

LSI INDUSTRIES INC
Form 10-Q
January 31, 2011

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

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

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

Commission File No. 0-13375

LSI Industries Inc.

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

10000 Alliance Road

Cincinnati, Ohio 45242

(513) 793-3200

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

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

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

Large accelerated filer [] Accelerated filer [X]

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

Non-accelerated [] Smaller
filer [] reporting []
company

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

As of January 27, 2011 there were 24,047,305 shares of the Registrant's common stock outstanding.

1

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

INDEX

		Begins on Page
PART I. Financial Information		
ITEM 1.	Financial Statements	
	Condensed Consolidated Income Statements	3
	Condensed Consolidated Balance Sheets	4
	Condensed Consolidated Statements of Cash Flows	5
	Notes to Condensed Consolidated Financial Statements	6
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	33
ITEM 4.	Controls and Procedures	33
PART II. Other Information		
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	33
ITEM 6.	Exhibits	34
Signatures		34

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

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED INCOME STATEMENTS
(Unaudited)

(In thousands, except per share data)	Three Months Ended December 31		Six Months Ended December 31	
	2010	2009	2010	2009
Net sales	\$ 74,805	\$ 69,374	\$ 154,656	\$ 137,050
Cost of products and services sold	56,158	53,074	115,387	104,153
Gross profit	18,647	16,300	39,269	32,897
Selling and administrative expenses	13,998	13,367	27,998	27,467
Operating income	4,649	2,933	11,271	5,430
Interest (income)	(4)	(4)	(24)	(7)
Interest expense	42	36	84	73
Income before income taxes	4,611	2,901	11,211	5,364
Income tax expense	1,663	1,309	3,995	2,135
Net income	\$ 2,948	\$ 1,592	\$ 7,216	\$ 3,229
Earnings per common share (see Note 5)				
Basic	\$ 0.12	\$ 0.07	\$ 0.30	\$ 0.13
Diluted	\$ 0.12	\$ 0.07	\$ 0.30	\$ 0.13
Weighted average common shares outstanding				
Basic	24,288	24,275	24,285	23,979
Diluted	24,408	24,284	24,319	23,986

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

LSI INDUSTRIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In thousands, except share amounts)	December 31, 2010	June 30, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 14,392	\$ 17,417
Accounts and notes receivable, net	38,298	35,254
Inventories	44,297	40,082
Refundable income taxes	2,477	1,146
Other current assets	4,379	5,512
Total current assets	103,843	99,411
Property, Plant and Equipment, net	45,099	44,911
Goodwill, net	10,766	10,766
Other Intangible Assets, net	13,808	15,103
Other Long-Term Assets, net	3,606	3,654
Total assets	\$ 177,122	\$ 173,845
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Current maturities of long-term debt	\$ 34	\$ 33
Accounts payable	11,711	12,553
Accrued expenses	12,037	13,257
Total current liabilities	23,782	25,843
Other Long-Term Liabilities	3,682	3,784
Commitments and contingencies (Note 13)	--	--
Shareholders' Equity		
Preferred shares, without par value; Authorized 1,000,000 shares; none issued	--	--
Common shares, without par value; Authorized 40,000,000 shares; Outstanding 24,045,163 and 24,045,502 shares, respectively	100,591	99,963
Retained earnings	49,067	44,255
Total shareholders' equity	149,658	144,218

Total liabilities & shareholders' equity	\$ 177,122	\$ 173,845
--	------------	------------

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

LSI INDUSTRIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Six Months Ended	
	December 31	
	2010	2009
Cash Flows from Operating Activities		
Net income	\$ 7,216	\$ 3,229
Non-cash items included in net income		
Depreciation and amortization	3,943	3,928
Deferred income taxes	(50)	(207)
Deferred compensation plan	70	57
Stock option expense	579	724
Issuance of common shares as compensation	20	20
Loss on disposition of fixed assets	52	28
Allowance for doubtful accounts	598	(83)
Inventory obsolescence reserve	574	378
Changes in certain assets and liabilities, net of acquisition		
Accounts and notes receivable	(3,642)	(213)
Inventories	(4,789)	1,664
Refundable income taxes	(1,331)	1,924
Accounts payable and other	(713)	(2,127)
Customer prepayments	(203)	(1,303)
Net cash flows provided by operating activities	2,324	8,019
Cash Flows from Investing Activities		
Purchases of property, plant and equipment	(2,913)	(2,280)
Proceeds from sale of fixed assets	25	5
Acquisition of business, net of cash received	--	(675)
Net cash flows (used in) investing activities	(2,888)	(2,950)
Cash Flows from Financing Activities		
Payment of long-term debt	(16)	(2,222)
Cash dividends paid	(2,404)	(2,404)
Exercise of stock options	59	--
Purchase of treasury shares	(104)	(93)
Issuance of treasury shares	4	11
Net cash flows (used in) financing activities	(2,461)	(4,708)
Increase (decrease) in cash and cash equivalents	(3,025)	361
Cash and cash equivalents at beginning of year	17,417	13,986
Cash and cash equivalents at end of period	\$ 14,392	\$ 14,347

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

LSI INDUSTRIES INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements are unaudited and are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, and rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of Management, the interim financial statements include all normal adjustments and disclosures necessary to present fairly the Company's financial position as of December 31, 2010, the results of its operations for the three month and six month periods ended December 31, 2010 and 2009, and its cash flows for the six month periods ended December 31, 2010 and 2009. These statements should be read in conjunction with the financial statements and footnotes included in the fiscal 2010 Annual Report on Form 10-K. Financial information as of June 30, 2010 has been derived from the Company's audited consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation:

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

Revenue Recognition:

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

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

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

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

warranties.

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

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

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

6

Credit and Collections:

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

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

(In thousands)	December 31, 2010	June 30, 2010
Accounts and notes receivable	\$ 39,295	\$ 35,653
less Allowance for doubtful accounts	(997)	(399)
Accounts and notes receivable, net	\$ 38,298	\$ 35,254

Cash and Cash Equivalents:

The cash balance includes cash and cash equivalents which have original maturities of less than three months. The Company maintains balances at financial institutions in the United States and Canada. The balances at financial institutions in Canada are not covered by insurance. As of December 31, 2010 and June 30, 2010, the Company had bank balances of \$11,776,000 and \$18,530,000, respectively, in excess of FDIC insured limits and therefore without insurance coverage.

