



2002 Annual Report

Broadening Our **Capabilities** to Meet the Needs of Our **Customers**



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.

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

This Annual Report contains forward-looking statements regarding the earnings and projected business, among other things. These are 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 risks and uncertainties include, but are not limited to, the impact of competitive products and services, product demand and market acceptance risks, reliance on key customers, financial difficulties experienced by customers, the adequacy of reserves and allowances for doubtful accounts, fluctuations in operating results or costs, unexpected difficulties in integrating acquired businesses, and the ability to retain key employees of acquired businesses.

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Financial Highlights

LSI Industries Inc.

2002

2001

2000

Income Statement Data

(In thousands, except per share)

Net sales	<u>\$259,261</u>	<u>\$233,940</u>	<u>\$239,982</u>
Operating income	<u>\$ 23,380</u>	<u>\$ 17,236</u>	<u>\$ 28,556</u>
Income from continuing operations	<u>\$ 14,186</u>	<u>\$ 10,601</u>	<u>\$ 18,279</u>
Earnings per common share from continuing operations			
Basic	<u>\$.90</u>	<u>\$.68</u>	<u>\$ 1.20</u>
Diluted	<u>\$.88</u>	<u>\$.67</u>	<u>\$ 1.18</u>

Balance Sheet Data

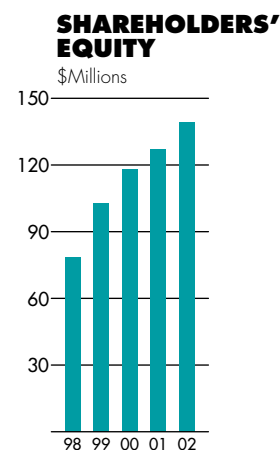
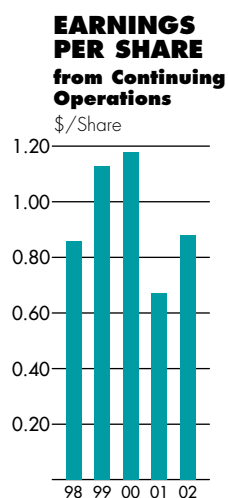
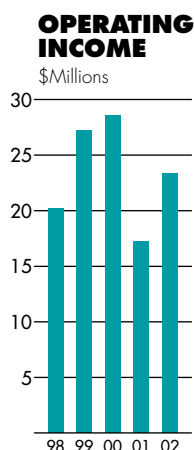
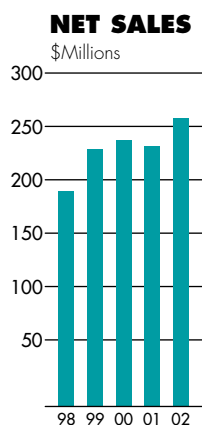
(In thousands)

Working capital	<u>\$ 55,793</u>	<u>\$ 62,119</u>	<u>\$ 61,139</u>
Total assets	<u>\$189,842</u>	<u>\$181,759</u>	<u>\$146,783</u>
Long-term debt, including current maturities	<u>\$ 18,053</u>	<u>\$ 23,990</u>	<u>\$ 1,701</u>
Shareholders' equity	<u>\$139,349</u>	<u>\$127,193</u>	<u>\$118,212</u>

Cash Flow Data

(In thousands)

Earnings before interest, taxes, depreciation and amortization (EBITDA) from continuing operations	<u>\$ 29,480</u>	<u>\$ 22,852</u>	<u>\$ 34,052</u>
Capital expenditures	<u>\$ 16,846</u>	<u>\$ 6,492</u>	<u>\$ 8,977</u>
Depreciation and amortization	<u>\$ 6,096</u>	<u>\$ 5,558</u>	<u>\$ 5,511</u>



Dear Shareholders

The past year has been one of the most challenging in my forty year career. Since September 11th we have experienced a business attitude I have never seen before. In many ways the type of changes that have occurred have brought our companies together in a more positive way than ever before. To me, it has proven that LSI has the kind of foundation that can weather all kinds of business climate changes, including the one we are experiencing today.

LSI's reported financial results were very good when compared to last year and when considering the general economic softness

that prevails. Net sales of \$259.3 million, a record high, were up 11% from last year's net sales of \$233.9 million. Both segments of the business reported growth, with the Image Segment up 12% to \$164.4 million and the Commercial / Industrial Lighting Segment up 9% to \$94.9 million. Income from continuing operations of \$14.2 million was up 34% from the \$10.6 million reported last year. Earnings per share of \$0.88 were similarly up 31% from last year's EPS of \$0.67. Finally, LSI continued to build shareholders' equity, now at \$139.3 million, while continuing both to invest for the growth of the business and pay cash dividends with a current yield of more than

2%. While all of these performance indicators are much improved over the prior year, LSI faces many challenges to growth next year, including general economic softness. The overall vision and business strategies of LSI are intact and we have made several

improvements in the operations.

We have developed new directions in the marketing of our lighting products over the past year. During the fourth quarter the Commercial / Industrial Lighting Segment made significant changes in its sales force of



LSI PETROLEUM – LSI SGI INTEGRATED GRAPHIC SYSTEMS – LIGHTING AND GRAPHICS

Site lighting, canopy lighting, fascia and dispenser signage and graphics all result in a powerful image that attracts customers and improves safety and security.

The true meaning of the LSI logo, Leadership, Strength, and Innovation, will be hallmark characteristics of this company and its employees for years to come.



LSI LIGHTRON – RETAIL LIGHTING
Interior lighting complements the architectural design, visually enhances shopping areas, and highlights entrances, signage and merchandise.



LSI LIGHTRON – NEW FACILITY

All of Lightron's operations, sales and customer service, engineering and manufacturing of commercial lighting products are now located in this new, efficient facility in New Windsor, New York.

THE MARKETING CENTER

The Marketing Center offers the visitor an overview of LSI Industries' products, capabilities and services. It shows the variety of markets LSI participates in and how combining lighting and graphics creates image and value to our customers.



LSI AUTHENTIC ABOLITE LIGHTING – INTERIOR LIGHTING *Architects or designers blend form and function of retro style lighting in restaurants, retail spaces, and commercial and office interiors for effective results.*



manufacturing rep agencies. We had the opportunity to improve our sales efforts in low performing territories, which we believe will pay dividends by improving our C&I revenues in fiscal 2003. We also took major organizational steps in the fourth quarter to pull our entire C&I product line together to help provide our sales representatives a stronger outdoor and indoor lighting package. This move to

consolidate marketing lighting products involved all of our lighting companies. There is no question that this direction will make us much stronger and put us in a much more competitive position in the commercial / industrial lighting market. During the last half of fiscal 2002 we made a major tooling investment in LSI MidWest's high volume interior fluorescent product line. This was a much-needed investment, which for the first time allows MidWest to compete in this high volume, but very competitive market.

