $.97 per share, compares to fiscal 1996 net income of $6,770,000, or $.80 per share. The increase resulted from increased income from continuing operations in fiscal 1997 and the $1.5 million charge to Discontinued Operations taken in fiscal 1996 (as more fully described in Note 10 to the financial statements) with no similar charge in 1997.

Liquidity and Capital Resources

At June 30, 1998 the Company had working capital of $40.2 million, compared to $30.2 million at June 30, 1997. The ratio of current assets to current liabilities increased to 2.37 to 1 from 2.22 to 1. The increased working capital is primarily attributed to increased accounts receivable, cash, and inventories, partially offset by increased accrued expenses and accounts payable.

The Company generated $14.3 million of cash from operating activities in fiscal 1998 as compared to $11.9 million fiscal 1997. The Company generated more cash in fiscal 1998 primarily due to increased net income, and increased depreciation and amortization expenses. Additionally, significant increases in accounts receivable and inventories in fiscal 1998 compared to lesser increases in fiscal

1997, and significantly larger fiscal 1998 decreases in accounts payable and accrued expenses contributed to the change between years in net cash flows from operating activities. As of June 30, 1998, the Company's days sales outstanding were at approximately 55 days as compared to 58 days at June 30, 1997. Inventories increased $1.6 million with increases primarily in the Company's graphics operations in addition to all lighting operations.

In addition to cash generated from operations, the Company's primary source of liquidity continues to be its lines of credit. The Company has two revolving lines of credit totaling $24 million, all of which was available as of August 26, 1998. These lines of credit are unsecured and expire in fiscal 1999. The Company believes that the total of available lines of credit plus cash flows from operating activities is adequate for the Company's fiscal 1999 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants. Excluding the acquisitions of Marcole and Grady McCauley in their respective years, capital expenditures of $4.1 million in fiscal 1998 compare to $2.6 million in the prior year. Spending in fiscal year 1998 is primarily related to tooling for new products and to expansion of certain of the Company's graphics operations. Capital expenditures totaling approximately $7 million are planned for fiscal 1999.

On August 19, 1998, the Board of Directors declared a cash dividend of $0.125 per share, (approximately $1,211,000), comprised of a $0.0625 regular quarterly dividend and a $0.0625 special year-end dividend, to be paid September 15, 1998 to shareholders of record on September 8, 1998. During fiscal 1998, the Company paid cash dividends each quarter.

The Company has completed a review of its business systems, office support systems, and its facilities and equipment with respect to year 2000 programming deficiencies. The review has extended to major suppliers and customers, and this element of the review is expected to be completed by June 30, 1999. The Company does not anticipate material costs to be incurred to modify or replace any affected systems. The Company anticipates completion of this process prior to June 30, 1999.

The Company acquired the outstanding common stock of Marcole Industries, Inc. on February 6, 1998 as well as the building and real estate in Manchester, Tennessee from which Marcole will continue to operate. Total purchase price was approximately $912,000, which includes 12,000 common shares (valued at approximately $200,000) of LSI Industries. For financial statement purposes the acquisition was accounted for as a purchase, effective on the date of acquisition. The new subsidiary, LSI Marcole Inc., is a manufacturer of electrical wire harnesses for the appliance and white goods industry. The purchase price exceeded the estimated fair value of net assets acquired by $210,000, which is being amortized over forty years. The allocation was based on preliminary estimates and may be revised at a later date pending the completion of certain analysis.

On June 30, 1997, the Company acquired substantially all assets and assumed certain liabilities of Grady McCauley, Incorporated, a privately owned manufacturer of custom interior graphics primarily for the retail market. For financial statement purposes the acquisition was accounted for as a purchase with operating results of Grady McCauley first included in the Company's fiscal 1998 financial statements. The purchase price was 475,700 common shares of the Company (valued at $6,000,000) plus $15.2 million in cash, exclusive of acquisition costs. The purchase price exceeded the estimated fair value of net assets acquired by $11.8 million, which is recorded as goodwill and is being amortized over forty years.

The Company continues to seek opportunities to invest in new products and markets, and in acquisitions which fit its strategic growth plans in the lighting and graphics markets. The Company believes that adequate financing for any such investments or acquisitions will be available through future borrowings or through the issuance of common or preferred shares in payment for acquired businesses.