Inventories:

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

Property, Plant and Equipment and Related Depreciation:

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

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

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

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

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

(In thousands)	December 31, 2010	June 30, 2010
Property, plant and equipment, at cost	\$ 111,075	\$ 108,873
less Accumulated depreciation	(65,976)	(63,962)
Property, plant and equipment, net	\$ 45,099	\$ 44,911

The Company recorded \$1,327,000 and \$1,338,000 of depreciation expense in the second quarter of fiscal 2011 and 2010, respectively, and \$2,648,000, and \$2,668,000 of depreciation expense in the first half of fiscal 2011 and 2010, respectively.

Intangible Assets:

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

Fair Value of Financial Instruments:

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

Product Warranties:

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

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

(In thousands)	Six Months Ended December 31, 2010	Six Months Ended December 31, 2009	Fiscal Year Ended June 30, 2010
Balance at beginning of the period	\$ 589	\$ 223	\$ 223
Additions charged to expense	859	650	1,870
Addition from acquisition	--	5	5
Deductions for repairs and Replacements	(681)	(530)	(1,509)
Balance at end of the period	\$ 767	\$ 348	\$ 589

Research and Development Costs:

Research and development expenses are costs directly attributable to new product development, including the development of new technology for both existing and new products, and consist of salaries, payroll taxes, employee benefits, materials, supplies, depreciation and other administrative costs. All costs are expensed as incurred and are classified as operating expenses. The Company follows the requirements of ASC Subtopic 985-20, Software: Costs

of Software to be Sold, Leased, or Marketed, by expensing as research and development all costs associated with development of software used in solid-state LED products. Research and development costs incurred related to both product and software development totaled \$1,263,000, and \$1,271,000 for the three month periods ended December 31, 2010 and 2009, respectively, and \$2,743,000 and \$2,453,000 for the six month periods ended December 31, 2010 and 2009, respectively.

Earnings Per Common Share:

The computation of basic earnings per common share is based on the weighted average common shares outstanding for the period net of treasury shares held in the Company's non-qualified deferred compensation plan. The computation of diluted earnings per share is based on the weighted average common shares outstanding for the period and includes common share equivalents. Common share equivalents include the dilutive effect of stock options, contingently issuable shares and common shares to be issued under a deferred compensation plan, all of which totaled 364,000 shares and 243,000 shares for the three month periods ended December 31, 2010 and 2009, respectively, and 273,000 shares and 239,000 shares for the six month periods ended December 31, 2010 and 2009, respectively. See further discussion in Note 5.

New Accounting Pronouncements:

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

Comprehensive Income:

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

Subsequent Events:

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

Reclassifications:

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

Use of Estimates:

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

NOTE 3 - MAJOR CUSTOMER CONCENTRATIONS

The Company's Lighting Segment and Graphics Segment net sales to 7-Eleven, Inc. represented approximately \$16,525,000 or 22%, and \$18,054,000 or 26% of consolidated net sales in the three months ended December 31, 2010 and 2009, respectively, and \$36,044,000 or 23% and \$25,801,000 or 19% of consolidated net sales in the six months ended December 31, 2010 and 2009, respectively. There was no concentration of accounts receivable at December 31, 2010 or June 30, 2010.

NOTE 4 - BUSINESS SEGMENT INFORMATION

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

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

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

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

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

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

The Company's Corporate Administration activities are reported in a line item titled Corporate and Eliminations. This primarily includes intercompany profit in inventory eliminations, expense related to certain corporate officers and support staff, the Company's internal audit staff, the Company's Board of Directors, stock option expense, certain consulting expenses, investor relations activities, a portion of the Company's legal, auditing and professional fee expenses, and certain research and development expense. Corporate identifiable assets primarily consist of cash, invested cash (if any), refundable income taxes, and deferred income tax assets.

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

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

(In thousands)	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2010	2009	2010	2009
Net Sales:				
Lighting Segment	\$ 47,490	\$ 43,688	\$ 94,965	\$ 83,329
Graphics Segment	20,783	19,324	46,870	41,421
Electronic Components Segment	5,277	4,409	9,841	7,647
All Other Category	1,255	1,953	2,980	4,653
	\$ 74,805	\$ 69,374	\$ 154,656	\$ 137,050
Operating Income (Loss):				
Lighting Segment	\$ 2,573	\$ 3,118	\$ 6,253	\$ 6,564
Graphics Segment	2,617	1,798	7,185	3,548
Electronic Components Segment	1,804	749	2,843	805
All Other Category	(52)	(514)	(367)	(232)
Corporate and Eliminations	(2,293)	(2,218)	(4,643)	(5,255)
	\$ 4,649	\$ 2,933	\$ 11,271	\$ 5,430
Capital Expenditures:				
Lighting Segment	\$ 916	\$ 834	\$ 2,157	\$ 1,105
Graphics Segment	48	192	88	356
Electronic Components Segment	373	97	416	484
All Other Category	28	1	28	10
Corporate and Eliminations	45	23	224	325
	\$ 1,410	\$ 1,147	\$ 2,913	\$ 2,280
Depreciation and Amortization:				
Lighting Segment	\$ 954	\$ 927	\$ 1,900	\$ 1,867
Graphics Segment	505	505	1,014	1,011
Electronic Components Segment	233	220	464	383
All Other Category	62	104	129	235
Corporate and Eliminations	220	226	436	432
	\$ 1,974	\$ 1,982	\$ 3,943	\$ 3,928
Identifiable Assets:				
Lighting Segment			\$ 88,781	\$ 81,927
Graphics Segment			32,755	36,077
Electronic Components Segment			27,833	23,136
All Other Category			12,488	15,372
Corporate and Eliminations			15,265	17,333
			\$ 177,122	\$ 173,845

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

(In thousands)	Three Months Ended December 31		Six Months Ended December 31	
	2010	2009	2010	2009
Lighting Segment intersegment				
net sales	\$ 805	\$ 164	\$ 1,463	\$ 5,099
Graphics Segment intersegment				
net sales	\$ 121	\$ 329	\$ 546	\$ 532
Electronic Components intersegment				
net sales	\$ 6,832	\$ 1,668	\$ 8,828	\$ 2,703
All other Category intersegment				
net sales	\$ 1,554	\$ 1,867	\$ 3,130	\$ 4,806

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

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

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

(In thousands)	Three Months Ended December 31		Six Months Ended December 31	
	2010	2009	2010	2009
Net Sales (a):				
United States	\$ 74,403	\$ 69,139	\$ 153,363	\$ 135,754
Canada	402	235	1,293	1,296
	\$ 74,805	\$ 69,374	\$ 154,656	\$ 137,050
Long-lived Assets (b):				
United States			\$ 48,423	\$ 48,220
Canada			282	345
			\$ 48,705	\$ 48,565

- a. Net sales are attributed to geographic areas based upon the location of the operation making the sale.