After nine months of difficulty with weather, contractors and delays, our newest lighting acquisition, LSI Lightron, was able to move and establish operations in its new manufacturing facility. Originally we hoped to move Lightron into this new, highly efficient plant in our third quarter. The actual move occurred in June, which detracted from our efforts to have a stronger fourth quarter. This is all behind us, and each day Lightron is getting back on track to a stronger shipping schedule.

One of the greatest disappointments of the year was the fourth quarter slowdown in our Image Segment, specifically in the petroleum market. For the past two years we have been working on a number of major oil company re-imaging programs. We spent considerable time working with these companies, and in the first half of fiscal 2002 the re-imaging programs were beginning to ramp up. In February 2002,

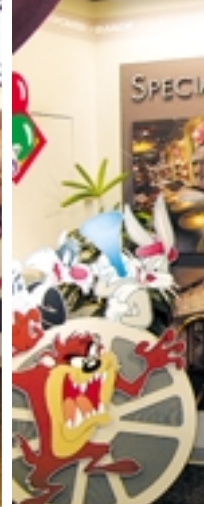


the re-imaging programs showed signs of slowing down; in April they just stopped. We believe this sudden change was primarily due to concerns about the Middle East and cash flow demands related to some rather large acquisitions that two of the three major oil giants entered into. We believe this slowdown is temporary and that the re-imaging programs will start back up in the second half of fiscal 2003.



LSI LIGHTING SYSTEMS – ARCHITECTURAL LIGHTING

Interior and exterior general illumination and focused accent lighting are integral components of an architectural design and statement.



It is difficult for us to forecast these major program changes because they can be on one day and off the next. We do not receive accurate forecasts from these customers, so it's almost impossible to give solid guidance to our investors. The petroleum market has been and will continue to be a very important segment of our business.

In just six short years, LSI has designed and implemented many innovative product

improvements to become the largest manufacturer of menu board systems in the U.S. The largest image conversion program of fiscal 2002, active in all four quarters and scheduled to run through December 2002, was the Burger King drive-through and interior menu board program. Sales of menu board systems, installation services, and lighting fixtures to Burger King and several of its franchisees were in excess of \$23 million in fiscal 2002. We expect first half fiscal 2003 sales to run at a strong, but





somewhat lower pace as the program in North America concludes.

Obviously the events of fiscal 2002 are unprecedented: 9-11; war with the Al Qaida; the threat of war with Iraq; financial reporting and accounting problems at several Fortune 500 companies; the very unstable state of the stock market; and last but not least, a very slow economy in the manufacturing industry. Most of these conditions, and others, have definitely

affected both our lighting business and our graphics business. LSI is a very strong company and we will rise to all of these challenges. Our people are working more closely together than ever before. We are working on all fronts to maximize sales revenues while at the same time implementing cost controls that should help improve margins even during a down-turned economy. We still have a very focused interest in acquisitions and believe there are some very good small companies that will fit very nicely into the LSI family.



Fiscal year 2002 started out to be one of our best years, but ended with some of our biggest challenges. There is no question that we are very disappointed in the recent performance of our stock. However, two or three quarters do not change the fundamentals or the fiber of this company. We still have the great people who have helped make this a great company. We believe that we have some of the best opportunities ever in both business segments to grow our business. Despite turbulent times, LSI remains the financially strong and focused company it has always been. The bottom line is that LSI Industries is a great company with a great future. The

LSI GRADY McCAULEY – LSI MIDWEST LIGHTING – LIGHTING AND GRAPHICS

Work station panels, department signage, floor graphics, fixture toppers, dimensional icons, illuminated backlit graphics and fluorescent lighting all enhance the retail environment.



**LSI GREENLEE LIGHTING –
ARCHITECTURAL LANDSCAPE LIGHTING**
*Innovative uplighting and downlighting create a
safe and secure environment that is visually
appealing.*



true meaning of the LSI logo, **Leadership, Strength, and Innovation**, will be hallmark characteristics of this company and its employees for years to come.

I would like to take this opportunity to express my genuine thanks to several groups of people. First, to the many dedicated and hard working employees of LSI, without whom we would not have achieved success. Second, to the suppliers of goods and services who contributed to our ability to manufacture high quality products. Third, to our customers who continue to recognize and appreciate that the value-added products and services of LSI are of high quality with good cost of ownership value. And obviously, to our shareholders who know the LSI business strategy can result in a good return on investment over the longer term. I know these groups all share my hope for continued success and stronger opportunities in the future.

Sincerely,

Robert J. Ready
Chairman, President and CEO

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

Sales by Business Segment

<i>(In thousands)</i>	2002	2001	2000
Image Segment	\$164,405	\$147,021	\$159,257
Commercial / Industrial			
Lighting Segment	94,856	86,919	80,725
	<u>\$259,261</u>	<u>\$233,940</u>	<u>\$239,982</u>

Results of Operations

Results of the Commercial / Industrial Lighting Segment in fiscal 2002 and in several months of fiscal 2001 include the operations of LSI Lightron (acquired November 2000), and results of the Image Segment include the operations of LSI Adapt (acquired January 2001). All share and per share data reflect the 3-for-2 stock split which was effective November 29, 2001.