LSI Industries Inc.
Consolidated Income Statements

(In thousands, except per share)

For the years ended June 30, 1998, 1997, and 1996

	1998	1997	1996
Net sales	$189,139	$144,742	$152,733
Cost of products sold	124,659	96,200	104,221
Gross profit	64,480	48,542	48,512
Selling and administrative expenses	44,286	34,833	35,101
Operating income	20,194	13,709	13,411
Interest (income)	(143)	(528)	(154)
Interest expense	106	41	498
Other expense	108	114	62
Income from continuing operations before income taxes	20,123	14,082	13,005
Income tax expense	7,536	5,210	4,735
Income from continuing operations	12,587	8,872	8,270
Discontinued operations	--	--	(1,500)
Net income	$ 12,587	$ 8,872	$ 6,770
Earnings per common share			
Basic earnings per share from continuing operations	$ 1.32	$ .99	$ 1.02
Basic earnings per share	$ 1.32	$ .99	$ .84
Diluted earnings per share from continuing operations	$ 1.29	$ .97	$ .98
Diluted earnings per share	$ 1.29	$ .97	$ .80

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

LSI Industries Inc.
Consolidated Balance Sheets

(In thousands)

June 30, 1998 and 1997

	1998	1997
ASSETS		
Current Assets		
Cash and cash equivalents	$ 9,338	$ 2,612
Accounts receivable, less allowance for doubtful accounts of $560 and $401, respectively	33,184	27,412
Inventories	24,958	23,058
Refundable income taxes	157	157
Other current assets	1,911	1,613
Total current assets	69,548	54,852
Property, Plant and Equipment, at cost		
Land	3,459	3,348
Buildings	15,458	14,433
Machinery and equipment	25,874	22,893
	44,791	40,674
Less accumulated depreciation	(17,056)	(13,529)
Net property, plant and equipment	27,735	27,145
Goodwill, net	12,921	13,047
Other Assets	112	145
	$110,316	$95,189

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

	1998	1997
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	$ 190	$ 187
Accounts payable	13,689	12,337
Accrued expenses	15,432	12,136
Total current liabilities	29,311	24,660
Long-Term Debt	1,005	1,195
Other Long-Term Liabilities	112	68
Deferred Income Taxes	1,231	1,298
Shareholders' Equity		
Preferred shares, without par value; Authorized 1,000,000 shares, none issued	--	--
Common shares, without par value; Authorized 30,000,000 shares; Outstanding 9,634,608 and 9,499,231 shares, respectively (see Note 7)	35,368	34,516
Retained earnings	43,289	33,452
Total shareholders' equity	78,657	67,968
	$110,316	$95,189

LSI Industries Inc.
Consolidated Statements of Shareholders' Equity

(In thousands)

For the years ended June 30, 1998, 1997, and 1996

	Common Shares			
	Number of Shares	Amount	Retained Earnings	Total
Balance at June 30, 1995	7,554	$ 7,915	$21,538	$29,453
Net income	--	--	6,770	6,770
Public offering of shares	1,233	19,581	--	19,581
Stock options exercised	177	586	--	586
Dividends - $.21 per share	--	--	(1,653)	(1,653)
Balance at June 30, 1996	8,964	28,082	26,655	54,737
Net income	--	--	8,872	8,872
Purchase of treasury shares	(21)	(233)	--	(233)
Deferred stock compensation	--	346	--	346
Stock options exercised	80	321	--	321
Common shares issued for acquisition	476	6,000	--	6,000
Dividends - $.23 per share	--	--	(2,075)	(2,075)
Balance at June 30, 1997	9,499	34,516	33,452	67,968
Net income	--	--	12,587	12,587
Purchase of treasury shares	(12)	(233)	--	(233)
Deferred stock compensation	--	209	--	209
Stock options exercised	136	676	--	676
Common shares issued for acquisition	12	200	--	200
Dividends - $.29 per share	--	--	(2,750)	(2,750)
Balance at June 30, 1998	9,635	$35,368	$43,289	$78,657

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

LSI Industries Inc.
Consolidated Statements of Cash Flows

(In thousands)

For the years ended June 30, 1998, 1997 and 1996

	1998	1997	1996
Cash Flows From Operating Activities			
Net income	$12,587	$ 8,872	$ 6,770
Non-cash items included in income			
Depreciation and amortization	4,375	2,975	2,456
Deferred income taxes	(401)	(74)	(129)
Deferred compensation plan	209	346	--
Loss on disposition of fixed assets	108	75	23
Change in			
Accounts receivable	(5,326)	(73)	(5,552)
Inventories	(1,569)	(564)	(1,076)
Refundable income taxes	--	188	93
Accounts payable	1,086	92	214
Accrued expenses and other	3,235	44	(2,069)
Change in liability for discontinued operations	(21)	(17)	(324)
Net cash flows from operating activities	14,283	11,864	406
Cash Flows From Investing Activities			
Purchase of property, plant, and equipment	(4,120)	(2,587)	(3,392)
Proceeds from sale of fixed assets	30	3	23
Acquisition of businesses, net of cash received	(712)	(15,639)	--
Net cash flows from investing activities	(4,802)	(18,223)	(3,369)
Cash Flows From Financing Activities			
Payment of long-term debt	(448)	(180)	(6,537)
Cash dividends paid	(2,750)	(2,075)	(1,653)
Exercise of stock options	676	321	586
Purchase of treasury shares	(233)	(233)	--
Proceeds from public offering of shares	--	--	19,581
Net cash flows from financing activities	(2,755)	(2,167)	11,977
Increase (decrease) in cash and cash equivalents	6,726	(8,526)	9,014
Cash and cash equivalents at beginning of year	2,612	11,138	2,124
Cash and cash equivalents at end of year	$ 9,338	$ 2,612	$11,138

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation:

The consolidated financial statements include the accounts of LSI Industries Inc. and its subsidiaries, all of which are wholly owned. All significant intercompany transactions have been eliminated.