- b. Long-lived assets include property, plant and equipment, and other long term assets. Goodwill and intangible assets are not included in long-lived assets.

NOTE 5 - EARNINGS PER COMMON SHARE

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

	Three Months Ended December 31		Six Months Ended December 31	
	2010	2009	2010	2009
BASIC EARNINGS PER SHARE				
Net income	\$ 2,948	\$ 1,592	\$ 7,216	\$ 3,229
Weighted average shares outstanding during the period, net of treasury shares (a)	24,044	24,041	24,046	23,747
Weighted average shares outstanding in the Deferred Compensation Plan during the period	244	234	239	232
Weighted average shares outstanding	24,288	24,275	24,285	23,979
Basic earnings per share	\$ 0.12	\$ 0.07	\$ 0.30	\$ 0.13
DILUTED EARNINGS PER SHARE				
Net income	\$ 2,948	\$ 1,592	\$ 7,216	\$ 3,229
Weighted average shares outstanding				
Basic	24,288	24,275	24,285	23,979
Effect of dilutive securities (b): Impact of common shares to be issued under stock option plans, and contingently issuable shares, if any	120	9	34	7
Weighted average shares outstanding (c)	24,408	24,284	24,319	23,986
Diluted earnings per share	\$ 0.12	\$ 0.07	\$ 0.30	\$ 0.13

- (a) Includes shares accounted for like treasury stock in accordance with Accounting Standards Codification Topic 710, Compensation - General.
- (b) Calculated using the "Treasury Stock" method as if dilutive securities were exercised and the funds were used to purchase common shares at the average market price during the period.
- (c) Options to purchase 1,523,008 common shares and 2,128,264 common shares at December 31, 2010 and 2009, respectively, and options to purchase 2,032,614 common shares and 1,964,656 common shares at December 31, 2010 and 2009, respectively, were not included in the computation of the three month and six month, respectively, diluted earnings per share because the exercise price was greater than the average fair market value of the common shares.

NOTE 6 - INVENTORIES

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

	December 31, 2010	June 30, 2010
Inventories:		
Raw materials	\$ 27,393	\$ 19,029
Work-in-process	6,458	8,891
Finished goods	10,446	12,162
	\$ 44,297	\$ 40,082

NOTE 7 - ACCRUED EXPENSES

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

	December 31, 2010	June 30, 2010
Accrued Expenses:		
Compensation and benefits	\$ 5,918	\$ 6,725
Customer prepayments	2,030	2,233
Accrued sales commissions	1,152	884
Accrued Income Taxes	--	138
Other accrued expenses	2,937	3,277
	\$ 12,037	\$ 13,257

NOTE 8 - GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

Due to economic conditions, the effects of the recession on the Company's markets and the decline in the Company's stock price, management believed that an additional goodwill impairment test was required as of June 30, 2009. The impairment test performed as of June 30, 2009 was actually the Company's annual goodwill impairment test that was to be performed in fiscal 2010 as of July 1, 2009; however, because the conditions that resulted in goodwill

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

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

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

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

Based upon the Company's analysis as of July 1, 2010, it was determined that its indefinite-lived intangible assets were not impaired. In fiscal 2010, the Company determined that an intangible asset with a net carrying value of \$16,000 for a patent in the Lighting Segment was fully impaired and that an intangible asset with a carrying value of \$137,000 for a trade name in the Technology Segment was also fully impaired. Accordingly, the Company recorded \$153,000 of intangible asset impairment expense in fiscal 2010.

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

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

Intangible Assets (In thousands)	December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized Intangible Assets			
Customer relationships	\$ 10,352	\$ 5,348	\$ 5,004
Patents	70	44	26
LED technology firmware, software	11,228	6,828	4,400
Trade name	460	132	328
Non-compete agreements	890	262	628
	23,000	12,614	10,386
Indefinite-lived Intangible Assets			

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

Trademarks and trade names	3,422	--	3,422
	3,422	--	3,422
Total Intangible Assets	\$ 26,422	\$ 12,614	\$ 13,808

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

(In thousands)	Amortization Expense of Other Intangible Assets	
	December 31, 2010	December 31, 2009
Three Months Ended	\$ 647	\$ 644
Six Months Ended	\$ 1,295	\$ 1,260

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

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

The Company has a \$30 million unsecured revolving line of credit with its bank group in the U.S., all of which was available as of December 31, 2010. The line of credit expires in the third quarter of fiscal 2013. Annually in the third quarter, the credit facility is renewable with respect to adding an additional year of commitment, if the bank group so chooses, to replace the year just ended. Interest on the revolving lines of credit is charged based upon an increment over the LIBOR rate as periodically determined, or at the bank's base lending rate, at the Company's option. The increment over the LIBOR borrowing rate, as periodically determined, fluctuates between 225 and 265 basis points depending upon the ratio of indebtedness to earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the credit facility. The fee on the unused balance of the \$30 million committed line of credit is 25 basis points. Under terms of this credit facility, the Company has agreed to a negative pledge of assets and is required to comply with financial covenants that limit the amount of debt obligations, require a minimum amount of tangible net worth, and limit the ratio of indebtedness to EBITDA (earnings before income taxes, depreciation and amortization). The Company is in compliance with all of its loan covenants as of December 31, 2010.

