

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

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

commercial / industrial market.

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that involve substantial risks and uncertainties that could cause actual results to differ materially from those expected. These include, but are not limited to, the impact of competitive products, product demand and market acceptance risks, reliance on key customers, unexpected difficulties in integrating acquired businesses, and fluctuations in operating results or costs.

the acquisitions of LSI Lightron and LSI Adapt during fiscal 2001, and would have been off about 9% excluding these two new companies. Income from Continuing Operations of \$10.6 million compares to \$18.3 million last year, a drop of 42% year-to-year. Earnings per share from Continuing Operations of \$1.01 were off a similar percentage from the \$1.77 reported in fiscal 2000. Shareholders' Equity, one of the measures of financial strength, of \$127.2 million was up 8% in fiscal 2001 The year was difficult to be sure; however it was one in which your Company fared better than many competitors as we prepared for future opportunities.

As a result of our strategic focus on

acquisitions and product development, bot lighting and graphics, we have created a unique company. Major investments have been made during the past two years in companies that will strengthen our opportunities in the major national retail segments of our economy. These companies have been selected with the same criteria that we developed twenty-five years ago: leadership in the marketplace with high-quality products and capabilities, and a high level of customer service. Two of these acquisitions were made in fiscal 2001: LSI Lightron in order to bring specification grade fluorescent lighting to the commercial / industrial lighting package, and LSI Adapt in order to add site engineering services, planning and projec management to our one-stop-shop capabilities. Both companies are expected to contribute nicely to profits in the future. We are making continuing investments in a higher level of technical services and capabilities in the Image Center in order to support the growth of our companies as well as the needs of our customers. For six years the Image Center has been an important element of our customers' development programs, with interactive virtual prototype capabilities that have saved them both time and development cost. This is yet another way of demonstrating to our customers that LSI is

truly a value-added partner.

During fiscal 2001 we expanded our reach to markets that represent global opportunities. We recently announced a partnership with a company based in Australia that will serve both the Australian and New Zealand markets. This was not an acquisition, but rather a true marketing partnership with a company that has been appropriately named LSI Hamilton Lighting. We believe that this will be the beginning of bringing LSI's lighting systems to other markets on a global basis.

Our opportunities are enhanced

by the financial strength of LSI, the investments made in companies and capabilities, innovative product development, strong relationships with customers, and the abilities of our many good employees and sales representatives. Major image conversion programs for customers in the petroleum / convenience store market (lighting and graphics) and quick service restaurant market (menu board systems) began late in the fourth quarter of fiscal 2001. These customers have indicated their intention that roll outs of their new image programs will be underway in fiscal 2002. We believe that LSI is well positioned to be a value-added partner and major contributor to these visual image conversion programs.

I would like to thank our employees, sales representatives, suppliers, customers and shareholders for their continued support and understanding, especially in fiscal 2001, as challenged as it was by soft economic conditions. Our business strategies are working, our commitment remains focused, Company management is strong, the financial strength is the best ever and we are well positioned to deliver The Power of Image to our customers.

Rosert & Red

Chairman, President and CEO

Relationships Are Our Most Valuable Asset

LSI knew from its earliest days that the success of the company would depend on its investment in relationships. The company's 25-year philosophy of forging strong partnerships with our suppliers, customers and employees is yielding high returns today. LSI has grown from five employees in 1976 to a workforce family of nearly 1,600 in fiscal 2001. Our growth and acquisitions through the years have developed people and brought rich new talent and depth of experience to our company. In addition, our ongoing commitment to be an industry leader continues to strengthen our partnerships — both within the company and out in the marketplace. We have always understood that relationships are the foundation of our company, as well as our most valuable asset. In short, we are successful because of the people who make up LSI Industries. We have strong faith in the growth of the

> company and our investment in our partners. By continuing to follow strategies to work together

more productively, our company can confidently look forward to continued success in the future.





FINANCIAL HIGHLIGHTS

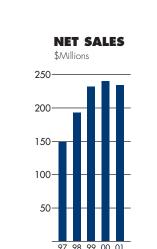
	2001	2000	1999
Income Statement Data			
(In thousands, except per share)			
Net sales	\$233,940	\$239,982	\$231,722
Operating income		\$ 28,556	
	\$ 17,236		\$ 27,228
Income from continuing operations	\$ 10,601	\$ 18,279	\$ 17,101
Earnings per common share from continuing operations			
Basic	\$ 1.02	\$ 1.79	\$ 1.73
Diluted	<u>\$ 1.01</u>	\$ 1.77	\$ 1.70
Balance Sheet Data			
(In thousands)			
Working capital	\$ 62,119	\$ 61,139	\$ 49,615
Total assets	\$181,759	\$146,783	\$137,714
Long-term debt, including current maturities	\$ 23,990	\$ 1,701	\$ 1,901
Shareholders' equity	\$127,193	\$118,212	\$102,752
Cash Flow Data			
(In thousands)			
Earnings before interest, taxes, depreciation			
and amortization (EBITDA) from continuing operations	\$ 22,852	\$ 34,052	\$ 31,496
Capital expenditures	\$ 6,492	\$ 8,977	\$ 4,455
Depreciation and amortization	\$ 5,558	\$ 5,511	\$ 4,813

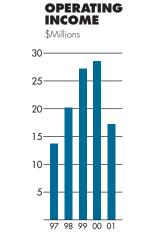
EARNINGS

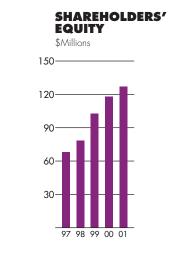
\$/Share

PER SHARE

from Continuing







DEAR SHAREHOLDERS a-kind company to combine lighting

his year marks the twenty-five year silver anniversary of LSI Industries. As a start-up business with five employees working in a very small facility, we created a philosophy of doing business and a vision of success that are still valid today. We believe that good people in strong working relationships forge effective partnerships that lead to win-win situations with three critical groups: Employees, Suppliers and Customers.

Our vision twenty-five years ago was to develop and grow a company that specialized in outdoor lighting systems for small to medium size niche markets, the first of which was the petroleum / convenience store market. This was a fairly difficult market in 1976 following the gasoline shortages and embargo from the OPEC countries. Our strategy was to always operate differently than our competitors. This approach translated into delivering a high level of customer service, becoming a leader in product development and offering high-quality, energy-efficient lighting systems to our customers. An important milestone for LSI occurred in 1985 as we completed a successful Initial Public Offering and became listed on The Nasdaq Stock Market under the symbol "LYTS." Access to the equity markets as a source of capital initially in 1985 and again in 1996 with a secondary offering has been critical to the growth and expansion of LSI. Shareholders who bought LSI stock in the IPO in 1985 at a split-adjusted price of \$3.53 per share have experienced over a 600% increase in share value in the past sixteen years, and have received approximately \$2.25 per share in cash dividend payments since 1988.

Our vision expanded in 1988 as we launched the strategy of becoming a one-of-

services. Target customers were large national retail companies that need to present a consistent, quality image that communicates brand identification and security to their customers. This combination of lighting and graphics creates image and value. Or as we say, "1 + 1 = 3." We believe that having the ability to provide both lighting and graphics products to national retail marketers has given LSI a true competitive advantage for managing our customers' re-imaging programs. Today, LSI is a recognized leader in providing some of the most exciting products in both the lighting and

systems with graphics products and

graphics industries. With our headquarters in Cincinnati, LSI has expanded throughout the country through acquisitions and now has sixteen manufacturing facilities and offices located in twelve states. These businesses provide related services and products for continued growth opportunities made available to LSI through strong relationships with, and service to, our customers. LSI is an established company that is in an ideal position to take advantage of the major consolidations occurring in the oil industry. Within the past three years, the largest mergers have been Shell/Texaco, BP/Amoco/Arco, and Exxon/Mobil. We believe the full merger and integration of these companies will take several years to complete, which could result in image or branding changes at a majority of the service station / convenience stores in North America, as well as some internationally. LSI is in excellent position to service these customers and benefit from these dynamic changes.