Reclassification:

Certain reclassifications have been made to prior year amounts in order to be consistent with the presentation for the current year.

Use of estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

Revenue recognition:

Revenue is recognized when the customer accepts title and the resultant risks and rewards of ownership. Generally this occurs upon shipment of goods or shortly thereafter. Amounts received from customers prior to the recognition of revenue are accounted for as customer pre-payments under accrued expenses.

Cash and cash equivalents:

The cash balance includes cash and cash equivalents which have original maturities of less than three months.

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	31 - 40 years
Machinery and equipment	3 - 10 years

Goodwill:

The excess of cost over fair value of assets acquired ("goodwill") is amortized over a forty year period. As of June 30, 1998 and 1997, accumulated amortization of goodwill was $662,000 and $326,000, respectively. The Company periodically evaluates goodwill and other long-lived assets for permanent impairment based upon anticipated cash flows. To date no impairments have been recorded, nor are any anticipated.

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 variable, market-driven interest rates. The Company has no financial instruments with off-balance sheet risk.

Employee benefit plans:

The Company has a defined contribution retirement plan and a discretionary profit sharing plan covering substantially all of its employees, and a non-qualified deferred compensation plan covering certain employees. The costs of employee benefit plans are charged to expense and funded annually. Total costs were $1,641,000 in 1998, $1,399,000 in 1997, and $1,378,000 in 1996.

Income taxes:

Deferred income taxes are provided on items reported in income in different periods for financial reporting and tax purposes.

Net income per common share:

The computation of net income per common share is based on the weighted average common shares outstanding for the period, including Common Share equivalents. Common share equivalents include the dilutive effect of stock options and common shares to be issued under a deferred compensation plan of 231,000 shares in 1998, 184,000 shares in 1997, and 360,000 shares in 1996. See also Notes 4 and 7.

Recent pronouncements:

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 (SFAS No. 128), “Earnings Per Share,’’ which requires the presentation of basic and diluted earnings per share on the face of the income statement for all entities with complex capital structures and requires a reconciliation of both the numerator and denominator of the basic and dilutive earnings per share computations. SFAS No. 128 is effective for financial statements for both interim and annual periods ending after December 15, 1997. The Company adopted this standard in the second quarter of fiscal year 1998 with no material impact on earnings per share. All prior period earnings per share have been restated for the new disclosure.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 (SFAS No. 130), “Reporting Comprehensive Income,’’ which establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. SFAS No. 130 is effective for financial statements for annual periods beginning after December 15, 1997 (fiscal 1999 for the Company). The Company does not expect adoption to have a significant impact on its financial statements.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (SFAS No. 133), “Accounting for Derivative Instruments and for Hedging Activities,’’ which establishes standards for reporting and disclosure of derivative and hedging instruments. SFAS No. 133 is effective as of the beginning of fiscal years ending after June 15, 1999. The Company will not be affected by this new standard because the Company has no derivative or hedging financial instruments.

NOTE 2 - DISCONTINUED OPERATIONS

In 1992 the Company sold the assets and operations of its U.K. subsidiary, Duramark, to its management and reported a loss from Discontinued Operations. Consideration received included cash and assumption of liabilities by management. The remaining liabilities which were not assumed by the management buy-out group of the discontinued operations, net of related taxes, are included in accrued expenses in the amounts of $562,000 and $575,000 as of June 30, 1998 and 1997, respectively.

NOTE 3 - BUSINESS SEGMENT INFORMATION

LSI operates in two business segments - the Image Group and the Commercial / Industrial Lighting Group. The Image Group manufactures and sells exterior and interior visual image elements (lighting, graphics, and menu board systems) for the petroleum / convenience store market and for multi-site retail operations. The Image Group includes the operations of LSI Petroleum Lighting, LSI Automotive, LSI Images, LSI Metal Fabrication, SGI Integrated Graphic Systems, and Grady McCauley. The Commercial / Industrial Lighting Group manufactures and sells primarily outdoor, indoor, and landscape lighting for the commercial / industrial and multi-site retail markets. The Commercial / Industrial Lighting Group includes the operations of LSI Lighting Systems, Courtsider Lighting, Greenlee Lighting, and LSI Marcole. The Company’s most significant market the petroleum / convenience store market with approximately 50% of net sales concentrated in this market.