The Company also has a \$5 million line of credit for its Canadian subsidiary. The line of credit expires in the third quarter of fiscal 2011. Interest on the Canadian subsidiary's line of credit is charged based upon a 200 basis point increment over the LIBOR rate or based upon an increment over the United States base rate if funds borrowed are denominated in U.S. dollars or an increment over the Canadian prime rate if funds borrowed are denominated in

Canadian dollars. There are no borrowings against this line of credit as of December 31, 2010.

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

(In thousands)	December 31, 2010	June 30, 2010
Total mortgage balance	\$ 1,116	\$ 1,132
Less current maturities	34	33
Long-term debt	\$ 1,082	\$ 1,099

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

Fiscal year ended June 30	
2011	\$ 17
2012	34
2013	1,065
	\$ 1,116

NOTE 10 - CASH DIVIDENDS

The Company paid cash dividends of \$2,404,000, and \$2,404,000 in the six months ended December 31, 2010 and 2009, respectively. In January 2011, the Company's Board of Directors declared a \$0.05 per share regular quarterly cash dividend (approximately \$1,202,000) payable on February 15, 2011 to shareholders of record February 8, 2011.

NOTE 11 - EQUITY COMPENSATION

Stock Options

The Company has an equity compensation plan that was approved by shareholders which covers all of its full-time employees, outside directors and certain advisors. The options granted or stock awards made pursuant to this plan are granted at fair market value at date of grant or award. Options granted to non-employee directors become exercisable 25% each ninety days (cumulative) from date of grant and options granted to employees generally become exercisable 25% per year (cumulative) beginning one year after the date of grant. If a stock option holder's employment with the Company terminates by reason of death, disability or retirement, as defined in the Plan, the Plan generally provides for acceleration of vesting. The number of shares reserved for issuance is 2,800,000, of which 633,043 shares were available for future grant or award as of December 31, 2010. This plan allows for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, restricted and unrestricted stock awards, performance stock awards, and other stock awards. As of December 31, 2010, a total of 2,199,339 options for common shares were outstanding from this plan as well as two previous stock option plans (both of which had also been approved by shareholders), and of these, a total of 1,217,514 options for common shares were vested and exercisable. The approximate unvested stock option expense as of December 31, 2010 that will be recorded as expense in future periods is \$1,110,200. The weighted average time over which this expense will be recorded is approximately 20 months.

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

	Three Months Ended		Six Months Ended	
	12/31/10	12/31/09	12/31/10	12/31/09
Dividend yield	2.97%	3.28%	2.97%	3.28%
Expected volatility	56%	51%	56%	51%

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

Risk-free interest rate	1.93%	2.61%	1.41%	2.40%
Expected life	4.5 yrs.	4.3 yrs.	4.5 yrs.	4.3 yrs.

At December 31, 2010, the 288,200 options granted in the first six months of fiscal 2011 to employees and non-employee directors had per share exercise prices ranging from \$4.84 to \$8.92, fair values ranging from \$1.60 to \$3.37 per option, and remaining contractual lives of nine years six months to nine years eleven months.

At December 31, 2009, the 641,500 options granted in the first six months of fiscal 2010 to both employees and non-employee directors had per share exercise prices ranging from \$5.93 to \$8.40, fair values ranging from \$2.03 to \$2.87, and remaining contractual lives of between nine years and eleven months and ten years.

The Company calculates stock option expense using the Black-Scholes model. Stock option expense is recorded on a straight line basis with an estimated 3.0% forfeiture rate effective July 1, 2010, with the previous estimated forfeiture rate having been 6.55%. The expected volatility of the Company's stock was calculated based upon the historic monthly fluctuation in stock price for a period approximating the expected life of option grants. The risk-free interest rate is the rate of a five year Treasury security at constant, fixed maturity on the approximate date of the stock option grant. The expected life of outstanding options is determined to be less than the contractual term for a period equal to the aggregate group of option holders' estimated weighted average time within which options will be exercised. It is the Company's policy that when stock options are exercised, new common shares shall be issued. The Company recorded \$164,470 and \$378,000 of expense related to stock options in three months ended December 31, 2010 and 2009, respectively, and \$579,300 and \$723,600 in the six month periods ended December 31, 2010 and 2009, respectively. As of December 31, 2010, the Company expects that approximately 947,756 outstanding stock options having a weighted average exercise price of \$8.25 per share, intrinsic value of \$1,036,915 and weighted average remaining contractual terms of 8.6 years will vest in the future.

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

Six Months Ended December 31, 2010				
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at 6/30/10	2,123,086	\$ 11.64	6.6 years	\$ 15,270
Granted	288,200	\$ 5.29		
Forfeitures	(204,947)	\$ 11.34		
Exercised	(7,000)	8.40		
Outstanding at 12/31/10	2,199,339	\$ 10.84	6.9 years	\$ 1,193,125
Exercisable at 12/31/10	1,217,514	\$ 12.97	5.5 years	\$ 96,938

Six Months Ended December 31, 2009				
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at 6/30/09	1,537,212	\$ 13.07	6.4 years	\$ 33,800
Granted	641,500	\$ 8.26		
Forfeitures	(7,876)	\$ 12.80		
Exercised	--	\$ --		
Outstanding at 12/31/09	2,170,836	\$ 11.65	7.0 years	\$ 181,320

Exercisable at 12/31/09	1,048,361	\$	12.99	5.1 years	\$	20,123
-------------------------	-----------	----	-------	-----------	----	--------

The aggregate intrinsic value of options exercised during the six month period ended December 31, 2010 was \$6,526. No options were exercised in the six month period ended December 31, 2009.

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding unvested stock options at 6/30/10	1,071,875	\$ 10.32	8.4 years	\$ 10,193
Vested	(359,500)	\$ 11.95		
Forfeitures	(18,750)	\$ 12.57		
Granted	288,200	\$ 5.29		
Outstanding unvested stock options at 12/31/10	981,825	\$ 8.20	8.6 years	\$ 1,096,188

Stock Compensation Awards

The Company awarded a total of 3,592 and 3,228 common shares, respectively, in the six months ended December 31, 2010 and December 31, 2009 as stock compensation awards. These common shares were valued at their approximate \$20,000 fair market values, respectively, on their dates of issuance, respectively, pursuant to the compensation programs for non-employee directors who receive a portion of their compensation as an award of Company common stock. Stock compensation awards are made in the form of newly issued common shares of the Company.