Fiscal 2001 was a trying year due to soft economic conditions in North America and our business from the oil industry lagging even farther behind the economy as the major oil companies and their jobbers reorganize and regroup following the mergers. Net sales of \$233.9 million were off about 3% from last year's net sales of \$240.0 million. Revenues benefited from



LSI's quarter of a century of strategic planning is bearing fruit through strong market penetration, stock stability and programs for the future. We are a recognized leader and are deeply rooted in our mission to continually strengthen the company's already firm foundation through product development, market expansion and acquisitions, while preparing for long-term growth and honoring the environment. We bring the environment. We bring Leadership, Strength and Innovation to the lighting and graphics industries, resulting in unique products and distinctive image programs. To meet the needs of our customers in the next quarter of a century, we are further developing LSI's unique position in the marketplace. And as we continue to experience success in our markets, we are constantly finding the best way to compete on a higher level and to challenge the standard way of doing business.

Calculated Growth

In the beginning, our vision was to develop a company that specialized in outdoor lighting systems for niche markets. Calculated growth through product development. penetration of new markets and acquisitions allowed LSI to become a one-of-a-kind company expanding into new territories.

HOME BASE

LSI corporate headquarters in Cincinnati, Ohio, are located in an efficient, multi-purpose complex, that provides integrated manufacturing of high-quality lighting systems.



Cultivates Success

During the past 25 years, we have successfully brought LSI to a level where it is recognized as a leader in producing some of the most unique and exciting products in both the lighting and graphics industries.

LIGHTING THE WAY

feature lighting products. We are a

Our Commercial/Industrial Lighting Segment

distinguishes itself by creating one-of-a-kind

indoor, outdoor, landscape and architectural

company that has grown by leading others, not following.

3 COMPLETE PACKAGE

Through our highly successful Lighting + Graphics = Image campaign, we offer customers a customized, fully integrated image program. Our unique combination of full-service lighting and graphics provides a memorable visual image 24 hours a day, seven days a week. Our prototype and turnkey upgrade image programs are utilized by some of the country's largest retailers.

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4 CUTTING-EDGE R&D

LSI has always operated ahead of the innovation curve, especially in product research and development of indoor/outdoor lighting and indoor/outdoor graphics. With nine manufacturing facilities across the country, LSI builds on its product development by supplying its own high-quality lighting fixtures and graphics elements. And as a responsible corporate citizen, LSI has created a new generation of community-friendly lighting fixtures that address light sensitive issues.

Opens Doors to the Future

We envision an extremely strong future for our company as we look ahead. Building on investments we are making in acquisitions, product development, manufacturing capabilities and partnerships, LSI is indeed leveraging the power of image into the power of opportunity.

OACQUIRING ADVANTAGE

Acquisitions give us more opportunities to expand into new markets and enhance our product line. During the past fiscal year, LSI acquired Lightron of Cornwall, Inc. and ADaPT Engineering, Inc. LSI Lightron Inc. designs, manufactures and sells high-end lighting fixtures for the commercial, industrial and retail markets. LSI Adapt Inc. is a multi-discipline engineering firm focused primarily on servicing retail petroleum/convenience store branded image programs. It specializes in integrated design, site engineering, permitting and project/construction management of national retail sites.



PARTNERING IS PARAMOUNT

Partnering with our clients creates a dynamic that sets us apart from our competitors. And with new state-ofthe-art software capabilities and expansion of our one-of-a-kind Image Center, we are able to create even more personalized visual image solutions with our customers. One such service is design visualization, which allows partners to see through computer images how LSI can meet their lighting and graphics needs.

LSI recognizes the need to offer global marketing services. We are carrying our

GLOBAL OUTLOOK

unified marketing capabilities into the alobal market because customers throughout the world can benefit from our products and services. A partnership with an Australian-based company that

8 DISCIPLINED GROWTH

LSI has always taken an aggressive but strategic direction toward opportunity and growth. Some examples include investing in plant expansion, systems improvement, setting high standards in customer service, ongoing improvement of our manufacturing process and rigid quality standards. These, and many more, expand our ability to bring the best products and services to the right markets.



5 MARKET PENETRATION

LSI serves the petroleum/convenience store market; multi-site retail market, including restaurants, automobile dealerships and national retail accounts; and the commercial/industrial lighting market. With our move from being an outdoor-only provider to creating multiple opportunities indoors, LSI is now in a position to offer one-stop lighting and image solutions. One example of our industry influence is creation of the Scottsdale®, a premiere product that has become a case study of lighting fixture success.







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

Sales by Business Segment

(In thousands)

	2001	2000	1999
Image Segment	\$147,021	\$159,257	\$162,299
Commercial/			
Industrial			
Lighting Segment	86,919	80,725	69,423
	\$233,940	\$239,982	\$231,722

Results of Operations

2001 Compared to 2000

Net sales of \$233,940,000 in fiscal 2001 decreased 3% compared to fiscal 2000 net sales of \$239,982,000. Results of the Commercial / Industrial Lighting Segment in fiscal 2001 include the operations of LSI Lightron (acquired November 2000), and results of the Image Segment in fiscal 2001 include the operations of LSI Adapt (acquired January 2001). Commercial / Industrial Lighting Segment net sales increased 8% and Image Segment net sales decreased 8% in fiscal 2001 as compared to the prior year. The increase in Commercial / Industrial Lighting Segment is attributed to the November 2000 acquisition of LSI Lightron (approximately 14% of net sales of this Segment). Excluding the acquisition of LSI Lightron, net sales in this segment decreased approximately 8% due to competitive markets and down economic conditions in the North American market. The decrease in Image Segment net sales is attributed to several factors. Net sales to the petroleum / convenience store market continued to be adversely impacted by the temporary affects of mergers of major petroleum companies. The Company reported decreased menu board business in fiscal 2001 as compared to last year as a significant roll out program in fiscal 2000 with one customer neither repeated nor was it replaced with a program with another customer in fiscal 2001. These decreases were partially offset by increased interior graphics business in other markets, and by the inclusion of the results of LSI Adapt, acquired in January

2001 and representing approximately 2% of Image Segment net sales. The Company believes it is likely that net sales of the Image Segment will increase in fiscal 2002. Significant customers in the petroleum / convenience store market and a menu board system customer in the quick service restaurant market have indicated their intent to reimage their retail sites over a multi-year time period and have released some orders in the fourth quarter of fiscal 2001 to initiate roll out of their re-image programs. Net sales of the Image Segment to the petroleum / convenience store market represented 36% and 38% of total net sales in fiscal 2001 and fiscal 2000, respectively. Sales to this market declined 9% in fiscal 2001 as compared to last year. While sales prices were increased, inflation did not have a significant impact on sales in fiscal 2001 as competitive pricing pressures held price increases to a minimum.

Gross profit of \$65,411,000 decreased 11% from last year's gross profit of \$73,775,000, and decreased as a percentage of net sales to 28.0% in fiscal year 2001 as compared to 30.7% in the prior year. The decrease in amount of gross profit is due primarily to the Company's lighting product lines that experienced lower sales volumes, related under absorbed manufacturing overhead and competitive pricing pressures. This decrease was partially offset by the added gross profit related to the two FY 2001 acquisitions. Selling and administrative expenses increased 7% to \$48,175,000 from \$45,219,000. The increase was caused primarily by the additions of LSI Lightron and LSI Adapt. As a percentage of net sales, selling and administrative expenses were at 20.6% in fiscal 2001 as compared to 18.8% in the prior year. The Company continued the task of converting its business operating software and systems company-wide. Total implementation costs expensed were \$960,000 (\$0.06 per share, diluted) in fiscal 2001 as compared to \$1,030,000 (\$0.06 per share, diluted) in fiscal 2000. Expenditures are expected to continue through fiscal 2003.