The following information is provided for the following periods:

(In thousands)	1998	1997	1996
Net sales:			
Image Group	$138,886	$101,562	$110,808
Commercial / Industrial Lighting Group	50,253	43,180	41,925
	$189,139	$144,742	$152,733
Operating income:			
Image Group	$ 15,056	$ 9,055	$ 10,903
Commercial / Industrial Lighting Group	5,138	4,654	2,508
	$ 20,194	$ 13,709	$ 13,411
Identifiable assets:			
Image Group	$ 79,555	$ 74,284	$ 48,449
Commercial / Industrial Lighting Group	20,730	17,734	19,223
	100,285	92,018	67,672
Corporate	10,031	3,171	11,824
	$110,316	$ 95,189	$ 79,496
Capital expenditures:			
Image Group	$ 3,029	$ 1,902	$ 2,085
Commercial / Industrial Lighting Group	1,091	685	1,307
	$ 4,120	$ 2,587	$ 3,392
Depreciation and amortization:			
Image Group	$ 3,410	$ 2,085	$ 1,695
Commercial / Industrial Lighting Group	965	890	761
	$ 4,375	$ 2,975	$ 2,456

Operating income of the business segments includes sales less all operating expenses including allocations of corporate expense, but excluding interest expense. Sales between business segments are immaterial.

Identifiable assets are those assets used by each segment in its operations, including allocations of shared assets. Corporate assets consist primarily of cash and cash equivalents, and refundable income taxes.

NOTE 4 - EARNINGS PER COMMON SHARE

The following table presents the amounts used to compute earnings per common share and the effect of dilutive potential common shares on net income and weighted average shares outstanding:

(In thousands, except per share)	1998	1997	1996
BASIC EARNINGS PER SHARE			
Income from continuing operations	$12,587	$8,872	$8,270
Net income	$12,587	$8,872	$6,770
Weighted average shares outstanding during the period, net of treasury shares	9,559	9,004	8,096
Basic earnings per share from continuing operations	$ 1.32	$ .99	$ 1.02
Basic earnings per share	$ 1.32	$ .99	$ .84
DILUTED EARNINGS PER SHARE			
Income from continuing operations	$12,587	$8,872	$8,270
Net income	$12,587	$8,872	$ 6,770
Weighted average shares outstanding during the period, net of treasury shares	9,559	9,004	8,096
Effect of dilutive securities:			
Impact of common shares to be issued under stock option plans and a deferred compensation plan	231	184	360
Weighted average shares outstanding (A) (B)	9,790	9,188	8,456

Diluted earnings per share from continuing operations	$ 1.29	$ .97	$ .98
Diluted earnings per share	$ 1.29	$ .97	$ .80

(A) 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.

(B) Options to purchase 4,390 common shares, 15,385 common shares, and 5,862 common shares at June 30, 1998, 1997, and 1996, respectively, were not included in the computation of diluted earnings per share because the exercise price was greater than the average fair market value of the common shares.

NOTE 5 - BALANCE SHEET DATA

The following information is provided as of June 30:

(In thousands)	1998	1997
Inventories:		
Raw materials	$12,192	$10,272
Work-in-process and finished goods	12,766	12,786
	$24,958	$23,058
Accrued Expenses:		
Compensation and benefits	$ 6,405	$ 3,797
Customer prepayments	$ 3,945	$ 5,098

NOTE 6 - REVOLVING LINES OF CREDIT AND LONG-TERM DEBT

The Company has lines of credit with its banks in the aggregate amount of $24 million, all of which was available at June 30, 1998. These revolving lines of credit are unsecured and expire in fiscal year 1999. Interest on the revolving lines of credit is charged based upon an increment over the LIBOR rate as periodically determined, or at the banks' base lending rate less 1.25 percentage points, at the Company's option. The increment over the LIBOR borrowing rate, as periodically determined, with one of the Company's credit lines is 100 basis points, and with the second credit line fluctuates between 85 and 150 basis points depending upon the ratio of indebtedness to tangible net worth. As of June 30, 1998 the borrowing rate on this line of credit would be 85 basis points over the LIBOR rate. Under terms of these agreements, the Company has agreed to maintain minimum levels of profitability and net worth, and is subject to certain maximum levels of leverage.

The Company has an Industrial Revenue Development Bond (IRB) borrowing in the amount of $1,070,000 associated with its facility in Northern Kentucky. The term of this IRB is 15 years with semi-annual interest payments and annual principal payments for retirement of bond principal in increasing amounts over the term of the bonds. The IRB interest rate, which is reestablished semi-annually, is currently 4.45%, plus a .75% letter of credit fee. The IRB is secured by the Company's Kentucky real estate, which has a net carrying value of $1.4 million.