Deferred Compensation Plan

The Company has a non-qualified deferred compensation plan providing for both Company contributions and participant deferrals of compensation. The Plan is fully funded in a Rabbi Trust. All Plan investments are in common shares of the Company. As of December 31, 2010 there were 28 participants, all with fully vested account balances. A total of 244,526 common shares with a cost of \$2,503,700, and 224,884 common shares with a cost of \$2,403,600 were held in the Plan as of December 31, 2010 and June 30, 2010, respectively, and, accordingly, have been recorded as treasury shares. The change in the number of shares held by this plan is the net result of share purchases and sales on the open stock market for compensation deferred into the Plan and for distributions to terminated employees. The Company does not issue new common shares for purposes of the non-qualified deferred compensation plan. The Company accounts for assets held in the non-qualified deferred compensation plan in accordance with Accounting Standards Codification Topic 710, Compensation – General. For fiscal year 2011, the Company estimates the Rabbi Trust for the Nonqualified Deferred Compensation Plan will make net repurchases in the range of 21,000 to 23,000 common shares of the Company. During the six months ended December 31, 2010 and 2009, the Company used approximately \$104,400 and \$93,400, respectively, to purchase common shares of the Company in the open stock market for either employee salary deferrals or Company contributions into the non-qualified deferred compensation plan. The Company does not currently repurchase its own common shares for any other purpose.

NOTE 12 - SUPPLEMENTAL CASH FLOW INFORMATION

(In thousands)

Six Months Ended
December 31

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

	2010	2009
Cash payments:		
Interest	\$ 76	\$ 69
Income taxes	\$ 5,478	\$ 421
Issuance of common shares as compensation	\$ 20	\$ 20
Issuance of common shares for acquisition	\$ --	\$ 14,448

NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Company is party to various negotiations, customer bankruptcies, and legal proceedings arising in the normal course of business. The Company provides reserves for these matters when a loss is probable and reasonably estimable.

The Company has been named as one of several defendants in a lawsuit filed in August 2010 alleging patent infringement with respect to alleged two way communication features in the Company's solid-state LED video screens sold over the past four and one half years. The plaintiff is seeking unspecified damages related to the alleged patent infringement. The Company is in process of gathering information and data related to its sales of LED video screens. The Company and the plaintiff have initiated discussions related to this lawsuit and it is expected these discussions with the plaintiff will continue, possibly toward settlement and resolution of this matter. While the Company believes its LED video screen designs do not infringe upon the plaintiff's patent, management believes it may be in the best interest of the Company to reach agreement with the plaintiff upon a reasonable amount for which to settle. However, if the Company and the plaintiff are unable to agree upon an economical amount and appropriate terms for a settlement, the Company intends to contest this matter vigorously in court. As a result, the Company is unable to estimate a range for this loss contingency.

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.

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

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

Net Sales by Business Segment (In thousands)	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2010	2009	2010	2009
Lighting Segment	\$ 47,490	\$ 43,688	\$ 94,965	\$ 83,329
Graphics Segment	20,783	19,324	46,870	41,421
Electronic Components Segment	5,277	4,409	9,841	7,647
All Other Category	1,255	1,953	2,980	4,653
	\$ 74,805	\$ 69,374	\$ 154,656	\$ 137,050

Operating Income (Loss) by Business Segment (In thousands)	Three Months Ended		Six Months Ended	
	December 31		December 31	
	2010	2009	2010	2009
Lighting Segment	\$2,573	\$3,118	\$6,253	\$6,564
Graphics Segment	2,617	1,798	7,185	3,548
Electronic Components Segment	1,804	749	2,843	805
All Other Category	(52)	(514)	(367)	(232)
Corporate and Eliminations	(2,293)	(2,218)	(4,643)	(5,255)
	\$4,649	\$2,933	\$11,271	\$5,430

Summary Comments

Fiscal 2011 second quarter net sales of \$74,805,000 increased \$5.4 million or 7.8% as compared to the same period of fiscal 2010. See Note 4 to the financial statements for discussion of the retroactive reclassification of the Company's reportable business segments. Net sales were favorably influenced by increased net sales of the Lighting Segment (up \$3.8 million or 8.7%), Graphics Segment (up \$1.5 million or 7.6%), and the Electronic Components Segment (up \$0.9 million or 19.7%). Net sales were unfavorably influenced by decreased All Other Category net sales (down \$0.7 million or 35.7%). In the second quarter of fiscal 2010, the Company recorded certain pre-tax acquisition-related fair value inventory adjustments totaling \$87,000 -- see the paragraph below regarding Non-GAAP Financial Measures. There were no such similar significant expenses in fiscal 2011. Net sales to the Petroleum / Convenience Store market, the Company's largest niche market, were \$34,976,000 or 47% of total net sales and \$31,925,000 or 46% of total net sales in the second quarter of fiscal 2011 and 2010, respectively. The \$3.1 million or 10% increase is primarily due to increased net sales to customers other than 7-Eleven, Inc., who is replacing traditional canopy, site and sign lighting with solid-state LED lighting (\$1.5 million decrease). The Company has completed 7-Eleven's conversion to solid-state LED lighting at the non-petroleum retail sites in the second quarter of fiscal 2011, with some additional sites flowing over to the Company's second half of fiscal 2011. Net sales to this petroleum / convenience store customer are reported in both the Lighting and Graphics segments.

Fiscal 2011 first half net sales of \$154,626,000 increased \$17.6 million or 12.8% as compared to the same period of fiscal 2010. See Note 4 to the financial statements for discussion of the retroactive reclassification of the Company's reportable business segments. Net sales were favorably influenced by increased net sales of the Lighting Segment (up \$11.6 million or 14.0%), Graphics Segment (up \$5.4 million or 13.2%), and the Electronic Components Segment (up \$2.2 million or 28.7%). Net sales were unfavorably influenced by decreased All Other Category net sales (down \$1.7 million or 36.0%). In the first half of fiscal 2010, the Company recorded certain pre-tax acquisition deal costs and acquisition-related fair value inventory adjustments totaling \$1,126,000 -- see the paragraph below regarding Non-GAAP Financial Measures. There were no such similar significant expenses in fiscal 2011. Net sales to the Petroleum / Convenience Store market, the Company's largest niche market, were \$69,944,000 or 45% of total net sales and \$52,890,000 or 39% of total net sales in the first half of fiscal 2011 and 2010, respectively. The \$17.1 million or 32% increase is primarily due to a program with 7-Eleven, Inc., who replaced traditional canopy, site and sign lighting with solid-state LED lighting (\$10.2 million increase). The Company has substantially completed the conversion to solid-state LED lighting at the non-petroleum retail sites in the second quarter of fiscal 2011, with some additional sites flowing over to the Company's third fiscal quarter. Net sales to this petroleum / convenience store customer are reported in both the Lighting and Graphics segments.