The Company reported interest income of \$630,000 in fiscal 2001 as compared to interest income of \$1,057,000

in fiscal 2000 primarily reflective of the Company being in a net borrowing position through the second half of fiscal 2001. Due to the cash acquisition of LSI Lightron, the Company became a net borrower and reported \$607,000 of interest expense in fiscal 2001 as compared to \$189,000 in the prior year. The Company's effective tax rate increased to 38.8% in fiscal 2001 as compared to 37.8% in fiscal 2000 primarily due to the tax treatment of goodwill and other items.

Income from continuing operations of \$10,601,000 in fiscal 2001 decreased 42% from \$18,279,000 last year. The decreased net income resulted from decreased gross profit on decreased net sales, increased selling and administrative expenses, increased interest expense and decreased interest income, partially offset by decreased income tax expense in fiscal 2001 as compared to 2000. Diluted earnings per share of \$1.01 in fiscal 2001 decreased 43% from \$1.77 per share reported in fiscal 2000. The weighted average common shares outstanding for purposes of computing diluted earnings per share increased 2% in fiscal 2001 to 10,523,000 shares from 10,354,000 shares in 2000 as a result of common shares issued both for the exercise of stock options and for an acquisition during the year.

The Company recorded a \$0.7 million (\$0.07 per share) discontinued operations charge, net of taxes, in the fourth quarter of fiscal 2001 to increase its loss contingency related to a lease guaranty in connection with its European operations which were discontinued in 1992. A settlement agreement was signed releasing the Company from all remaining obligations. Payment of the loss contingency of approximately \$1.1 million was made in the first quarter of fiscal 2002. A similar discontinued operations charge of \$1.0 million (\$0.10 per share), net of taxes, was recorded in the fourth quarter of fiscal 2000 in connection with the lease guaranty.

Net income of \$9,878,000 (\$0.94 per share) in fiscal 2001 compares to net income of \$17,279,000 (\$1.67 per share) in fiscal 2000. The reduction is primarily the result of decreased income from continuing operations, partially

offset by a decreased charge to discontinued operations in fiscal 2001.

2000 Compared to 1999

Net sales of \$239,982,000 in fiscal 2000 increased 4% over fiscal 1999 net sales of \$231,722,000. Results of the Image Segment in fiscal 2000 include the operations of LSI Retail Graphics (acquired April 1999; approximately 2% of net sales in fiscal 2000). Results of the Commercial / Industrial Lighting Segment in fiscal 2000 include the operations of LSI MidWest Lighting (acquired January 1999; approximately 8% of net sales in fiscal 2000). Commercial / Industrial Lighting Segment net sales increased 16% and Image Segment net sales decreased 2% in fiscal 2000 as compared to the prior year. The increase in the Commercial / Industrial Lighting Segment is attributed primarily to the full year effect of the acquisition of LSI MidWest Lighting, in addition to an approximate 2% sales increase in this segment. The decrease in Image Segment net sales is attributed primarily to softness in the petroleum / convenience store market. Net sales to this significant market were adversely impacted by the temporary affects of mergers of major petroleum companies. The Company's graphics and petroleum lighting sales volume, both components of the Image Segment, were down approximately 2% and 11%, respectively, as compared to the prior year. Net sales of the Image Segment to the petroleum / convenience store market represented 38% and 43% of net sales in fiscal 2000 and fiscal 1999, respectively. While sales prices were increased, inflation did not have a significant impact on sales in 2000 as competitive pricing pressures held price increases to a minimum.

Gross profit of \$73,775,000 increased 2% over last year's gross profit of \$72,577,000, and decreased as a percentage of net sales to 30.7% in fiscal year 2000 as compared to 31.3% in the prior year. The decrease in amount of gross profit is due primarily to product mix changes between years and competitive pricing in several markets, partially offset by the 4% increase in net sales

and improved efficiencies. Selling and administrative expenses decreased to \$45,219,000 from \$45,349,000, a decrease of 0.3%. As a percentage of net sales, selling and administrative expenses were at 18.8% in fiscal 2000 as compared to 19.6% in the prior year.

During fiscal year 1999 the Company began the task of converting its business operating software and systems company-wide. In addition, work was started on an ebusiness strategy in Fiscal Year 2000. Total implementation costs expensed were \$1,030,000 (\$0.06 per share, diluted) in fiscal 2000 and \$227,000 (\$0.02 per share, diluted) in fiscal 1999.

The Company reported net interest income of \$868,000 in fiscal 2000 as compared to net interest income of \$253,000 in fiscal 1999 primarily reflective of an increased amount of short-term cash investments at slightly increased rates of return. The Company's effective tax rate increased to 37.8% in fiscal 2000 as compared to 37.6% in fiscal 1999 primarily due to increased amortization of goodwill which is not deductible for tax purposes.

Income from continuing operations of \$18,279,000 increased 7% over \$17,101,000 in fiscal 1999. The increased income from continuing operations resulted from increased gross profit on increased net sales, and from the reporting of a larger amount of net interest income in fiscal 2000 as compared to 1999, partially offset by increased operating expenses and income taxes. Diluted earnings per share from continuing operations of \$1.77 increased 4% in fiscal 2000 from \$1.70 per share in fiscal 1999. The weighted average common shares outstanding for purposes of computing diluted earnings per share increased 3% in fiscal 2000 to 10,354,000 shares from 10,088,000 shares in 1999 primarily as a result of common shares issued for the exercise of stock options during the year.

The Company recorded a \$1.0 million (\$0.10 per share) discontinued operations charge, net of taxes, in the fourth quarter of fiscal 2000 for an increase in the loss contingency related to a lease guaranty in connection with

its European operations which were discontinued in 1992. No charge to discontinued operations was recorded in fiscal 1999.

Net income of \$17,279,000 increased 1% over \$17,101,000 in fiscal 1999 primarily as a result of increased income from continuing operations, partially offset by the charge to discontinued operations in fiscal 2000.

Liquidity and Capital Resources

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

At June 30, 2001 the Company had working capital of \$62.1 million, compared to \$61.1 million at June 30, 2000. The ratio of current assets to current liabilities decreased to 3.09 to 1 from 3.36 to 1. The increased working capital is primarily attributed to increased accounts receivables and inventories, and decreased liabilities from discontinued operations, partially offset by decreased cash and cash equivalents, increased notes payable to bank, increased accounts payable, and increased accrued expenses. The Company's balance of cash and cash equivalents was substantially lower at June 30, 2001 as compared to June 30, 2000 primarily due to the acquisition of Lightron of Cornwall, Inc. for \$25.9 million in November 2000, and due to the increased amount of accounts receivable.

The Company used \$2.8 million of cash in operating activities in fiscal 2001 as compared to a generation of \$19.8 million in fiscal 2000. The decrease in net cash flows from operating activities in fiscal 2001 is primarily the net result of a decrease in net income, increased accounts receivable and inventories, decreased accrued expenses, and fiscal 2001 payments related to the

Company's discontinued operations liabilities, partially offset by increased refundable and deferred income taxes. As of June 2001, the Company's days sales outstanding were at approximately 73 days, increased from 55 days at June 30, 2000 due to slower collection cycles from several customers.

In addition to cash generated from operations, the Company's primary source of liquidity continues to be its line of credit. The Company has an unsecured \$50 million revolving line of credit with its bank group. As of August 22, 2001 there was \$29 million available on this line of credit. This line of credit is composed of a \$30 million three year committed credit facility expiring in fiscal 2004 and a \$20 million credit facility with an annual renewal in the third quarter of fiscal 2002. The Company believes that the total of available lines of credit plus cash flows from operating activities is adequate for the Company's fiscal 2002 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants. Capital expenditures, exclusive of business acquisitions, of \$6.5 million in fiscal 2001 compare to \$9.0 million in fiscal 2000. Spending in fiscal year 2001 was primarily related to expansion of the Company's facilities, and to capitalization of Companywide enterprise resource planning software and related implementation costs. Capital expenditures totaling approximately \$12 million are planned for fiscal 2002, exclusive of business acquisitions.