2002 Compared To 2001

Net sales of \$259,261,000 in fiscal 2002 increased 11% from fiscal 2001 net sales of \$233,940,000. Commercial / Industrial Lighting Segment net sales increased 9% and Image Segment net sales increased 12% in fiscal 2002 as compared to the prior year. The increase in Commercial / Industrial Lighting Segment is attributed to the Company's participation in a new store program of a national retailer, and to a full year of sales of LSI Lightron versus only seven months last year, partially offset by economic softness in the commercial / industrial market. The increase in Image Segment net sales is primarily attributed to growth related to some image conversion programs, partially offset by general softness in the petroleum / convenience store market. Net sales of menu board systems and related installation revenue increased due to the roll-out program with Burger King Corporation. Net sales to Burger King and various of its franchisees represented the single largest program for the Company in fiscal 2002. This program is expected to be substantially completed by December 31, 2002. No comparable menu board program has been identified to replace this business. Additionally, the Company experienced an increase in graphics business

and related installation revenue related to roll out image conversion programs for customers in the petroleum / convenience store market. Net sales of the Image Segment to the petroleum / convenience store market represented 34% and 35% of total net sales in fiscal 2002 and fiscal 2001, respectively. Sales to this market increased 5% in fiscal 2002 as compared to last year entirely on the strength of two image conversion programs for two major oil companies, particularly in the first half of the year. The Company believes these programs stopped in the fourth quarter of fiscal 2002 primarily due to concerns about the Middle East and cash flow demands related to some large acquisitions that these major oil companies entered into. The Company believes this slow down is temporary and that the re-imaging programs will start back up in the second half of fiscal 2003. The petroleum / convenience store market has been, and will continue to be a very important niche market for the Company. While sales prices in some markets that the Company serves were increased, inflation did not have a significant impact on sales in fiscal 2002 as competitive pricing pressures held price increases to a minimum.

Gross profit of \$72,419,000 in fiscal 2002 increased 11% from last year's gross profit of \$65,411,000. The increase in amount of gross profit is due primarily to the 11% increase in net sales. Selling and administrative expenses increased 2% to \$49,039,000 from \$48,175,000. The increase was primarily attributed to the additional selling and administrative expenses from companies acquired during fiscal 2001, partially offset by lower selling costs associated with the increased sales volume of menu board systems, non-recurring settlement of two patent lawsuits (\$925,000 or \$0.04 per share, diluted), and to the positive effects of cost containment programs. As a percentage of net sales, selling and administrative expenses were at 18.9% in the fiscal 2002 as compared to 20.6% last year. The Company continued the task of converting its business operating software system company-wide. Total implementation costs expensed were \$696,000 (\$0.03 per share, diluted) in fiscal 2002,

as compared to expense of \$960,000 (\$0.04 per share, diluted) in fiscal 2001. Expenditures are expected to continue into calendar year 2004. See additional discussion in Liquidity and Capital Resources regarding depreciation of this business operating system.

The Company reported interest income of \$51,000 in fiscal 2002 as compared to \$630,000 in fiscal 2001. The change between years is primarily reflective of reduced interest rates and the Company being in a net cash investment position in the first half of fiscal 2001, and a net borrowing position since November 2001. Interest expense of \$575,000 in fiscal 2002 is down from \$607,000 in the prior year due to reduced interest rates, and the capitalization of \$92,000 of interest expense associated with construction of a manufacturing facility, partially offset by more than double the amount of average borrowings on the Company's line of credit. The Company's effective tax rate decreased to 37.9% in fiscal 2002 as compared to 38.8% last year primarily due to research and development income tax credits in 2002, partially offset by increased state and federal effective rates.

Income from continuing operations of \$14,186,000 in fiscal 2002 increased 34% from \$10,601,000. The increase is primarily the result of increased gross profit from increased sales, partially offset by increased operating expenses, increased net interest expense, and increased income taxes. Diluted earnings per share of \$0.88 in fiscal 2002 increased 31% from \$0.67 per share reported in fiscal 2001. The weighted average common shares outstanding for purposes of computing diluted earnings per share increased 2% in fiscal 2002 to 16,047,000 shares from 15,785,000 shares in 2001 as a result of common shares issued for the exercise of stock options and common shares issued for an acquisition during fiscal 2001.

Net income of \$14,186,000 (\$0.88 per share) in fiscal 2002 increased 44% from last year's net income of \$9,878,000 (\$0.63 per share). The increase is the result of increased income from continuing operations and a fiscal 2001 \$723,000 expense related to discontinued operations with no corresponding expense in fiscal 2002.

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. 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 35% 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.

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 \$0.67 in fiscal 2001 decreased 43% from \$1.18 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 15,785,000 shares from 15,531,000 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 (\$0.04 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 (\$0.07 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 (\$0.63 per share) in fiscal 2001 compares to net income of \$17,279,000 (\$1.11 per share) in fiscal 2000. The reduction was primarily the result of decreased income from continuing operations, partially offset by a decreased charge to discontinued operations in fiscal 2001.

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, 2002 the Company had working capital of \$55.8 million, compared to \$62.1 million at June 30, 2001. The ratio of current assets to current liabilities decreased to 2.84 to 1 from 3.09 to 1. The decreased working capital is primarily attributed to decreased accounts receivable, and increased accrued

expenses, partially offset by increased inventories, and decreased notes payable to bank. The reduction in accounts receivable is attributed to both lower fourth quarter net sales in fiscal 2002 as compared to last year's fourth quarter and to a reduction in the days sales outstanding.

The Company generated \$27.2 million of cash from operating activities in fiscal 2002 as compared to a use of \$2.8 million in fiscal 2001. The increase in net cash flows from operating activities in fiscal 2002 is primarily the net result of increased net income, a reduction rather than an increase in accounts receivable, increased accrued expenses, and increased depreciation and amortization expense, partially offset by increased inventories.

As of June 30, 2002, the Company's days sales outstanding were at approximately 64 days, decreased from 73 days at June 30, 2001. Net accounts and notes receivables were \$42.3 million and \$51.6 million at June 30, 2002 and June 30, 2001, respectively. Collection cycles from a few large customers in the Image Segment, as well as several other customers, have been very slow due to a combination of factors, including customer cash availability and economic conditions. The majority of one such open customer account (petroleum / convenience store customer) was converted into a collateralized note receivable during fiscal 2002, with the balance of the note at \$2.8 million and the unsecured receivable at \$0.3 million as of June 30, 2002. This note provides for scheduled payments and is to be paid in full by October 31, 2002. This customer continues to make payments on the note, but was behind as compared to scheduled payments, thereby causing the maturity date to be extended. The Company also has unsecured accounts receivable, as well as dedicated inventory, from Kmart, the large national retailer that filed Chapter 11 bankruptcy in January 2002. The Company's total exposure is approximately \$1.7 million. Subject to continual review, shipments to Kmart have resumed on a limited basis on open account. The two customers above represent approximately 10% of the Company's total net accounts

and notes receivable. The Company believes that the receivables and inventory discussed above are ultimately collectible or recoverable, net of certain reserves, and that aggregate allowances for doubtful accounts are adequate.