The Company's total net sales of products and services related to solid-state LED technology in light fixtures and video screens for sports, advertising and entertainment markets have been recorded as indicated in the table below. In addition, the Company sells certain elements of graphic identification programs that contain solid-state LED light sources.

(In thousands)	FY 2011	LED Net Sales FY 2010	% Change
First Quarter	\$ 16,673	\$ 17,999	(7.4)%
Second Quarter	17,585	18,533	(5.1) %
First Half	\$ 34,258	36,532	(6.2) %
Third Quarter		11,510	
Nine Months		48,042	
Fourth Quarter		14,538	
Full Year		\$ 62,580	

Second quarter fiscal 2011 LED net sales of \$17,585,000 were down \$0.9 million or 5.1% from the same period of the prior year. The \$17,585,000 total LED net sales and the \$0.9 million reduction are primarily the result of Lighting Segment LED net sales of \$16,017,000 (up \$2.0 million or 14%), Graphics Segment LED net sales of \$1,166,000 (down \$3.1 million or 73%, primarily due to lower LED sports screen sales) and All Other Category LED net sales of \$402,000 (up \$0.2 million or 71%). First half fiscal 2011 LED net sales of \$34,258,000 were down \$2.3 million or 6.2% from the same period of the prior year. The \$34,258,000 total LED net sales and the \$2.3 million reduction are primarily the result of Lighting Segment LED net sales of \$28,674,000 (up \$7.3 million or 34%), Graphics Segment LED net sales of \$4,291,000 (down \$9.6 million or 69%, primarily due to lower LED sports screen sales) and All Other Category LED net sales of \$1,293,000 (level with the prior year).

During the recession of 2008 through 2010, virtually all of our markets were adversely impacted and our business suffered as a result. During these difficult and uncertain economic conditions, we took a number of proactive steps to meet our operating challenges, including strict control of expenses, capital expenditure reductions, close management of accounts receivable and inventories, prudent staffing decisions, and maintaining a conservative financial position coupled with positive free cash flow. Economic conditions in many of the markets we serve now have begun to show some improvement in the first half of fiscal 2011. We continue to adjust our expense levels to production rates we are experiencing and to manage working capital efficiently. We are also strategically positioning the business for future

growth and are very positive about the longer term outlook and opportunities for the Company, notwithstanding we are now in what is typically our lowest seasonal quarter of the fiscal year. LSI is still facing a period of challenging business conditions in the near term due to the general economic conditions, but expects to emerge a stronger and more efficient company as business conditions continue to improve.

Non-GAAP Financial Measures

The Company believes it is appropriate to evaluate its performance after making adjustments to the U.S. GAAP net income for the 2010 fiscal year. Adjusted net income and earnings per share, which exclude the impact of the LSI ADL Technology acquisition deal costs and acquisition-related fair value inventory adjustments, are non-GAAP financial measures. We believe that these adjusted supplemental measures are useful in assessing the operating performance of our business. These supplemental measures are used by our management, including our chief operating decision maker, to evaluate business results. We exclude these items because they are not representative of the ongoing results of operations of our business. Below is a reconciliation of this non-GAAP measure to net income for the periods indicated.

(In thousands, except per share data; unaudited)

	Second Quarter FY 2011		Second Quarter FY 2010	
	Amount	Diluted EPS	Amount	Diluted EPS
Reconciliation of net income to adjusted net income:				
Net income as reported	\$ 2,948	\$ 0.12	\$ 1,592	\$ 0.07
Adjustment for the acquisition-related fair value inventory adjustment, inclusive of the income tax effect	--	--	34(1)	--
Adjusted net income and earnings per share	\$ 2,948	\$ 0.12	\$ 1,626	\$ 0.07

(In thousands, except per share data; unaudited)

	First Half FY 2011		First Half FY 2010	
	Amount	Diluted EPS	Amount	Diluted EPS
Reconciliation of net income to adjusted net income:				
Net income as reported	\$ 7,216	\$ 0.30	\$ 3,229	\$ 0.13
Adjustment for the acquisition deal costs and acquisition-related fair value inventory adjustment, inclusive of the income tax effect	--	--	668(2)	0.03
Adjusted net income and earnings per share	\$ 7,216	\$ 0.30	\$ 3,897	\$ 0.16

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

- (1) \$ 53
- (2) \$458

Results of Operations

THREE MONTHS ENDED DECEMBER 31, 2010 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2009

Lighting Segment (In thousands)	Three Months Ended December 31	
	2010	2009
Net Sales	\$ 47,490	\$ 43,688
Gross Profit	\$ 10,573	\$ 10,237
Operating Income	\$ 2,573	\$ 3,118

Lighting Segment net sales of \$47,490,000 in the second quarter of fiscal 2011 increased 8.7% from fiscal 2010 same period net sales of \$43,688,000. The \$3.8 million increase in Lighting Segment net sales is primarily the net result of a \$1.8 million or 7.5% net increase in lighting sales to our niche markets (petroleum / convenience store market net sales were down 1%, net sales to the automotive dealership market were up 21%, and net sales to the quick service restaurant market were up 35%) and national retail accounts, and an \$1.9 million or 10.1% increase in commissioned net sales to the commercial / industrial lighting market. Sales of lighting to the petroleum / convenience store market represented 38% and 42% of Lighting Segment net sales in the second quarter of fiscal years 2011 and 2010 respectively. Lighting Segment net sales of lighting to this, the Company's largest niche market, were down 1% from last year to \$17,947,000, with approximately \$4.0 million related to a program with 7-Eleven, Inc., who replaced traditional canopy, site and sign lighting with solid-state LED lighting. The Company expects to continue to make sales to this particular customer for additional stores to be converted in the second half of fiscal 2011. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled \$16.0 million in the second quarter of fiscal 2011, representing a 14% increase from fiscal 2010 second quarter net sales of solid-state LED light fixtures of \$14.1 million.