The Company has equipment loans outstanding totaling $125,000 with two governmental agencies in Kentucky. The loans are for terms of five years at a weighted average interest rate of 2.2% and are secured by the Company's Kentucky equipment which has a net carrying value of $1.3 million. The Company makes quarterly principal and interest payments of $32,000 through June 1999 and has committed to specified job growth in its Kentucky facility.

(In thousands)	1998	1997
Long-term debt:		
Industrial Revenue Development Bond at 5.2%	$1,070	$1,135
Equipment loans (average rate of 2.2%)	125	247
	1,195	1,382
Less current maturities	190	187
	$1,005	$1,195

Future maturities of long-term debt at June 30, 1998 are as follows (in thousands):

1999	2000	2001	2002	2003	2004 and after
$190	$70	$75	$80	$80	$700

NOTE 7 - SHAREHOLDERS' EQUITY

The Company generated $19.6 million in net proceeds from a public offering of 1,232,894 common shares in February 1996. The Company used a portion of the net proceeds to repay all outstanding indebtedness under its revolving lines of credit and its term loan facility with its banks.

The Company has stock option plans which cover all of its full-time employees and has a plan covering all non-employee directors. The options granted pursuant to these plans are granted at fair market value at date of grant. Options granted to non-employee directors are immediately exercisable and options granted to employees generally become exercisable 25% per year (cumulative) beginning one year after the date of grant. The number of shares reserved for issuance is 890,126, of which 389,750 shares were available for future grant as of June 30, 1998. The plans allow for the grant of both incentive stock options and non-qualified stock options. At June 30, 1998, there were 127,837 options exercisable at an average price of $9.40 per share.

On June 30, 1997 the Company issued 475,700 common shares at a stated value of $6,000,000 as a portion of the purchase price of an acquired business, and on February 6, 1998 the Company issued 12,000 common shares at a stated value of $200,000 as a portion of the purchase price of an acquired business (see further discussion in Note 12).

Statement of Financial Accounting Standards No. 123 (SFAS No. 123) requires, at a minimum, pro forma disclosures of expense for stock-based awards based on their fair values. The fair value of each option on the date of grant has been estimated using the Black-Scholes option pricing model. The following weighted average assumptions were used for grants in fiscal 1998, 1997, and 1996.

	1998	1997	1996
Dividend yield	2%	2%	2%
Expected volatility	49%	43%	38%
Risk-free interest rate	5.56%-6.54%	6.17%-6.28%	5.91%-6.64%
Expected life	4-8 yrs.	4-8 yrs.	4-8 yrs.

At June 30, 1998, the 154,400 options granted during fiscal 1998 to employees and non-employee directors have exercise prices ranging from $14.00 to $19.00, fair values ranging from $6.16 to $9.44 per option, and remaining contractual lives of four to nine years. The 6,900 options granted during fiscal 1997 to employees and non-employee directors had, as of June 30, 1997, exercise prices ranging from $11.25 to $13.66, fair values ranging from $4.91 to $5.26, and remaining contractual lives of four to nine years.

If the Company had adopted the expense recognition provisions of SFAS No. 123, net income and earnings per share for the years ended June 30, 1998, 1997, and 1996 would have been as follows:

	1998	1997	1996
(In thousands except earnings per share)			
Net income			
As reported	$12,587	$8,872	$6,770
Pro forma	$12,225	$8,646	$6,539
Ear nings per share			
Basic			
Continuing operations			
As reported	$ 1.32	$ .99	$ 1.02
Pro forma	$ 1.28	$ .96	$ .99
Basic			
As reported	$ 1.32	$ .99	$ .84
Pro forma	$ 1.28	$ .96	$ .81
Diluted			
Continuing operations			
As reported	$ 1.29	$ .97	$ .98
Pro forma	$ 1.26	$ .95	$ .96
Diluted			
As reported	$ 1.29	$ .97	$ .80
Pro forma	$ 1.26	$ .95	$ .78

Since SFAS No. 123 has not been applied to options granted prior to December 15, 1994, the resulting compensation cost shown above may not be representative of that expected in future years.

Transactions involving the stock option plans for the years ended June 30, 1998, 1997 and 1996 are shown in the table below:

	1998	
(Shares in thousands)	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	518	$ 9.89
Granted	154	15.31
Terminated	(17)	13.86
Exercised	(155)	5.79
Outstanding at end of year	500	$12.70

	1997	
(Shares in thousands)	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	619	$ 9.04
Granted	7	11.68
Terminated	(21)	12.95
Exercised	(87)	3.23
Outstanding at end of year	518	$ 9.89

	1996	
(Shares in thousands)	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	492	$ 4.13
Granted	342	13.14
Terminated	(22)	12.10
Exercised	(193)	3.43
Outstanding at end of year	619	$ 9.04

The Company implemented a non-qualified Deferred Compensation Plan in fiscal 1997 and a certain portion of the Plan's investments are in common shares of the Company. A total of 33,723 and 21,045 common shares were held in the Plan as of June 30, 1998 and 1997, respectively, and, accordingly, have been recorded as treasury shares.