Cash generated from operations is the Company's primary source of liquidity. In addition, the Company has an unsecured \$50 million revolving line of credit with its bank group. This line of credit was renewed in the third quarter of fiscal 2002 with no change in terms and conditions. As of August 23, 2002 there was approximately \$33.8 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 2005 and a \$20 million credit facility with an annual renewal in the third quarter of fiscal 2003. The Company believes that the total of available lines of credit plus cash flows from operating activities is adequate for the Company's fiscal 2003 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants.

Capital expenditures of \$16.8 million in fiscal 2002 compare to \$6.5 million in fiscal 2001. The primary cause of the increased spending is the new 192,000 square foot manufacturing facility that LSI Lightron moved into in New Windsor, New York late in June 2002. Capital expenditures in fiscal 2003 are expected to be approximately \$8 million, exclusive of business acquisitions.

The Company used \$8.8 million in financing activities in fiscal 2002 as compared to a generation of \$16.6 million in fiscal 2001. The change is the net result of a net \$6.5 million repayment of funded debt in fiscal 2002 as compared to a net borrowing of \$20.1 million of funded debt last year, and the difference between years in the amount of stock options exercised.

The Company has been implementing a fully integrated enterprise resource planning / business operating system over the past three fiscal years, and will continue to do so into fiscal 2004. A certain portion of the \$7.1 million of software expenditures that are capitalized to date are being depreciated by the

subsidiary companies currently using the software. More of this capitalized asset will be depreciated as additional companies implement this software, with scheduled full write-off to occur in fiscal 2008. Some additional capitalization of this internal-use software is expected.

On August 14, 2002 the Board of Directors declared a regular quarterly cash dividend of \$0.06 per share (approximately \$947,000), payable September 10, 2002 to shareholders of record on September 3, 2002. During the fiscal 2002, the Company paid cash dividends in the amount of \$3.7 million, as compared to \$4.0 million in fiscal 2001.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and issued 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 had the option of adopting SFAS No. 142 either July 1, 2001 or July 1, 2002. The Company will adopt SFAS No. 142 effective July 1, 2002 and is currently evaluating the impact to its financial statements, financial position, results of operations and cash flows. Goodwill amortization expense will be reduced to zero in fiscal 2003 when SFAS No. 142 is adopted.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," and in August 2001 issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 143 establishes standards of accounting for asset retirement obligations (i.e., legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees) and the associated asset retirement costs. SFAS No. 144 replaces existing accounting pronouncements related to impairment or disposal of long-lived assets. Both SFAS No. 143 and No. 144 are effective July 1, 2002.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal of facilities, and must be implemented not later than December 31, 2002. The Company is currently evaluating the impact of these statements, but does not expect any significant impact on its financial condition or results of operations when they are implemented.

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, 2002, 2001, and 2000

(In thousands, except per share)

	2002	2001	2000
Net sales	\$259,261	\$233,940	\$239,982
Cost of products sold	186,842	168,529	166,207
Gross profit	72,419	65,411	73,775
Selling and administrative expenses	49,039	48,175	45,219
Operating income	23,380	17,236	28,556
Interest (income)	(51)	(630)	(1,057)
Interest expense	575	607	189
Other (income) expense	(4)	(58)	15
Income from continuing operations before income taxes	22,860	17,317	29,409
Income tax expense	8,674	6,716	11,130
Income from continuing operations	14,186	10,601	18,279
Discontinued operations, net of tax benefit of \$387 and \$538, respectively	—	723	1,000
Net income	\$ 14,186	\$ 9,878	\$ 17,279
Earnings per common share from continuing operations			
Basic earnings per share	\$.90	\$.68	\$ 1.20
Diluted earnings per share	\$.88	\$.67	\$ 1.18
Earnings per common share			
Basic earnings per share	\$.90	\$.64	\$ 1.13
Diluted earnings per share	\$.88	\$.63	\$ 1.11
Weighted average common shares outstanding			
Basic	15,715	15,537	15,293
Diluted	16,047	15,785	15,531

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

Consolidated Balance Sheets

June 30, 2002 and 2001

(In thousands, except shares)

	2002	2001
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 357	\$ 340
Accounts and notes receivable, less allowance for doubtful accounts of \$1,644 and \$1,745, respectively	42,273	51,609
Inventories	38,846	35,079
Refundable income taxes	1,989	854
Other current assets	2,711	3,898
Total current assets	86,176	91,780
Property, Plant and Equipment, at cost		
Land	4,553	3,967
Buildings	23,102	22,992
Machinery and equipment	41,854	35,874
Construction in progress	17,752	7,820
	87,261	70,653
Less accumulated depreciation	(32,436)	(28,412)
Net property, plant and equipment	54,825	42,241
Goodwill, net	41,825	41,572
Other Assets, net	7,016	6,166
	<u>\$189,842</u>	<u>\$181,759</u>

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

	2002	2001
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to bank	\$ —	\$ 552
Current maturities of long-term debt	365	352
Accounts payable	14,910	15,268
Accrued expenses	15,108	12,778
Net liabilities from discontinued operations	—	711
Total current liabilities	30,383	29,661
Long-Term Debt	17,688	23,638
Deferred Income Taxes	2,422	1,267
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 15,776,702 and 15,657,550 shares, respectively	52,497	50,808
Retained earnings	86,852	76,385
Total shareholders' equity	139,349	127,193
	<u>\$189,842</u>	<u>\$181,759</u>

Consolidated Statements of Shareholders' Equity

For the years ended June 30, 2002, 2001, and 2000

(In thousands, except per share)

	Common Shares		Retained Earnings	Total
	Number of Shares	Amount		
Balance at June 30, 1999	15,228	\$45,588	\$57,164	\$102,752
Net income	—	—	17,279	17,279
Purchase of treasury shares	(22)	(349)	—	(349)
Deferred stock compensation	—	338	—	338
Stock options exercised, net	232	2,142	—	2,142
Dividends - \$.26 per share	—	—	(3,950)	(3,950)
Balance at June 30, 2000	15,438	47,719	70,493	118,212
Net income	—	—	9,878	9,878
Purchase of treasury shares	(22)	(305)	—	(305)
Deferred stock compensation	—	248	—	248
Stock options exercised, net	72	821	—	821
Common shares issued for acquisitions	170	2,325	—	2,325
Dividends - \$.26 per share	—	—	(3,986)	(3,986)
Balance at June 30, 2001	15,658	50,808	76,385	127,193
Net income	—	—	14,186	14,186
Purchase of treasury shares	(13)	(256)	—	(256)
Deferred stock compensation	—	267	—	267
Stock options exercised, net	132	1,678	—	1,678
Dividends - \$.24 per share	—	—	(3,719)	(3,719)
Balance at June 30, 2002	<u>15,777</u>	<u>\$52,497</u>	<u>\$86,852</u>	<u>\$139,349</u>