Gross profit of \$10,573,000 in the second quarter of fiscal 2011 increased \$0.3 million or 3.3% from the same period of fiscal 2010, and decreased from 23.3% to 21.9% as a percentage of Lighting Segment net sales (customer plus inter-segment net sales). The increase in amount of gross profit is due to the net effect of increased net sales at decreased margins, increased overhead absorption. The following items also influenced the Lighting Segment's gross profit margin: competitive pricing pressures; \$0.5 million increased freight costs; \$0.1 million decreased warranty costs; \$0.1 million increased utilities; \$0.1 million increased manufacturing supplies expense; and \$0.1 million increased outside service cost.

Selling and administrative expenses of \$8,000,000 in the second quarter of fiscal 2011 increased \$0.9 million from the same period of fiscal 2010 primarily as the net result of decreased employee compensation and benefits expense (\$0.1 million), increased sales commission expense (\$0.2 million), increased customer relations expense (\$0.3 million), increased bad debt expense (\$0.1 million), and increased warranty expense (\$0.2 million).

The Lighting Segment second quarter fiscal 2011 operating income of \$2,573,000 decreased \$0.5 million or 17.5% from operating income of \$3,118,000 in the same period of fiscal 2010. This reduction of \$0.5 million was the net result of increased net sales, increased gross profit (at lower margin percentages), and increased selling and administrative expenses .

Graphics Segment

Edgar Filing: LSI INDUSTRIES INC - Form 10-Q

(In thousands)

Three Months Ended
December 31
2010 2009

Net Sales	\$ 20,783	\$ 19,324
Gross Profit	\$ 5,295	\$ 4,488
Operating Income	\$ 2,617	\$ 1,798

Graphics Segment net sales of \$20,783,000 in the second quarter of fiscal 2011 increased 7.6% from fiscal 2010 same period net sales of \$19,324,000. The \$1.5 million increase in Graphics Segment net sales is primarily the net result of image conversion programs and sales to eight petroleum / convenience store customers (\$3.7 million net increase), a grocery retailer (\$0.9 million decrease), the LED video sports screen market (\$0.1 million decrease), a national drug store retailer (\$1.1 million decrease), and changes in volume or completion of several other graphics programs. Sales of graphics products and services to the petroleum / convenience store market represented 82% and 71% of Graphics Segment net sales in the second quarter of fiscal years 2011 and 2010, respectively. Graphics Segment net sales of graphics to this, the Company's largest niche market, were up 23% from last year to \$17,029,000, with approximately \$12.2 million related to a program with 7-Eleven, Inc., who replaced traditional sign lighting with solid-state LED lighting. The Company expects to continue to make sales to this particular customer for additional stores to be converted in the third quarter of fiscal 2011. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Graphics Segment net sales of products and services related to solid-state LED video screens and LED lighting for signage totaled \$1.2 million in the second quarter of fiscal 2011 as compared to \$4.2 million in the same period of the prior year.

Image and brand programs, whether full conversions or enhancements, are important to the Company's strategic direction. Image programs include situations where our customers refurbish their retail sites around the country by replacing some or all of the lighting, graphic elements, menu board systems and possibly other items they may source from other suppliers. These image programs often take several quarters to complete and involve both our customers' corporate-owned sites as well as their franchisee-owned sites, the latter of which involve separate sales efforts by the Company with each franchisee. The Company may not always be able to replace net sales immediately when a large image conversion program has concluded. Brand programs typically occur as new products are offered or new departments are created within existing retail stores. Relative to net sales to a customer before and after an image or brand program, net sales during the program are typically significantly higher, depending upon how much business is awarded to the Company. Sales related to a customer's image or brand program are reported in either the Lighting Segment, Graphics Segment, or the All Other Category depending upon the product and/or service provided.

Gross profit of \$5,295,000 in the second quarter of fiscal 2011 increased \$0.8 million or 18% from the same period fiscal 2010, and increased from 22.8% to 25.3% as a percentage of Graphics Segment net sales (customer plus inter-segment net sales). The increase in amount of gross profit is due to the net effect of increased net sales at increased margins, increased overhead absorption. The following items also influenced the Graphics Segment's gross profit margin: competitive pricing pressures; \$0.3 million increased freight costs; \$0.1 million decreased benefits and compensation; \$0.1 million decreased warranty costs; and \$0.1 million increased manufacturing supplies.

Selling and administrative expenses of \$2,678,000 in the second quarter of fiscal 2011 were level with the same period of fiscal 2010 primarily as a net result of decreased benefits and compensation (\$0.1 million), and changes in other operating costs.

The Graphics Segment second quarter fiscal 2011 operating income of \$2,617,000 increased \$0.8 million or 46% from operating income of \$1,798,000 in the same period of fiscal 2010. The \$0.8 million increase in operating income was the result of increased net sales, and increased gross profit.

Electronic Components Segment
(In thousands)

	Three Months Ended December 31	
	2010	2009
Net Sales	\$ 5,277	\$ 4,409
Gross Profit	\$ 2,235	\$ 1,379
Operating Income	\$ 1,804	\$ 749

Electronic Components Segment net sales of \$5,277,000 in the second quarter of fiscal 2011 increased 19.7% from fiscal 2010 same period net sales of \$4,409,000. The \$0.9 million increase in Electronic Components Segment net sales is primarily the net result of increased net sales to recurring customers served and the addition of a new customer. In addition to this segment's growth in customer sales, its intersegment net sales grew 310% in support of LED lighting sales.