The Company utilized significantly more cash flows from investing activities than the prior year due to the acquisition of substantially all of the net assets of Lightron of Cornwall, Inc. in the second quarter and substantially all of the net assets of ADaPT Engineering Inc. at the beginning of the third quarter. The cash purchase price of Lightron, exclusive of acquisition costs, was \$25.9 million, a portion of which is subject to achievement of certain financial objectives over the first ten months subsequent to acquisition. The acquisition was accounted for as a purchase, effective on the date of acquisition. An additional approximately \$3 million was

used immediately following the acquisition to reduce acquired liabilities. The purchase price exceeded the estimated fair value of net assets acquired by approximately \$16.5 million, which is recorded as goodwill and is being amortized over a period not to exceed forty years. The purchase price allocation was based upon preliminary estimates of fair value of assets acquired and may be revised at a later date pending the achievement of certain financial objectives and other analysis.

The Company acquired substantially all of the net assets of ADaPT Engineering, Inc. effective January 1, 2001. The consideration for this purchase, exclusive of acquisition costs, was \$4.5 million, consisting of \$2.25 million in cash and 109,430 common shares of LSI Industries valued at \$2.25 million, and the assumption of certain liabilities related to ADaPT Engineering's business. In addition, a contingent "earn-out" having a maximum value of \$2.0 million, payable in cash, could be earned during the first eighteen months after acquisition. The performance in the first earn-out period ended June 30, 2001 was above the target and an earn-out payment of \$0.5 million will be made in the first quarter of fiscal 2002. The acquisition has been accounted for as a purchase, effective on the date of acquisition. The purchase price, plus the earn-out consideration achieved, exceeded the estimated fair value of net assets acquired by approximately \$3.2 million, which has been recorded as goodwill and will be amortized over a period not to exceed fifteen years. The purchase price allocation was based upon preliminary estimates of fair value of assets acquired and may be revised at a later date pending the completion of appraisals and other analysis.

On August 15, 2001 the Board of Directors declared a regular quarterly cash dividend of \$0.085 per share (approximately \$889,000), to be paid September 11, 2001 to shareholders of record on September 4, 2001. During fiscal 2001, the Company paid cash dividends in the amount of \$4.0 million, essentially level the same amount as fiscal 2000.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (SFAS No. 141), "Business Combinations," and issued Statement of Financial Accounting Standards No. 142 (SFAS No. 142), "Goodwill and Other Intangible Assets." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations and requires that all business combinations be accounted for as purchases. In addition, SFAS No. 141 establishes new rules concerning recognition of intangible assets arising in a purchase business combination and requires enhanced disclosure of information in the period in which a business combination is completed. SFAS No. 142 establishes new rules on accounting for goodwill whereby goodwill will no longer be amortized to expense, but rather will be subject to impairment review. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001, and the Company has the option of adopting SFAS No. 142 either July 1, 2001 or July 1, 2002. Net income will increase when the amortization of goodwill to expense is stopped. The Company is currently evaluating the impact to its financial statements, financial position, results of operations and cash flows related to the implementation of these two Statements, and has not yet determined when SFAS No. 142 will be adopted.

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.

Consolidated Income Statements

For the years ended June 30, 2001, 2000, and 1999 (In thousands, except per share)

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

	2001	2000	1999
Net sales	\$233,940	\$239,982	\$231,722
Cost of products sold	168,529	166,207	159,145
Gross profit	65,411	73,775	72,577
Selling and administrative expenses	48,175	45,219	45,349
Operating income	17,236	28,556	27,228
Interest (income)	(630)	(1,057)	(477)
Interest expense	607	189	224
Other (income) expense	(58)	15	95
Income from continuing operations before income taxes	17,317 6,716	29,409 11,130	27,386 10,285
Income tax expense			
Income from continuing operations Discontinued operations, net of tax benefit of \$387 and \$538, respectively	10,601 723	18,279 1,000	17,101
Net income	\$ 9,878	\$ 17,279	\$ 17,101
Earnings per common share from continuing operations			
Basic earnings per share	<u>\$ 1.02</u>	\$ 1.79	\$ 1.73
Diluted earnings per share	<u>\$ 1.01</u>	\$ 1.77	\$ 1.70
Earnings per common share			
Basic earnings per share	<u>\$ 0.95</u>	\$ 1.69	\$ 1.73
Diluted earnings per share	<u>\$ 0.94</u>	\$ 1.67	\$ 1.70
Weighted average common shares outstanding			
Basic	10,358	10,195	9,883
Diluted	10,523	10,354	10,088

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Consolidated Balance Sheets

June 30, 2001 and 2000

(In thousands, except shares)

	2001	2000
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 340	\$ 21,966
Accounts receivable, less allowance for doubtful accounts of \$1,745 and \$1,239, respectively	51,609	35,424
Inventories	35,079	25,293
Refundable income taxes	854	1,160
Other current assets	3,898	3,237
Total current assets	91,780	87,080
Property, Plant and Equipment, at cost		
Land	3,967	3,947
Buildings	22,992	20,522
Machinery and equipment	35,874	32,436
Construction in progress	7,820	4,842
	70,653	61,747
Less accumulated depreciation	(28,412)	(24,625)
Net property, plant and equipment	42,241	37,122
Goodwill, net	41,572	22,581
Other Assets, net	6,166	
	<u>\$181,759</u>	<u>\$146,783</u>

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

	2001	2000
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to bank	\$ 552	\$ —
Current maturities of long-term debt	352	203
Accounts payable	15,268	12,349
Accrued expenses	12,778	11,606
Net liabilities from discontinued operations	711	1,783
Total current liabilities	29,661	25,941
Long-Term Debt	23,638	1,498
Deferred Income Taxes	1,267	1,132
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 10,438,469 and 10,291,730 shares, respectively	50,808	47,719
Retained earnings	76,385	70,493
Total shareholders' equity	127,193	118,212
	<u>\$181,759</u>	<u>\$146,783</u>

Consolidated Statements of Shareholders' Equity

For the years ended June 30, 2001, 2000, and 1999 (*In thousands, except per share data*)

	Common Shares				
	Number of		Retained	1	
	Shares	Amount	Earnings	Total	
Balance at June 30, 1998	9,635	\$ 35,368	\$ 43,289	\$ 78,657	
Net income	_	_	17,101	17,101	
Purchase of treasury shares	(12)	(224)		(224)	
Deferred stock compensation	_	334		334	
Stock options exercised, net	124	1,285		1,285	
Common shares issued for acquisitions	405	8,825		8,825	
Dividends - \$.33 per share			(3,226)	(3,226)	
Balance at June 30, 1999	10,152	45,588	57,164	102,752	
Net income	_		17,279	17,279	
Purchase of treasury shares	(14)	(349)	_	(349)	
Deferred stock compensation	_	338		338	
Stock options exercised, net	154	2,142		2,142	
Dividends - \$.39 per share			(3,950)	(3,950)	
Balance at June 30, 2000	10,292	47,719	70,493	118,212	
Net income	_	_	9,878	9,878	
Purchase of treasury shares	(15)	(305)	_	(305)	
Deferred stock compensation	_	248	_	248	
Stock options exercised, net	48	821	_	821	
Common shares issued for acquisitions	113	2,325	_	2,325	
Dividends - \$.39 per share			(3,986)	(3,986)	
Balance at June 30, 2001	10,438	\$50,808	\$76,385	\$127,193	

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

Consolidated Statements of Cash Flows

For the years ended June 30, 2001, 2000, and 1999 (*In thousands*)