On August 19, 1998, the Board of Directors declared a cash dividend of $0.125 per share, comprised of a $0.0625 regular quarterly dividend and a $0.0625 special year-end dividend, to be paid September 15, 1998 to shareholders of record on September 8, 1998. Annual cash dividend payments made during fiscal years 1998, 1997, and 1996 were $.29, $.23, and $.21 per share, respectively.

NOTE 8 - SALES TO MAJOR CUSTOMERS

The Company made sales in the Image Group to a major customer which exceeded 10% of consolidated net sales. Sales to Chevron U.S.A. represented 12% of consolidated net sales in 1996.

NOTE 9 - LEASES

The Company leases certain of its facilities and equipment under operating lease arrangements. Rental expense was $1,094,000 in 1998, $920,000 in 1997, and $656,000 in 1996. Minimum annual rental commitments under non-cancelable operating leases are: $994,000 in 1999, $973,000 in 2000, $895,000 in 2001, and $197,000 in 2002.

NOTE 10 - INCOME TAXES

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

	1998	1997	1996
(In thousands)			
Provision (benefit) for income taxes:			
Current federal	$7,143	$4,705	$4,290
Current state and local	794	579	574
Deferred	(401)	(74)	(129)
	$7,536	$5,210	$4,735
Reconciliation to federal statutory rate:			
Federal statutory tax rate	35.0%	34.3%	34.2%
State and local taxes	2.6	2.7	2.9
Goodwill and other	(.1)	--	(.7)
Effective tax rate	37.5%	37.0%	36.4%

The components of deferred income tax assets and liabilities at June 30, 1998 and 1997 are as follows:

	1998	1997
(In thousands)		
Current assets (liabilities):		
Reserves against current assets	$ 515	$ 267
Prepaid expenses	(256)	(101)
Accrued expenses	842	593
Deferred income tax asset included in Other Current Assets on the Consolidated Balance Sheets	$1,101	$ 759
Noncurrent (assets) liabilities:		
Depreciation	$1,573	$1,595
Goodwill and acquisition costs	(144)	(154)
Deferred compensation	(198)	(143)
	$1,231	$1,298

The Company discontinued its European operations in 1992 and reported a $4.3 million loss, net of a $3.2 million income tax benefit. The Internal Revenue Service (IRS) completed its audit of the Company's 1989 through 1992 federal income tax returns and proposed audit adjustments which would have resulted in a return of approximately $2 million of income taxes (plus interest) to the IRS which had been refunded to the Company with the filing of its 1992 income tax return. The IRS questioned the tax treatment of the loss associated with the discontinued operations, specifically as to whether it should receive ordinary loss or capital loss treatment.

The Company's settlement discussions with the IRS Appeals Division relating to the proposed audit assessment were concluded in December 1995. An agreement was reached that re-characterized a portion of the 1992 loss associated with discontinued European operations as a long-term capital loss. The agreement resulted in payment of $1.7 million (composed of taxes and interest), and in a fiscal 1996 charge to discontinued operations of $1.5 million to increase the Company's reserve for remaining liabilities associated with the discontinued operations.

NOTE 11 - SUPPLEMENTAL CASH FLOW INFORMATION

	1998	1997	1996
(In thousands)			
Cash payments:			
Interest	$ 126	$ 109	$ 924
Income taxes	$7,184	$ 4,786	$5,588
Non-cash investing and financing activities:			
Common shares issued for acquisitions	$ 200	$ 6,000	$ --
Details of acquisitions:			
Working capital, less cash	$ 59	$ 2,377	$ --
Property, plant & equipment	647	7,245	--
Other assets, net	(4)	232	--
Excess of purchase price paid over estimated net assets of acquired businesses	210	11,785	--
	912	21,639	--
less fair value of common shares issued	(200)	(6,000)	--
Cash paid for acquisitions	$ 712	$15,639	$ --

NOTE 12 - ACQUISITIONS

On June 30, 1997, the Company acquired substantially all assets and assumed certain liabilities of Grady McCauley, Incorporated, a privately owned manufacturer of custom interior graphics primarily for the retail market. For financial statement purposes the acquisition was accounted for as a purchase with operating results of Grady McCauley first included in the Company's fiscal 1998 financial statements. The purchase price was 475,700 common shares of the Company (valued at $6,000,000) plus $15.2 million in cash, exclusive of acquisition costs. The purchase price exceeded the estimated fair value of net assets acquired by $11.8 million, which is recorded as goodwill and is being amortized over forty years. On February 6, 1998, the Company acquired the outstanding common shares of Marcole, Inc., a privately owned manufacturer of electrical wiring harnesses primarily for the appliance industry. For financial statement purposes the acquisition was accounted for as a purchase with operating results of Marcole first included in the Company's fiscal 1998 third quarter financial statements. The purchase price was 12,000 common shares of the Company (valued at $200,000) plus $712,000 in cash. The purchase price exceeded the estimated fair value of net assets acquired by $210,000, which is recorded as goodwill and is being amortized over forty years. The allocation was based on preliminary estimates and may be revised at a later date pending the completion of certain appraisals and other analysis.