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

Consolidated Statements of Cash Flows

For the years ended June 30, 2002, 2001, and 2000

(In thousands)

	2002	2001	2000
Cash Flows From Operating Activities			
Net income	\$14,186	\$ 9,878	\$17,279
Non-cash items included in income			
Depreciation and amortization	6,096	5,558	5,511
Deferred income taxes	2,191	1,023	(566)
Deferred compensation plan	267	248	338
(Gain) loss on disposition of fixed assets	(4)	(58)	15
Change (excluding effects of acquisitions) in			
Accounts and notes receivable	9,336	(12,107)	4,206
Inventories	(3,767)	(5,450)	(32)
Refundable income taxes	(1,135)	306	(1,003)
Accounts payable	(358)	504	(2,279)
Accrued expenses and other	1,144	(1,581)	(4,966)
Net liabilities from discontinued operations	(711)	(1,072)	1,292
Net cash flows from operating activities	<u>27,245</u>	<u>(2,751)</u>	<u>19,795</u>
Cash Flows From Investing Activities			
Purchase of property, plant, and equipment	(16,846)	(6,492)	(8,977)
Proceeds from sale of fixed assets	7	155	3
Acquisition of businesses, net of cash received	(1,603)	(29,163)	—
Net cash flows from investing activities	<u>(18,442)</u>	<u>(35,500)</u>	<u>(8,974)</u>
Cash Flows From Financing Activities			
Increase (decrease) of borrowings under line of credit	(552)	552	(379)
Proceeds from issuance of long-term debt	—	22,000	—
Payment of long-term debt	(5,937)	(2,457)	(200)
Cash dividends paid	(3,719)	(3,986)	(3,950)
Exercise of stock options	1,678	821	2,142
Purchase of treasury shares	(256)	(305)	(349)
Net cash flows from financing activities	<u>(8,786)</u>	<u>16,625</u>	<u>(2,736)</u>
Increase (decrease) in cash and cash equivalents	17	(21,626)	8,085
Cash and cash equivalents at beginning of year	340	21,966	13,881
Cash and cash equivalents at end of year	<u>\$ 357</u>	<u>\$ 340</u>	<u>\$21,966</u>

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 pre-payments 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. At June 30, 2002 the balance included \$2,308,000 in excess of FDIC insurance limits.

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 excess of cost over fair value of

assets acquired ("goodwill") is amortized to expense over periods ranging between fifteen and forty years. See additional information about goodwill and intangibles in Note 6. The Company periodically evaluates intangible assets, goodwill and other long-lived assets for permanent impairment. To date no impairments have been recorded.

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.

Contingencies:

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

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 \$1,876,000 in 2002, \$1,581,000 in 2001, and \$2,052,000 in 2000.

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 332,000 shares in 2002, 248,000 shares in 2001, and 238,000 shares in 2000. See also Notes 4 and 8.

Recent pronouncements:

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 had the option of adopting SFAS No. 142 either July 1, 2001 or July 1, 2002. The Company will adopt SFAS No. 142 effective July 1, 2002 and is currently evaluating the impact to its financial statements, financial position, results of operations and cash flows related to the implementation of this Statement.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," and in August 2001 issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 143 establishes standards of accounting for asset retirement obligations (i.e., legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees) and the associated asset retirement costs. SFAS No. 144 replaces existing accounting pronouncements related to impairment or disposal of long-lived assets. Both SFAS No. 143 and No. 144 are effective July 1, 2002.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal of facilities, and must be implemented not later than December 31, 2002. The Company is currently evaluating the impact of these statements, but does not expect any significant impact on its financial condition or results of operations when they are implemented.

Reclassification:

Certain reclassifications may 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.

NOTE 2 - DISCONTINUED OPERATIONS

In 1992 the Company sold the assets and operations of its subsidiary in the United Kingdom (U.K.), 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 buy-out 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 by the Company was added to the 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 \$0.07 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 \$0.04 per share). The resultant reserve balance of \$1.1 million as of June 30, 2001 was adequate to cover all remaining obligations of the Company with respect to this facility. Payment of these obligations occurred primarily in the first quarter of fiscal year 2002.

A summary of the activity in the reserve for discontinued operations during fiscal years 2002 and 2001 is as follows:

<i>(In thousands)</i>	2002	2001
Balance beginning of year	\$1,091	\$2,745
less: Payments made	(1,091)	(2,764)
plus: Charge to discontinued operations	<u>—</u>	<u>1,110</u>
Balance end of year	<u>\$ —</u>	<u>\$1,091</u>

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

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, which is included in the Image Segment, is the petroleum / convenience store market with approximately 35%, 36% and 38% of net sales concentrated in this market in fiscal 2002, 2001, and 2000, respectively.

The following information is provided for the following periods:

<i>(In thousands)</i>	2002	2001	2000
Net sales:			
Image Segment	\$164,405	\$147,021	\$159,257
Commercial / Industrial Lighting Segment	<u>94,856</u>	<u>86,919</u>	<u>80,725</u>
	<u>\$259,261</u>	<u>\$233,940</u>	<u>\$239,982</u>
Operating income:			
Image Segment	\$ 19,991	\$ 14,690	\$ 21,024
Commercial / Industrial Lighting Segment	<u>3,389</u>	<u>2,546</u>	<u>7,532</u>
	<u>\$ 23,380</u>	<u>\$ 17,236</u>	<u>\$ 28,556</u>
Identifiable assets:			
Image Segment	\$ 98,707	\$105,072	\$ 84,513
Commercial / Industrial Lighting Segment	<u>88,960</u>	<u>75,416</u>	<u>38,588</u>
	<u>187,667</u>	<u>180,488</u>	<u>123,101</u>
Corporate	<u>2,175</u>	<u>1,271</u>	<u>23,682</u>
	<u>\$189,842</u>	<u>\$181,759</u>	<u>\$146,783</u>
Capital expenditures:			
Image Segment	\$ 3,842	\$ 3,926	\$ 6,279
Commercial / Industrial Lighting Segment	<u>13,004</u>	<u>2,566</u>	<u>2,698</u>
	<u>\$ 16,846</u>	<u>\$ 6,492</u>	<u>\$ 8,977</u>
Depreciation and amortization:			
Image Segment	\$ 3,470	\$ 3,139	\$ 3,687
Commercial / Industrial Lighting Segment	<u>2,626</u>	<u>2,419</u>	<u>1,824</u>
	<u>\$ 6,096</u>	<u>\$ 5,558</u>	<u>\$ 5,511</u>