	2001	2000	1999
Cash Flows From Operating Activities			
Net income	\$ 9,878	\$17,279	\$17,101
Non-cash items included in income			
Depreciation and amortization	5,558	5,511	4,813
Deferred income taxes	1,023	(566)	(84)
Deferred compensation plan	248	338	334
Loss on disposition of fixed assets	(58)	15	95
Change (excluding effects of acquisitions) in			
Accounts receivable	(12,107)	4,206	(4,075)
Inventories	(5,450)	(32)	2,273
Refundable income taxes	306	(1,003)	117
Accounts payable	504	(2,279)	(262)
Accrued expenses and other	(1,581)	(4,966)	348
Net liabilities from discontinued operations	(1,072)	1,292	(70)
Net cash flows from operating activities	(2,751)	19,795	20,590
Cash Flows From Investing Activities			
Purchase of property, plant, and equipment	(6,492)	(8,977)	(4,455)
Proceeds from sale of fixed assets	155	3	14
Acquisition of businesses, net of cash received	(29,163)		(8,657)
Net cash flows from investing activities	(35,500)	_(8,974)	(13,098)
Cash Flows From Financing Activities			
Increase (decrease) of borrowings under line of credit	552	(379)	379
Proceeds from issuance of long-term debt	22,000	_	919
Payment of long-term debt	(2,457)	(200)	(2,082)
Cash dividends paid	(3,986)	(3,950)	(3,226)
Exercise of stock options	821	2,142	1,285
Purchase of treasury shares	(305)	(349)	(224)
Net cash flows from financing activities	(16,625)	(2,736)	(2,949)
Increase (decrease) in cash and cash equivalents	(21,626)	8,085	4,543
Cash and cash equivalents at beginning of year	21,966	13,881	9,338
Cash and cash equivalents at end of year	\$ 340	\$21,966	\$13,881
The accompanying notes are an integral part of these financial statements.			

Notes to Consolidated Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation:

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

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 prepayments and are included in 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
Computer software 5 - 8 years

Intangible assets:

Intangible assets consisting of customer lists, trade names, patents and trademarks are recorded on the

Company's balance sheet and are being amortized to expense over periods ranging between two and seventeen years. The Company recorded intangibles amortization expense of \$284,000 in fiscal 2001. As of June 30, 2001, accumulated amortization of intangible assets is \$284,000. The excess of cost over fair value of assets acquired ("goodwill") is amortized to expense over periods ranging between fifteen and forty years. As of June 30, 2001 and 2000, accumulated amortization of goodwill was \$2,849,000 and \$1,827,000, respectively. The Company recorded goodwill amortization expense of \$1,022,000, \$689,000 and \$476,000 in fiscal years 2001, 2000 and 1999, respectively. The Company periodically evaluates intangible assets, 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/or 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, a second discretionary profit sharing plan covering employees of one subsidiary, 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 \$1,581,000 in 2001, \$2,052,000 in 2000, and \$1,937,000 in 1999.

Income taxes:

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

Earnings per common share:

The computation of basic earnings per common share is based on the weighted average common shares outstanding for the period. The computation of diluted earnings per share includes common share equivalents. Common share equivalents include the dilutive effect of stock options, contingently issuable shares (for which issuance has been determined to be probable), and common shares to be issued under a deferred compensation plan, all of which totaled 165,000 shares in 2001, 159,000 shares in 2000, and 205,000 shares in 1999. See also Notes 4 and 7.

Recent pronouncements:

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. The Company adopted SFAS No. 133 in fiscal year 2001, but its financial statements were not affected by this new standard because the Company has no derivative or hedging financial instruments.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (SFAS No. 141), "Business Combinations," and issued Statement of Financial Accounting Standards No. 142 (SFAS No. 142), "Goodwill and Other Intangible Assets." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations and requires that all business combinations be accounted for as purchases. In addition, SFAS No. 141 establishes new rules concerning recognition of intangible assets arising in a purchase business combination and requires enhanced disclosure of information in the period in which a business combination is completed. SFAS No. 142 establishes new rules on accounting for goodwill whereby goodwill will no longer be amortized to expense, but rather will be subject to impairment review. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001, and the Company has the option of adopting SFAS No. 142 either July 1, 2001 or July 1, 2002. The Company is currently evaluating the impact to its financial statements, financial position, results of

operations and cash flows related to the implementation of these two Statements, and has not yet determined when SFAS No. 142 will be adopted.

Reclassification:

Certain reclassifications have been made to prior year amounts in order to be consistent with the presentation for the current year. The most significant reclassification was related to the reclassification of shipping and handling revenue into net sales with related effects to cost of products sold and to selling and administrative expenses. As a result of implementing the Emerging Issues Task Force Issue 00-10 (Accounting for Shipping and Handling Fees and Costs), net sales increased \$5,759,000, \$4,381,000, and \$3,933,000, cost of products sold increased \$11,079,000, \$9,601,000, and \$8,464,000, and selling and administrative expenses decreased \$5,320,000, \$5,220,000, and \$4,531,000, respectively for fiscal years 2001, 2000 and 1999.

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.

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, including those associated with the lease on the U.K. facility, which were not assumed by the management buyout group of the discontinued operations, net of related taxes, were retained by the Company. The lease on the now vacant facility was guaranteed by the Company through its expiration in March 2001. For the past several years the Company has been involved in both litigation and negotiations related to lease payments (unpaid since 1995), to maintenance of the facility, and to the remaining lease obligation through March 2001 with the various entities associated with this lease. In the fourth quarter of fiscal year 2000 the Company settled all

outstanding lease matters with a sublessee at less than amounts previously anticipated. The \$608,000 settlement payment received was added to the Company's reserve for discontinued operations.

In the fourth quarter of fiscal year 2000 the Company recorded a charge to discontinued operations of \$1.5 million (\$1.0 million net of income taxes or \$0.10 per share) to increase its reserve for remaining liabilities associated with the lease. During the fourth quarter of fiscal year 2001 the Company concluded lengthy negotiations related to the maintenance and repairs of the facility and recorded a charge to discontinued operations of \$1.1 million (\$0.7 million net of income taxes or \$0.07 per share). The resultant reserve balance of \$1.1 million as of June 30, 2001 is adequate to cover all remaining obligations of the Company with respect to this facility. Payment of these obligations is expected to occur in the first quarter of fiscal year 2002.

A summary of the activity in the reserve for discontinued operations during fiscal years 2001 and 2000 is as follows:

	2001	2000
(In thousands)		
Balance beginning of year	\$2,745	\$ 755
less: Payments made	(2,764)	(156)
plus: Settlement received	_	608
plus: Charge to discontinued		
operations	1,110	1,538
Balance end of year	\$1,091	\$2,745

The Company's reserve for discontinued operations, net of related taxes, is included in current liabilities in the amounts of \$711,000 and \$1,783,000 as of June 30, 2001 and 2000, respectively.

NOTE 3 - BUSINESS SEGMENT INFORMATION

LSI operates in two business segments - the Image Segment and the Commercial / Industrial Lighting Segment. The Image Segment 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 Segment includes the operations of LSI Petroleum Lighting, LSI Automotive Lighting, LSI

Images, LSI Metal Fabrication, LSI SGI Integrated Graphic Systems, LSI Grady McCauley, LSI Retail Graphics, and LSI Adapt. The Commercial / Industrial Lighting Segment manufactures and sells primarily outdoor, indoor, and landscape lighting for the commercial / industrial and multi-site retail markets. The Commercial / Industrial Lighting Segment includes the operations of LSI Lighting Systems, LSI Courtsider Lighting, LSI Greenlee Lighting, LSI Marcole, LSI MidWest Lighting and LSI Lightron. The Company's most significant market is the petroleum / convenience store market with approximately 36%, 38%, and 43% of net sales concentrated in this market in fiscal 2001, 2000, and 1999, respectively.