The following unaudited pro forma consolidated results give effect to the above acquisition of Grady McCauley, Incorporated as though it had been acquired at the beginning of each period presented. Neither the acquisition price of Marcole nor its operating results are material to LSI Industries and therefore Marcole is not included in the pro forma results presented below. The pro forma information has been presented for comparative purposes only and does not purport to be indicative of the results of operations which actually would have resulted had the acquisition been made at the beginning of the earliest period presented, or of results which may occur in the future.

(In thousands except earnings per share; unaudited)	1997	1996
Net sales	$159,082	$167,034
Income from continuing operations	$ 8,901	$ 8,577
Net income	$ 8,901	$ 7,077
Earnings per share		
Basic		
Continuing operations	$ .94	$ 1.00
Total	$ .94	$ .83
Diluted		
Continuing operations	$ .92	$ .96
Total	$ .92	$ .79

NOTE 13 - SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

	Quarter Ended				Fiscal
	Sept. 30	Dec. 31	March 31	June 30	Year
1998					
Net sales	$43,957	$47,754	$43,386	$54,042	$189,139
Gross profit	15,519	17,120	13,717	18,124	64,480
Net income	2,975	3,680	1,917	4,015	12,587
Earnings per share					
Basic	$ .31	$ .39	$ .20	$ .42	$ 1.32
Diluted	$ .31	$ .38	$ .20	$ .41	$ 1.29(a)
Range of share prices					
High	$ 17.38	$ 19.38	$ 22.75	$ 24.00	$ 24.00
Low	$ 13.50	$ 15.75	$ 16.75	$ 18.38	$ 13.50
1997					
Net sales	$36,885	$37,539	$30,836	$39,482	$144,742
Gross profit	12,140	13,258	10,013	13,131	48,542
Net income	2,136	2,718	1,269	2,749	8,872
Earnings per share					
Basic	$ .24	$ .30	$ .14	$ .30	$ .99(a)
Diluted	$ .23	$ .30	$ .14	$ .30	$ .97
Range of share prices					
High	$ 18.00	$ 16.75	$ 14.50	$ 15.25	$ 18.00
Low	$ 13.50	$ 9.50	$ 12.00	$ 10.50	$ 9.50

(a) The total of the earnings per share for each of the four quarters does not equal the total earnings per share for the full year because the calculations are based on the average shares outstanding during each of the individual periods.

At August 21, 1998, there were 410 shareholders of record. The Company believes this represents approximately 2,800 beneficial shareholders.

NOTE 14 - SUBSEQUENT EVENT

In August 1998, the Company entered into a letter of intent to acquire, through merger, all of the capital stock of Mid-West Chandelier Company and Fairfax Lighting Co. both privately owned and located in Kansas City. The purchase price for the two related companies is expected to be $16 million consisting of $8 million in cash and $8 million in common shares of LSI Industries. In addition, a contingent “earn-out” having a maximum value of $1 million in cash and $1 million in stock could be earned during the three years subsequent to the closing of the contemplated merger provided certain minimum earnings thresholds are exceeded. The merger is expected to be completed in the third quarter of fiscal 1999, and is subject to, among other things, completion of pre-acquisition due diligence, execution of a definitive merger agreement, and completion of the required Hart-Scott-Rodino Act filing. Mid-West Chandelier and Fairfax Lighting are engaged in the business of designing, manufacturing, and selling a broad line of fluorescent lighting fixtures for the retail and commercial markets. Net sales for the two companies for the year ended December 31, 1997, were approximately $19,000,000.

Report of Independent Public Accountants

To the Board of Directors of LSI Industries Inc.:

We have audited the accompanying consolidated balance sheets of LSI Industries Inc. (an Ohio corporation) and subsidiaries as of June 30, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended June 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LSI Industries Inc. and subsidiaries as of June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Arthur Andersen LLP

Cincinnati, Ohio
August 14, 1998

Report of Management

The Management of LSI Industries Inc. is responsible for the preparation and accuracy of the financial statements and other information included in this report. The financial statements have been prepared in accordance with generally accepted accounting principles using, where appropriate, management's best estimates and judgment.

In meeting its responsibility for the reliability of the financial statements, the Company depends upon its system of internal accounting controls. The system is designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded. The system is supported by policies and guidelines, and by careful selection and training of financial management personnel.

The Company's independent public accountants, Arthur Andersen LLP, are retained to audit the LSI Industries Inc. consolidated financial statements. Their audit is conducted in accordance with generally accepted auditing standards and provides an independent assessment of the presentation of the Company's financial statements.