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 12) 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:

<i>(In thousands, except per share)</i>	2002	2001	2000
BASIC EARNINGS PER SHARE			
Income from continuing operations	<u>\$14,186</u>	<u>\$10,601</u>	<u>\$18,279</u>
Net income	<u>\$14,186</u>	<u>\$ 9,878</u>	<u>\$17,279</u>
Weighted average shares outstanding during the period, net of treasury shares	<u>15,715</u>	<u>15,537</u>	<u>15,293</u>
Basic earnings per share from continuing operations	<u>\$ 0.90</u>	<u>\$ 0.68</u>	<u>\$ 1.20</u>
Basic earnings per share	<u>\$ 0.90</u>	<u>\$ 0.64</u>	<u>\$ 1.13</u>

<i>(In thousands, except per share)</i>	2002	2001	2000
DILUTED EARNINGS PER SHARE			
Income from continuing operations	<u>\$14,186</u>	<u>\$10,601</u>	<u>\$18,279</u>
Net income	<u>\$14,186</u>	<u>\$ 9,878</u>	<u>\$17,279</u>
Weighted average shares outstanding during the period, net of treasury shares	15,715	15,537	15,293
Effect of dilutive securities (A):			
Impact of common shares to be issued under stock option plans, a deferred compensation plan, and contingently issuable shares	<u>332</u>	<u>248</u>	<u>238</u>
Weighted average shares outstanding (B)	<u>16,047</u>	<u>15,785</u>	<u>15,531</u>
Diluted earnings per share from continuing operations	<u>\$ 0.88</u>	<u>\$ 0.67</u>	<u>\$ 1.18</u>
Diluted earnings per share	<u>\$ 0.88</u>	<u>\$ 0.63</u>	<u>\$ 1.11</u>
(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 2,062 common shares, 74,726 common shares, and 54,158 common shares at June 30, 2002, 2001, and 2000, 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:

<i>(In thousands)</i>	2002	2001
Inventories:		
Raw materials	\$17,316	\$16,485
Work-in-process and finished goods	21,530	18,594
	<u>\$38,846</u>	<u>\$35,079</u>
Accrued Expenses:		
Compensation and benefits	\$ 8,136	\$ 6,119
Customer prepayments	1,505	1,729
Other accrued expenses	5,467	4,930
	<u>\$15,108</u>	<u>\$12,778</u>

NOTE 6 - GOODWILL AND INTANGIBLE ASSETS

The following tables present information about the Company's goodwill and intangible assets on the dates or for the periods indicated. The fiscal year 2002 increase in goodwill of \$1,603,000 relates to past acquisitions and is the net result of an adjustment related to deferred income taxes, and to purchase price adjustments or earn out payments pursuant to the purchase agreements.

<i>(In thousands)</i>	As of June 30, 2002		
	Carrying Amount	Accumulated Amortization	Net
Goodwill	<u>\$46,024</u>	<u>\$4,199</u>	<u>\$41,825</u>
Intangible Assets	<u>\$ 6,450</u>	<u>\$ 771</u>	<u>\$ 5,679</u>

	As of June 30, 2001		
	Carrying Amount	Accumulated Amortization	Net
Goodwill	<u>\$44,421</u>	<u>\$2,849</u>	<u>\$41,572</u>
Intangible Assets	<u>\$ 6,450</u>	<u>\$ 284</u>	<u>\$ 6,166</u>

Fiscal Year	Amortization Expense		
	Goodwill	Intangible Assets	Total
2002	<u>\$1,350</u>	<u>\$ 487</u>	<u>\$1,837</u>
2001	<u>\$1,022</u>	<u>\$ 284</u>	<u>\$1,306</u>
2000	<u>\$ 689</u>	<u>\$ —</u>	<u>\$ 689</u>

NOTE 7 - 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, 2002 the available portion of this line of credit was \$33.6 million. A portion of this credit facility is a \$20 million line of credit that expires in the third quarter of fiscal 2003. The remainder of the credit facility is a \$30 million three year committed line of credit that expires in fiscal 2005. Annually in the third quarter, the credit facility is renewable with respect to adding an additional year of commitment to replace the year just ended. Interest on the revolving lines of credit is charged based upon an increment over the LIBOR rate as periodically determined, 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, 2002 the average interest rate on borrowings under this revolving line of credit was 2.4%. 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 2002 averaged approximately \$17.2 million at an approximate average borrowing rate of 3.2%.

The Company has an Industrial Revenue Development Bond (IRB) borrowing in the amount of \$780,000 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 1.85%, 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 \$1.7 million.

The Company has equipment loans outstanding totaling \$851,000 with monthly principal and interest payments extending through fiscal 2006. The weighted average interest rate of these loans is 4.8% and they are secured by specified equipment which has a net carrying value of \$1.4 million. With one of these loans the Company is committed to specified job growth in its facility in Northeast Ohio.

During fiscal 2002, \$92,000 of interest expense related to construction of a new manufacturing facility was capitalized and is included in construction in progress at June 30, 2002. No interest expense was capitalized in fiscal 2001 or 2000.

<i>(In thousands)</i>	2002	2001
Long-term debt:		
Revolving Line of Credit (3 year committed line)	\$16,422	\$22,552
Industrial Revenue Development Bond at 1.85%	780	860
Equipment loans (average rate of 4.8%)	851	1,130
	18,053	24,542
Less notes payable to bank	—	552
Total long-term debt	18,053	23,990
Less current maturities of long-term debt	365	352
Long-term debt	\$17,688	\$23,638

Future maturities of long-term debt at June 30, 2002 are as follows (in thousands):

2003	2004	2005	2006	2007	2008 and after
\$365	\$384	\$16,672	\$202	\$100	\$330

NOTE 8 - 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 1,426,950, of which 780,618 shares were available for future grant as of June 30, 2002. 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 2002, 2001, and 2000.

	2002	2001	2000
Dividend yield	1.38%	1.81%	1.25%
Expected volatility	35%	40%	42%
Risk-free interest rate	2.16%-	4.54%-	6.14%-
	3.62%	6.50%	6.90%
Expected life	3-7 yrs.	4-8 yrs.	4-8 yrs.