The following information is provided for the following periods:

	2001	2000	1999
(In thousands)			
Net sales:			
Image Segment	\$147,021	\$159,257	\$162,299
Commercial /			
Industrial			
Lighting Segment	86,919	80,725	69,423
	\$233,940	\$239,982	\$231,722
Operating income:			
Image Segment	\$ 14,690	\$ 21,024	\$ 19,848
Commercial /			
Industrial			
Lighting Segment	2,546	7,532	7,380
	\$ 17,236	\$ 28,556	\$ 27,228
Identifiable assets:			
Image Segment	\$105,072	\$ 84,513	\$ 86,011
Commercial /			
Industrial			
Lighting Segment	75,416	38,588	37,645
	180,488	123,101	123,656
Corporate	1,271	23,682	14,058
	\$181,759	\$146,783	\$137,714
Capital expenditures:			
Image Segment	\$ 3,926	\$ 6,279	\$ 3,214
Commercial /			
Industrial			
Lighting Segment	2,566	2,698	1,241
	\$ 6,492	\$ 8,977	\$ 4,455
			

Depreciation and amortization:

Image Segment	\$ 3,139 \$	3,687	\$ 3,425
Commercial /			
Industrial			
Lighting Segment	 2,419	1,824	1,388
	\$ 5,558 \$	5,511	\$ 4,813

Operating income of the business segments includes net sales less all operating expenses, including allocations of corporate 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. The increase in identifiable assets in fiscal 2001 is primarily related to the two acquisitions made during the year (see footnote 11) and to increased levels of accounts receivable and inventories.

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)	2001	2000	1999
BASIC EARNINGS PER	SHARE		
Income from continuing operations	\$10,601	<u>\$18,279</u>	<u>\$17,101</u>
Net income	\$ 9,878	\$17,279	\$17,101
Weighted average shares outstanding during the period, net of treasury shares	10,358	10,195	9,883
Basic earnings per share from continuing operations	<u>\$ 1.02</u>	<u>\$ 1.79</u>	\$ 1.73
Basic earnings per share	<u>\$.95</u>	\$ 1.69	\$ 1.73

(In thousands, except per share)	2001	2000	1999
DILUTED EARNINGS P	ER SHARI	Е	
Income from continuing			
operations	\$10,601	\$18,279	\$17,101
Net income	\$ 9,878	\$17,279	\$17,101
Weighted average shares outstanding during the period, net of treasury shares Effect of dilutive securities Impact of common shares to be issued under stock option	10,358 es (A):	10,195	9,883
plans, a deferred compensation plan,			
and contingently issuable shares	165	159	205
Weighted average shares outstanding (B)	10,523	10,354	10,088
Diluted earnings per share from continuing operations	<u>\$ 1.01</u>	\$ 1.77	\$ 1.70
Diluted earnings per share	\$.94	\$ 1.67	\$ 1.70

- (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 49,817 common shares, 36,105 common shares, and 14,359 common shares at June 30, 2001, 2000, and 1999, 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:

	2001	2000
(In thousands)		
Inventories:		
Raw materials	\$16,485	\$11,824
Work-in-process and		
finished goods	18,594	13,469
	\$35,079	\$25,293
Accrued Expenses:		
Compensation and benefits	\$ 6,119	\$ 5,725
Customer prepayments	\$ 1,729	\$ 1,144

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

The Company has an unsecured \$50 million revolving line of credit with its bank group. As of June 30, 2001 the available portion of this line of credit was \$27.4 million. A portion of this credit facility is a \$20 million line of credit that expires in the third quarter of fiscal 2002. The remainder of the credit facility is a \$30 million three year committed line of credit that expires in fiscal 2004 and that has an annual renewal for the third year of commitment in the third quarter of fiscal 2002. Interest on the revolving lines of credit is charged based upon an increment over the LIBOR rate as periodically determined, an increment over the Federal Funds 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 50 and 75 basis points depending upon the ratio of indebtedness to earnings before interest, taxes, depreciation and amortization (EBITDA). The increment over the Federal Funds borrowing rate, as periodically determined, fluctuates between 150 and 200 basis points, and the commitment fee on the unused balance of the \$30 million committed portion of the line of credit fluctuates between 15 and 25 basis points based upon the same leverage ratio. At June 30, 2001 the average interest rate on borrowings under this revolving line of credit was 4.4%. Under terms of these agreements, 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. The Company's borrowings under its bank credit facilities during fiscal year 2001 averaged approximately \$8.3 million at an approximate average borrowing rate of 5.7%. The Company did not borrow under its revolving lines of credit during fiscal year 2000.

The Company has an Industrial Revenue Development Bond (IRB) borrowing in the amount of \$860,000 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 through fiscal 2010. The IRB interest rate, which is reestablished semi-annually, is currently 4.5%, plus a 75 basis point letter of credit fee. The IRB is secured by the Company's Kentucky real estate, which has a net carrying value of \$1.6 million.

The Company has equipment loans outstanding totaling \$1,130,000 with monthly principal and interest payments extending through fiscal 2006. The weighted average interest rate of these loans is 5.9% and they are secured by specified equipment which has a net carrying value of \$1,420,000. With one of these loans the Company is committed to specified job growth in its facility in Northeast Ohio.

	2001	2000
(In thousands)		
Long-term debt:		
Revolving Line of Credit		
(3 year committed line)	\$22,552	\$ —
Industrial Revenue		
Development Bond at 4.5%	860	935
Equipment loans		
(average rate of 5.9%)	1,130	766
	24,542	1,701
Less notes payable to bank	552	
Total long-term debt	23,990	1,701
Less current maturities of		
long-term debt	352	203
Long-term debt	\$23,638	\$1,498

Future maturities of long-term debt at June 30, 2001 are as follows (in thousands):

2002	2003	2004	2005	2006	2007 and after
\$352	\$365	\$22,385	\$240	\$218	\$430

NOTE 7 - SHAREHOLDERS' EQUITY

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 119,225 shares were available for future grant as of June 30, 2001. The plans allow for the grant of both incentive stock options and non-qualified stock options.

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 2001, 2000, and 1999.

	2001	2000	1999
Dividend yield	1.81%	1.25%	1.25%
Expected volatility	40%	42%	44%
Risk-free interest rate	4.54%-	6.14%-	4.45%-
	6.50%	6.90%	6.24%
Expected life	4-8 yrs.	4-8 yrs.	4-8 yrs.

At June 30, 2001, the 220,300 options granted during fiscal 2001 to employees and non-employee directors have exercise prices ranging from \$15.44 to \$22.05, fair values ranging from \$4.24 to \$8.93 per option, and remaining contractual lives of four to nine years. The 18,800 options granted during fiscal 2000 to employees and non-employee directors have exercise prices ranging from \$17.69 to \$23.25, fair values ranging from \$7.49 to \$11.84 per option, and remaining contractual lives of four to nine years. The 56,900 options granted during fiscal 1999 to employees and non-employee directors had, at June 30, 1999, exercise prices ranging from \$16.88 to \$23.00, fair values ranging from \$8.49 to \$11.89 per option, 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, 2001, 2000, and 1999 would have been as follows:

	2	2001		2000		1999
(In thousands except earnings pe	r share)					
Net income						
As reported	\$9	,878	\$1	7,279	\$1	7,101
Pro forma	\$9	,380	\$1	7,035	\$1	6,629
Earnings per share						
Basic						
As reported	\$.95	\$	1.69	\$	1.73
Pro forma	\$.91	\$	1.67	\$	1.68
Diluted						
As reported	\$.94	\$	1.67	\$	1.70
Pro forma	\$.91	\$	1.65	\$	1.66

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.