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

Robert J. Ready

Robert J. Ready
President and Chief Executive Officer

Ronald S. Stowell

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

LSI Industries Inc.
Selected Financial Data

The following data has been selected from the Consolidated Financial Statements of the Company for the periods and dates indicated:

Income Statement Data:

	1998	1997	1996	1995	1994
Net sales	$189,139	$144,742	$152,733	$119,927	$ 93,535
Cost of products sold	124,659	96,200	104,221	80,156	62,430
Operating expenses	44,286	34,833	35,101	29,509	23,965
Operating income	20,194	13,709	13,411	10,262	7,140
Interest (income)	(143)	(528)	(154)	(39)	(25)
Interest expense	106	41	498	498	224
Other (income) expense	108	114	62	160	290
Income from continuing operations before income taxes	20,123	14,082	13,005	9,643	6,651
Income taxes	7,536	5,210	4,735	3,469	2,461
Income from continuing operations	$ 12,587	$ 8,872	$ 8,270	$ 6,174	$ 4,190
Net income	$ 12,587	$ 8,872	$ 6,770	$ 6,174	$ 4,190
Earnings per share from continuing operations					
Basic	$ 1.32	$ .99	$ 1.02	$ .82	$ .56
Diluted	$ 1.29	$ .97	$ .98	$ .79	$ .55
Cash dividends paid	$ .29	$ .23	$ .21	$ .15	$ .03
Weighted average common shares					
Basic	9,559	9,004	8,096	7,515	7,420
Diluted	9,790	9,188	8,456	7,802	7,656

Balance Sheet Data:

(At June 30)	1998	1997	1996	1995	1994
Working capital	$ 40,237	$ 30,192	$ 36,146	$ 17,788	$ 11,223
Total assets	110,316	95,189	79,496	62,553	46,287
Long-term debt, including current maturities	1,195	1,382	1,562	8,099	3,600
Shareholders' equity	78,657	67,968	54,737	29,453	23,981

LSI Industries Inc.
Corporate Information

Board of Directors

Robert J. Ready
Chairman of the Board, President and Chief Executive Officer
Chairman of Executive Committee

James P. Sferra
Secretary - LSI Industries Inc.
Executive Vice President - Manufacturing
Member of Executive Committee

Michael J. Burke
Managing Partner - Keating, Muething & Klekamp, P.L.L., Cincinnati, Ohio
Chairman of Compensation Committee
Member of Audit Committee

Allen L. Davis
Retired President & Chief Executive Officer - Provident Financial Group, Inc. & The Provident Bank, Cincinnati, Ohio
Chairman of Audit Committee
Member of Compensation Committee

John N. Taylor, Jr.
Chairman - Kurz-Kasch, Inc., Dayton, Ohio
Member of Audit Committee
Member of Compensation Committee

Corporate Officers

Robert J. Ready
Chairman, President and Chief Executive Officer

Michael J. Burke
Assistant Secretary

James P. Sferra
Secretary
Executive Vice President - Manufacturing

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

Independent Public Accountants

Arthur Andersen LLP
Cincinnati, Ohio

Legal Counsel

Keating, Muething & Klekamp, P.L.L.
Cincinnati, Ohio

Scottsdale and Challenger are trademarks of LSI Industries Inc.

Transfer Agent and Registrar

The Provident Bank
One East Fourth Street
Cincinnati, Ohio 45202

Annual Meeting

The annual shareholders' meeting of LSI Industries Inc. will be held Thursday, November 12, 1998 at 10:00 a.m. at the Company's corporate offices located at 10000 Alliance Road, Cincinnati, Ohio.

Dividend Reinvestment Plan

The LSI Industries Automatic Dividend Reinvestment and Stock Purchase Plan offers registered shareholders and employees an opportunity to purchase additional shares through automatic dividend reinvestment and/or optional cash investments. For additional information, contact:

Provident Bank
Corporate Trust Operations
309 Vine Street, 669D
Cincinnati, Ohio 45202
(513) 763-8113 or (800) 262-9801 ext. 18113
E-mail: corporatetrust@provident-bank.com

Form 10-K

Shareholders may obtain the 1998 Annual Report on Form 10-K as filed with the Securities and Exchange Commission without charge by writing to:

Investor Relations Manager
LSI Industries Inc.
10000 Alliance Road
Cincinnati, Ohio 45242

Stock Exchange Listing

LSI Industries Inc. Common Shares are traded on The Nasdaq Stock Market under the symbol LYTS.

Internet Site

The LSI Industries site on the Internet, ***www.lsi-industries.com,*** contains the Company's 10-K and 10-Q filings, proxy statements, annual reports, news releases, stock prices, and a variety of other information about LSI Industries and its products.

INDUSTRIES™

LSI Industries Inc.
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Cincinnati, Ohio 45242
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www.lsi-industries.com