At June 30, 2002, the 201,838 options granted during fiscal 2002 to employees and non-employee directors had, at June 30, 2002, exercise prices ranging from \$14.60 to \$19.80, fair values ranging from \$2.99 to \$6.38 per option, and remaining contractual lives of four to nine years. The 330,450 options granted during fiscal 2001 to employees and non-employee directors have exercise prices ranging from \$10.29 to \$14.70, fair values ranging from \$2.83 to \$5.95 per option, and remaining contractual lives of four to nine years. The 28,200 options granted during fiscal 2000 to employees and non-employee directors have exercise prices ranging from \$11.79 to \$15.50, fair values ranging from \$4.99 to \$7.89 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, 2002, 2001, and 2000 would have been as follows:

<i>(In thousands except earnings per share)</i>	2002	2001	2000
Net income			
As reported	\$14,186	\$9,878	\$17,279
Pro forma	\$13,652	\$9,380	\$17,035
Earnings per common share			
Basic			
As reported	\$ 0.90	\$.64	\$ 1.13
Pro forma	\$ 0.87	\$.61	\$ 1.11
Diluted			
As reported	\$ 0.88	\$.63	\$ 1.11
Pro forma	\$ 0.85	\$.61	\$ 1.10

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, 2002, 2001, and 2000 is shown in the table below:

<i>(Shares in thousands)</i>	2002	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	605	\$10.92
Granted	202	\$14.77
Terminated	(29)	\$11.35
Exercised	(134)	\$10.30
Outstanding at end of year	<u>644</u>	<u>\$12.23</u>
Exercisable at end of year	<u>185</u>	<u>\$11.59</u>

<i>(Shares in thousands)</i>	2001	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	363	\$10.75
Granted	331	\$10.73
Terminated	(16)	\$10.46
Exercised	(73)	\$ 9.33
Outstanding at end of year	<u>605</u>	<u>\$10.92</u>
Exercisable at end of year	<u>164</u>	<u>\$10.93</u>

<i>(Shares in thousands)</i>	2000	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	613	\$ 9.61
Granted	28	\$14.49
Terminated	(10)	\$10.69
Exercised	(268)	\$ 8.53
Outstanding at end of year	<u>363</u>	<u>\$10.75</u>
Exercisable at end of year	<u>163</u>	<u>\$10.00</u>

The Company implemented a non-qualified deferred compensation plan in fiscal 1997. All Plan investments are in common shares of the Company. The deferred compensation plan provides for both Company contributions and participant deferrals of compensation. As of June 30, 2002 there were 41 participants with either partially or fully vested account balances. A total of 124,478 and 111,392 common shares were held in the Plan as of June 30, 2002 and 2001, 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 12):

<i>(In thousands, except shares)</i>	Number of	Stated
Date	Common Shares	Value
1/10/01	164,145	\$2,250
6/8/01	5,654	\$ 75

On August 14, 2002, the Board of Directors declared a cash dividend of \$0.06 per share to be paid September 10, 2002 to shareholders of record on September 3, 2002. Annual cash dividend payments made during fiscal years 2002, 2001, and 2000 were \$0.24, \$0.26, and \$0.26 per share, respectively.

NOTE 9 - LEASES

The Company leases certain of its facilities and equipment under operating lease arrangements. Rental expense was \$1,875,000 in 2002, \$1,536,000 in 2001, and \$1,385,000 in 2000. Minimum annual rental commitments under non-cancelable operating leases are: \$1,541,000 in 2003, \$1,282,000 in 2004, \$1,137,000 in 2005, \$1,074,000 in 2006, \$1,005,000 in 2007, and \$1,117,000 in 2008 and beyond.

NOTE 10 - INCOME TAXES

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

<i>(In thousands)</i>	2002	2001	2000
Provision (benefit) for income taxes:			
Current federal	\$5,633	\$5,190	\$10,773
Current state and local	850	588	923
Deferred	2,191	938	(566)
	<u>\$8,674</u>	<u>\$6,716</u>	<u>\$11,130</u>
Reconciliation to federal statutory rate:			
Federal statutory tax rate	35.0%	34.8%	35.0%
State and local taxes, net of federal benefit	2.8	2.2	2.0
Goodwill and other	.1	1.8	.8
Effective tax rate	<u>37.9%</u>	<u>38.8%</u>	<u>37.8%</u>

The components of deferred income tax assets and (liabilities) at June 30, 2002 and 2001 are as follows:

<i>(In thousands)</i>	2002	2001
Reserves against current assets	\$ 1,040	\$ 1,054
Prepaid expenses	(2,035)	(1,241)
Accrued expenses	1,110	960
Depreciation	(3,186)	(1,944)
Goodwill and acquisition costs	148	160
Deferred compensation	617	516
Net liabilities from discontinued operations	<u>—</u>	<u>380</u>
Net deferred income tax asset (liability)	<u>\$ (2,306)</u>	<u>\$ (115)</u>

Reconciliation to the balance sheets as of June 30, 2002 and 2001:

<i>(In thousands)</i>	2002	2001
Deferred income tax asset (liability) included in:		
Other current assets	\$ 116	\$ 772
Net liabilities from discontinued operations	—	380
Long-term deferred income tax liability	(2,422)	(1,267)
Net deferred income tax asset (liability)	<u>\$ (2,306)</u>	<u>\$ (115)</u>

NOTE 11 - SUPPLEMENTAL CASH FLOW INFORMATION

<i>(In thousands)</i>	2002	2001	2000
Cash payments:			
Interest	\$ 714	\$ 526	\$ 160
Income taxes	\$8,003	\$ 5,124	\$12,520

Non-cash investing and financing activities:

Value of common shares issued for acquisitions	\$ —	\$ 2,325	\$ —
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Details of acquisitions:

Working capital, less cash	\$ —	\$ 2,948	\$ —
Property, plant & equipment	—	2,976	—
Other assets, net	—	5,551	—
Excess of purchase price paid over estimated net assets of acquired businesses	1,603	20,013	—
	1,603	31,488	—
Less fair value of common shares issued	—	(2,325)	—
Cash paid for acquisitions	<u>\$1,603</u>	<u>\$29,163</u>	<u>\$ —</u>

NOTE 12 - 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 thirteen months subsequent to acquisition. The new subsidiary, LSI Lightron Inc., continues 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. With the completion of construction of a new facility in the fourth quarter of fiscal year 2002, the manufacturing assets, inventory, and remaining related acquired liabilities of Lightron of Cornwall were transferred to LSI Lightron. Until such transfer of assets, a portion of the purchase price remained in escrow and Lightron of Cornwall was 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 \$16.4 million, which is recorded as goodwill and is being amortized over forty years.