Information involving the stock option plans for the years ended June 30, 2001, 2000, and 1999 is shown in the table below:

2001

		2001
(Shares in thousands)	Shares	Weighted Average Exercise Price
Outstanding at		
beginning of year	242	\$16.13
Granted	220	\$16.10
Terminated	(11)	\$15.69
Exercised	(48)	\$14.00
Outstanding at end of year	403	\$16.38
Exercisable at end of year	109	\$16.39
		2000
		Weighted Average
(Shares in thousands)	Shares	Exercise Price
Outstanding at		
beginning of year	408	\$14.41
Granted	19	\$21.74
Terminated	(7)	\$16.03
Exercised	<u>(178</u>)	\$12.79
Outstanding at end of year	242	\$16.13
Exercisable at end of year	109	\$15.00

	1999			
		Weighted Average		
(Shares in thousands)	Shares	Exercise Price		
Outstanding at				
beginning of year	500	\$12.70		
Granted	57	\$19.82		
Terminated	(8)	\$16.23		
Exercised	(<u>141</u>)	\$10.33		
Outstanding at end of year	408	\$14.41		
Exercisable at end of year	129	\$12.92		

The Company implemented a non-qualified Deferred Compensation Plan in fiscal 1997. All Plan investments are in common shares of the Company. A total of 74,261 and 59,566 common shares were held in the Plan as of June 30, 2001 and 2000, respectively, and, accordingly, have been recorded as treasury shares.

On the dates indicated, the Company issued the following amounts of common shares as a portion of the purchase price for acquired businesses (see further discussion in Note 11):

	Number of	Stated
<u>Date</u>	Common Shares	Value
1/1/99	357,143	\$8,000,000
4/9/99	47,578	\$ 825,000
1/10/01	109,430	\$2,250,000
6/8/01	3,769	\$ 75,000

On August 15, 2001, the Board of Directors declared a cash dividend of \$0.085 per share to be paid September 11, 2001 to shareholders of record on September 4, 2001. Annual cash dividend payments made during fiscal years 2001, 2000, and 1999 were \$0.39, \$0.39, and \$0.33 per share, respectively.

NOTE 8 - LEASES

The Company leases certain of its facilities and equipment under operating lease arrangements. Rental expense was \$1,536,000 in 2001, \$1,385,000 in 2000, and \$1,174,000 in 1999. Minimum annual rental commitments under non-cancelable operating leases are: \$1,410,000 in 2002, \$1,277,000 in 2003, \$1,153,000 in 2004, \$963,000 in 2005, \$925,000 in 2006, and \$2,049,000 in 2007 and beyond.

NOTE 9 - INCOME TAXES

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

3	2001	2000	1999
(In thousands)			
Provision (benefit) for			
income taxes:			
Current federal	\$5,190	\$10,773	\$ 9,466
Current state and			
local	588	923	903
Deferred	938	(566)	(84)
	\$6,716	\$11,130	\$10,285
Reconciliation to			
federal statutory rate:			
Federal statutory			
tax rate	34.8%	35.0%	35.0%
State and local taxes	2.2	2.0	2.1
Goodwill and other	1.8	8	5
Effective tax rate	<u>38.8</u> %	<u>37.8</u> %	<u>37.6</u> %
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The components of deferred income tax assets and (liabilities) at June 30, 2001 and 2000 are as follows:

2001	2000
\$ 1,054	\$ 818
(1,241)	(707)
960	882
(1,944)	(1,694)
160	132
516	430
380	962
<u>\$ (115)</u>	\$ 823
	(1,241) 960 (1,944) 160 516

Reconciliation to the balance sheets as of June 30, 2001 and 2000

2001	2000
\$ 772	\$ 993
380	962
(1,267)	(1,132)
<u>\$ (115)</u>	\$ 823
	\$ 772 380

NOTE 10 - SUPPLEMENTAL CASH FLOW INFORMATION

	2001	2000	1999
(In thousands)			
Cash payments:			
Interest	\$ 526		\$ 148
Income taxes	\$ 5,124	\$12,520	\$10,034
Non-cash investing and			
financing activities:			
Value of common			
shares issued for			
acquisitions	\$ 2,325	<u> </u>	\$ 8,825
Details of acquisitions:			
Working capital, less			
cash	\$ 2,948	\$ —	\$ 2,417
Property, plant &			
equipment	2,976	_	5,241
Other assets, net	5,551		(947)
Excess of purchase			
price paid over			
estimated net assets			
of acquired			
businesses	20,013		10,771
	31,488	_	17,482
Less fair value of			
common shares			
issued	(2,325)		(8,825)
Cash paid for			
acquisitions	\$29,163	<u>\$</u>	\$ 8,657

NOTE 11 - ACQUISITIONS

The Company acquired substantially all of the net assets of Lightron of Cornwall, Inc. on November 21, 2000. The purchase price, exclusive of acquisition costs, was \$25.9 million, a portion of which is subject to achievement of certain financial objectives over the first ten months subsequent to acquisition. The new subsidiary, LSI Lightron Inc., will continue to operate in the New Windsor, New York area in the business of designing, manufacturing, and selling a line of high-end fluorescent, metal halide, halogen, recessed, surface, and high bay lighting fixtures, and LED exit signs for the commercial, industrial and retail markets. When the Company completes construction of a new facility in the first half of fiscal year 2002, the manufacturing assets, inventory, and remaining related acquired liabilities of

Lightron of Cornwall will be transferred to LSI Lightron. Until such transfer of assets, a portion of the purchase price will remain in escrow and Lightron of Cornwall will be exclusively a manufacturer of light fixtures and products for LSI Lightron. Results of LSI Lightron are included in the Company's Commercial / Industrial Lighting Segment. The acquisition has been accounted for as a purchase, effective on the date of acquisition. An additional approximate \$3 million of cash was used immediately following the acquisition to reduce acquired liabilities. The purchase price exceeded the estimated fair value of net assets acquired by approximately \$16.5 million, which is recorded as goodwill and is being amortized over forty years. The purchase price allocation was based upon preliminary estimates of fair value of assets acquired and may be revised at a later date pending the completion of appraisals and other analysis.

The Company acquired substantially all of the net assets of ADaPT Engineering, Inc. effective January 1, 2001. The initial consideration for this purchase, exclusive of acquisition costs, was \$4.5 million, consisting of \$2.25 million in cash and 109,430 common shares of LSI Industries valued at \$2.25 million, plus the assumption of certain liabilities related to ADaPT Engineering's business. In addition, a contingent "earnout" having a maximum value of \$2.0 million, payable in cash, could be earned during the first eighteen months after acquisition based upon achievement of certain financial performance. The performance in the first earnout period ended June 30, 2001 was above the target and an earn-out payment of \$0.5 million was made in the first quarter of fiscal year 2002. The new subsidiary, LSI Adapt Inc., is a multi-discipline service firm primarily focused on the retail petroleum / convenience store branded image programs, as well as other national retail customers. LSI Adapt specializes in integrated design, site engineering, permitting, project and construction management of national retail sites. Results of LSI Adapt are included in the Company's Image Segment. The acquisition has been accounted for as a purchase, effective on the date of acquisition. The initial purchase price, plus the earn-out consideration achieved to date, exceeded the estimated fair value of net assets acquired by approximately \$3.2 million, which has been recorded as goodwill and is being amortized over fifteen years. The purchase price allocation was based on preliminary estimates of fair value of assets acquired and may be

revised at a later date pending the completion of

On April 9, 1999, the Company acquired substantially all assets and assumed certain liabilities of Retail Graphics, Inc., a privately owned manufacturer of interior graphics primarily for the retail store market. For financial statement purposes the acquisition was accounted for as a purchase with operating results of LSI Retail Graphics first included in the Company's fourth quarter fiscal 1999 results in the Image Segment. The initial purchase price for the business, exclusive of acquisition costs, was \$3,300,000, consisting of \$2,475,000 in cash and 47,578 common shares of the Company (valued at \$825,000). The acquisition provided for a contingent "earn-out" having a maximum value of \$600,000, payable in similar percentages of cash and common shares, which could be earned during the first two years after acquisition providing certain minimum net sales and earnings thresholds are exceeded. An earnout payment was made in the fourth quarter of fiscal year 2001 in the amount of \$300,000 consisting of \$225,000 cash and 3,769 common shares of LSI Industries valued at \$75,000. The earn-out payment has been recorded as additional goodwill to be amortized over the remaining life of the original goodwill related to this acquisition. An additional approximate \$1 million was used immediately following the acquisition to reduce acquired liabilities.

The total purchase price exceeded the estimated fair value of net assets acquired by \$3.5 million, which is recorded as goodwill and is being amortized over twenty years.

The Company completed the acquisition of Mid-West Chandelier Company and Fairfax Lighting, Inc., two privately owned manufacturers of interior fluorescent lighting fixtures, effective January 1, 1999. For financial statement purposes these acquisitions were accounted for as purchases with operating results of LSI MidWest Lighting first included in the Company's third quarter fiscal 1999 results in the Commercial / Industrial Lighting Segment. The total purchase price for the two companies was \$16,000,000, exclusive of acquisition costs, consisting of \$8,000,000 in cash and 357,143 common shares of the Company (valued at \$8,000,000). The acquisition provides for a contingent "earn-out" having a maximum value of \$1 million in cash and \$1 million in stock which could be earned during the three years subsequent to the merger providing certain minimum earnings thresholds are exceeded. There was no earn-out paid at the conclusion of either of the first two years. An additional approximate \$1 million was used immediately following the acquisition to reduce acquired liabilities. The purchase price exceeded the estimated fair value of net assets acquired by \$7.7 million, which is recorded as goodwill and is being amortized over forty years.

NOTE 12 - SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

	Quarter Ended			Fiscal	
(In thousands, except per share data)	Sept. 30	Dec. 31	March 31	June 30	Year
2001					
Net sales	\$53,609	\$59,839	\$53,935	\$66,557	\$233,940
Gross profit	15,399	17,040	13,975	18,997	65,411
Income from continuing					
operations	2,981	3,028	1,225	3,367	10,601
Earnings per share from					
continuing operations					
Basic	\$.29	\$.29	\$.12	\$.32	\$ 1.02
Diluted	\$.29	\$.29	\$.12	\$.32	\$ 1.01(a)
Range of share prices					
High	\$ 22.94	\$ 22.00	\$ 22.00	\$ 26.95	\$ 26.95
Low	\$ 14.50	\$ 16.50	\$ 17.75	\$ 18.01	\$ 14.50
2000					
Net sales	\$64,967	\$64,221	\$53,396	\$57,398	\$239,982
Gross profit	20,115	20,348	15,934	17,378	73,775
Income from continuing					
operations	5,357	5,646	3,170	4,106	18,279
Earnings per share from					
continuing operations					
Basic	\$.53	\$.55	\$.31	\$.40	\$ 1.79
Diluted	\$.52	\$.55	\$.31	\$.40	\$ 1.77(a)
Range of share prices					
High	\$ 25.25	\$ 25.50	\$ 21.56	\$ 22.16	\$ 25.50
Low	\$ 22.63	\$ 19.13	\$ 14.69	\$ 12.50	\$ 12.50
1999					
Net sales	\$54,447	\$57,074	\$54,304	\$65,897	\$231,722
Gross profit	17,035	18,573	16,010	20,959	72,577
Income from continuing					
operations	3,912	4,668	3,083	5,438	17,101
Earnings per share					
Basic	\$.41	\$.48	\$.31	\$.54	\$ 1.73(a)
Diluted	\$.40	\$.47	\$.30	\$.53	\$ 1.70
Range of share prices					
High	\$ 22.00	\$ 23.00	\$ 22.75	\$ 24.38	\$ 24.38
Low	\$ 17.25	\$ 15.75	\$ 15.88	\$ 17.25	\$ 15.75

⁽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 22, 2001, there were 424 shareholders of record. The Company believes this represents approximately 3,000 beneficial shareholders.

Report of Independent Public Accountants

To LSI Industries Inc.:

We have audited the accompanying consolidated balance sheets of LSI Industries Inc. (an Ohio corporation) and subsidiaries as of June 30, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended June 30, 2001. 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LSI Industries Inc. and subsidiaries as of June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Cincinnati, Ohio August 15, 2001

Report of Management

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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

President and Chief Executive Officer

Robert & Rug

Ronald S. Stowell

Vice President, Chief Financial Officer, and Treasurer

Ronald S. Stowell

Selected Financial Data

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

(In thousands except per share data)

Income Statement Data:

	2001	2000	1999	1998	1997
Net sales	\$233,940	\$239,982	\$231,722	\$193,439	\$148,188
Cost of products sold	168,529	166,207	159,145	132,872	103,116
Operating expenses	48,175	45,219	45,349	40,373	31,363
Operating income	17,236	28,556	27,228	20,194	13,709
Interest (income)	(630)	(1,057)	(477)	(143)	(528)
Interest expense	607	189	224	106	41
Other (income) expense	(58)	15	95	108	114
Income from continuing operations before income taxes	17,317	29,409	27,386	20,123	14,082
Income taxes	6,716	11,130	10,285	7,536	5,210
Income from continuing operations	\$ 10,601	\$ 18,279	\$ 17,101	\$ 12,587	\$ 8,872
Net income	\$ 9,878	\$ 17,279	\$ 17,101	\$ 12,587	\$ 8,872
Earnings per common share from continuing operations					
Basic	\$ 1.02	\$ 1.79	\$ 1.73	\$ 1.32	\$.99
Diluted	\$ 1.01	\$ 1.77	\$ 1.70	\$ 1.29	\$.97
Cash dividends paid per share	\$.39	\$.39	\$.33	\$.29	\$.23
Weighted average common shares					
Basic	10,358	10,195	9,883	9,559	9,004
Diluted	10,523	10,354	10,088	9,790	9,188
Balance Sheet Data:					
(At June 30)	2001	2000	1999	1998	1997
Working capital	\$ 62,119	\$ 61,139	\$ 49,615	\$ 40,237	\$ 30,192
Total assets	181,759	146,783	137,714	110,316	95,189
Long-term debt, including	22.000	1 703	1 007	1.10~	1 202
current maturities	23,990	1,701	1,901	1,195	1,382
Shareholders' equity	127,193	118,212	102,752	78,657	67,968

Corporate Information

Board of Directors

Robert J. Ready
President, Chief Executive Officer &
Chairman of the Board
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 Assistant Secretary - LSI Industries Inc. Chairman of Compensation Committee Member of Audit Committee

Allen L. Davis

Chief Executive Officer - CNG Financial Corporation Member of Audit Committee Member of Compensation Committee

Dennis B. Meyer

Director of Midmark Corporation Versailles, Ohio Member of Audit Committee Member of Compensation Committee

Wilfred T. O'Gara

Chief Operating Officer – O'Gara-Hess & Eisenhardt Armoring Company, Cincinnati, Ohio Chairman of Audit Committee Member of Compensation Committee

Corporate Officers

Robert J. Ready

President and Chief Executive Officer
James P. Sferra

Secretary; Executive Vice President - Manufacturing Ronald S. Stowell

Vice President, Chief Financial Officer, and Treasurer Michael J. Burke Assistant Secretary

Independent Public Accountants

Arthur Andersen LLP Cincinnati, Ohio

Legal Counsel

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

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 15, 2001 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 2001 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.

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Operating Facilities

Location	Telephone Number	Operations/Products & Services
Ohio		
Cincinnati	513-793-3200	Corporate headquarters; lighting
North Canton	330-494-9444	Graphics
Westlake	440-871-1603	Engineering services
California		
Anaheim	714-937-1374	Distribution center
Georgia		
Atlanta	678-297-0972	Engineering services
Kansas		
Kansas City	913-281-1100	Lighting
Kentucky		
Independence	859-342-9944	Menu boards; metal fabrication
New York		
New Windsor	845-562-5500	Lighting
Oregon		
Portland	503-892-2346	Engineering services
Rhode Island		
Woonsocket	401-766-7446	Graphics
South Carolina		
Fort Mill	803-548-1167	Engineering services
Tennessee		
Manchester	931-723-4442	Electrical wire harnesses
Texas		
Dallas	972-466-1133	Lighting
Houston	713-744-4100	Graphics
Washington		
Seattle	206-654-7045	Engineering services



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