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 164,145 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 "earn-out" 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 earn-out 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 performance in the second earn-out period was above a minimum target and an earn-out payment of \$0.9 million will be made in the first quarter of fiscal year 2003. 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, exceeded the estimated fair value of net assets acquired by approximately \$4.0 million, which has been recorded as goodwill and is being amortized over fifteen years.

NOTE 13 - SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

	Quarter Ended				Fiscal
(In thousands, except per share data)	Sept. 30	Dec. 31	March 31	June 30	Year
2002					
Net sales	\$67,049	\$76,694	\$58,261	\$57,257	\$259,261
Gross profit	19,084	21,740	15,897	15,698	72,419
Income from continuing operations	3,702	4,607	2,549	3,328	14,186
Earnings per share from continuing operations					
Basic	\$.24	\$.29	\$.16	\$.21	\$.90
Diluted	\$.23	\$.29	\$.16	\$.21	\$.88(a)
Range of share prices					
High	\$ 18.43	\$ 18.25	\$ 22.39	\$ 20.80	\$ 22.39
Low	\$ 12.97	\$ 14.13	\$ 16.30	\$ 14.30	\$ 12.97
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	\$.19	\$.20	\$.08	\$.22	\$.68(a)
Diluted	\$.19	\$.19	\$.08	\$.21	\$.67
Range of share prices					
High	\$ 15.29	\$ 14.67	\$ 14.67	\$ 17.97	\$ 17.97
Low	\$ 9.67	\$ 11.00	\$ 11.83	\$ 12.01	\$ 9.67
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	\$.35	\$.37	\$.21	\$.27	\$ 1.20
Diluted	\$.34	\$.37	\$.20	\$.26	\$ 1.18(a)
Range of share prices					
High	\$ 16.83	\$ 17.00	\$ 14.37	\$ 14.77	\$ 17.00
Low	\$ 15.09	\$ 17.00	\$ 9.79	\$ 8.33	\$ 8.33

(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, 2002, there were 413 shareholders of record. The Company believes this represents approximately 3,000 beneficial shareholders.

Report of Independent Certified Public Accountants

To LSI Industries Inc.:

We have audited the accompanying consolidated balance sheet of LSI Industries Inc. (an Ohio Corporation) and subsidiaries as of June 30, 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended. 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 audit. The consolidated financial statements of LSI Industries Inc. and subsidiaries as of June 30, 2001 and for the years ended June 30, 2001 and 2000, were audited by other auditors who have ceased operations. Those auditors, whose report was dated August 15, 2001, expressed an unqualified opinion on those statements.

We conducted our audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion on the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LSI Industries Inc. and subsidiaries as of June 30, 2002, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Cincinnati, Ohio
August 16, 2002

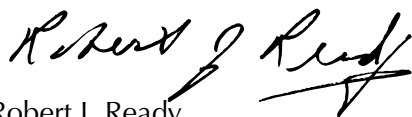
Report of Management

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.

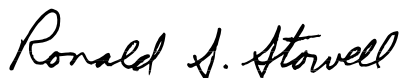
In meeting its responsibility for the reliability of the financial statements, the Company depends upon its system of internal accounting controls. The system is designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded. The system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

The Company's independent certified public accountants, Grant Thornton 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 independent Directors who are not employees of the Company. The Audit Committee meets periodically with Management and with the independent certified public accountants to review and assess the activities of each in meeting their respective responsibilities. The independent certified 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



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

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)

Income Statement Data:

	2002	2001	2000	1999	1998
Net sales	\$259,261	\$233,940	\$239,982	\$231,722	\$193,439
Cost of products sold	186,842	168,529	166,207	159,145	132,872
Operating expenses	49,039	48,175	45,219	45,349	40,373
Operating income	23,380	17,236	28,556	27,228	20,194
Interest (income)	(51)	(630)	(1,057)	(477)	(143)
Interest expense	575	607	189	224	106
Other (income) expense	(4)	(58)	15	95	108
Income from continuing operations before income taxes	22,860	17,317	29,409	27,386	20,123
Income taxes	8,674	6,716	11,130	10,285	7,536
Income from continuing operations	\$ 14,186	\$ 10,601	\$ 18,279	\$ 17,101	\$ 12,587
Net income	\$ 14,186	\$ 9,878	\$ 17,279	\$ 17,101	\$ 12,587
Earnings per common share from continuing operations					
Basic	\$.90	\$.68	\$ 1.20	\$ 1.15	\$.88
Diluted	\$.88	\$.67	\$ 1.18	\$ 1.13	\$.86
Cash dividends paid per share	\$.24	\$.26	\$.26	\$.22	\$.19
Weighted average common shares					
Basic	15,715	15,537	15,293	14,825	14,339
Diluted	16,047	15,785	15,531	15,132	14,685

Balance Sheet Data:

(At June 30)	2002	2001	2000	1999	1998
Working capital	\$ 55,793	\$ 62,119	\$ 61,139	\$ 49,615	\$ 40,237
Total assets	189,842	181,759	146,783	137,714	110,316
Long-term debt, including current maturities	18,053	23,990	1,701	1,901	1,195
Shareholders' equity	139,349	127,193	118,212	102,752	78,657

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*

Allen L. Davis
*Financial Consultant
Member of Audit Committee
Member of Compensation Committee*

Gary P. Kreider
*Senior Partner of Keating, Muething & Klekamp, P.L.L.
Cincinnati, Ohio
Member of Audit Committee
Member of Compensation Committee*

Dennis B. Meyer
*Director of Midmark Corporation, Versailles, Ohio
Member of Audit Committee
Chairman of Compensation Committee*

Wilfred T. O'Gara
*Chief Executive Officer – Ohio Medical Instruments
Corporation, 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

Independent Certified Public Accountants

Grant Thornton LLP
Cincinnati, Ohio

Legal Counsel

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

Transfer Agent and Registrar

The Provident Bank
309 Vine Street
Cincinnati, Ohio 45202

Annual Meeting

The LSI Industries Inc. annual shareholders' meeting will be held Thursday, November 14, 2002 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:

The 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 2002 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.

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	845-220-3200	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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