Gross profit of \$2,235,000 in the second quarter of fiscal 2011 increased \$0.9 million or 62% from the same period of fiscal 2010, and decreased from 22.7% to 18.5% as a percentage of Electronic Components Segment net sales (customer plus inter-segment net sales). The lower gross margins are primarily the result of the significant increase in the amount of intersegment business at lower margin percentages. Operating income and gross profit of the Electronic Components Segment in the second quarter of fiscal 2010 was reduced by \$87,000 related to the roll-out of fair value inventory adjustments for LSI ADL Technology's sales of products that were in finished goods or work-in-process inventory on the acquisition date and therefore were valued at fair value, as opposed to manufactured

cost, in the opening balance sheet in accordance with the requirements of purchase accounting. The additional \$0.8 million increase in amount of gross profit is due to increased Electronic Components net sales at decreased margins. The following items also influenced the Electronic Components Segment's gross profit margin: competitive pricing pressures; \$0.1 million increased benefits and compensation; and \$0.1 million increased manufacturing supplies.

Selling and administrative expenses of \$431,000 in the second quarter of fiscal year 2011 decreased \$0.2 million from the same period of fiscal 2010 primarily as the net result of decreased employee compensation and benefits expense (\$0.2 million).

The Electronic Components Segment second quarter fiscal 2011 operating income of \$1,804,000 increased \$1.1 million from operating income of \$749,000 in the same period of fiscal 2010. The \$1.1 million increase in operating income was the result of increased net sales, increased gross profit and decreased selling and administrative expenses.

All Other Category (In thousands)	Three Months Ended December 31	
	2010	2009
Net Sales	\$ 1,255	\$ 1,953
Gross Profit	\$ 780	\$ 203
Operating Income (Loss)	\$ (52)	\$ (514)

All Other Category net sales of \$1,255,000 in the second quarter of fiscal 2011 decreased 35.7% from fiscal 2010 net sales of \$1,953,000. The \$0.7 million decrease in the All Other Category net sales is primarily the net result of net increased sales of menu board systems (\$0.1 million), increased net sales of specialty LED lighting (\$0.2 million), no sales of electrical wire harnesses (\$0.9 million) and changes in volume or completion of other customer programs. The Company sold its wire harness operation and business at the end of the third quarter of fiscal 2010 and therefore has no further sales or expenses related to wire harnesses.

The gross profit of \$780,000 in the second quarter of fiscal 2011 compares to gross profit of \$203,000 in the same period of fiscal 2010. The \$0.6 million increase is primarily the net result of decreased net sales at increased margins, increased installation costs (\$0.2 million), and decreased indirect wage compensation and benefits (\$0.2 million).

Selling and administrative expenses of \$832,000 in the second quarter of fiscal 2011 increased \$0.1 million from the same period of fiscal 2010 primarily as the net result of decreased benefits and compensation (\$0.2 million) and increased bad debt expense (\$0.3 million).

The All Other Category second quarter fiscal 2011 operating loss of \$(52,000) compares to an operating loss of \$(514,000) in the same period of fiscal 2010. This \$0.5 million improved operating income was the net result of decreased net sales, increased gross profit, and increased selling and administrative expense. Sales and resulting gross profit were not high enough to cover selling and administrative expenses.

Corporate and Eliminations (In thousands)	Three Months Ended December 31	
	2010	2009
Gross Profit	\$ (236)	\$ (7)
Operating Income (Loss)	\$ (2,293)	\$ (2,218)

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

Selling and administrative expenses of \$2,057,000 in the second quarter of fiscal 2011 were down \$0.2 million or 7.0% from the same period of the prior year. The reduction in expense is primarily related to reduced research and

development expense (\$0.1 million) and changes in other administrative expenses.

25

Consolidated Results

The Company reported net interest expense of \$38,000 in the second quarter of fiscal 2011 as compared to net interest expense of \$32,000 in the same period of fiscal 2010. Commitment fees related to the unused portions of the Company's lines of credit, interest expense on a mortgage, and interest income on invested cash are included in the net interest expense amounts above.

The \$1,663,000 income tax expense in the second quarter of fiscal 2011 represents a consolidated effective tax rate of 36.1%. This is the net result of an income tax rate of 34.4% for the Company's U.S. operations, influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income, by certain U.S. federal and Canadian income tax credits, and by a full valuation reserve on the Company's Canadian tax position. The \$1,309,000 income tax expense in the same period of the prior year represents a consolidated effective tax rate of 45.1%. This is the net result of an income tax rate of 40.7% for the Company's U.S. operations, combined with a 30.4% effective tax rate benefit for the Company's Canadian operations plus a \$0.1 million increase of the valuation reserve for the Canadian net operating loss tax benefit and Canadian tax credits.

The Company reported net income of \$2,948,000 in the second quarter of fiscal 2011 as compared to net income of \$1,592,000 in the same period of the prior year. The increased net income is primarily the result of increased net sales and increased gross profit, partially offset by increased operating expenses and increased income tax expense. Diluted earnings per share were \$0.12 in the second quarter of fiscal 2011 as compared to \$0.07 in the same period of fiscal 2010. The weighted average common shares outstanding for purposes of computing diluted earnings per share in the second quarter of fiscal 2011 were 24,408,000 shares as compared to 24,284,000 shares in the same period last year.

SIX MONTHS ENDED DECEMBER 31, 2010 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2009

Lighting Segment (In thousands)	Six Months Ended December 31	
	2010	2009
Net Sales	\$ 94,965	\$ 83,329
Gross Profit	\$ 22,230	\$ 20,823
Operating Income	\$ 6,253	\$ 6,564

Lighting Segment net sales of \$94,965,000 in the first half of fiscal 2011 increased 14.0% from fiscal 2010 same period net sales of \$83,329,000. The \$11.6 million increase in Lighting Segment net sales is primarily the net result of a \$7.4 million or 17.5% net increase in lighting sales to our niche markets (petroleum / convenience store market net sales were up 14%, net sales to the automotive dealership market were up 22%, and net sales to the quick service restaurant market were up 29%) and national retail accounts, and an \$4.2 million or 10.2% increase in commissioned net sales to the commercial / industrial lighting market. Sales of lighting to the petroleum / convenience store market represented 35% and 36% of Lighting Segment net sales in the first half of fiscal years 2011 and 2010 respectively. Lighting Segment net sales of lighting to this, the Company's largest niche market, were up 14% from last year to \$33,707,000, with approximately \$9.1 million related to a program with 7-Eleven, Inc., who replaced traditional canopy, site and sign lighting with solid-state LED lighting. The Company expects to continue to make sales to this particular customer for additional stores to be converted in the second half of fiscal 2011. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Lighting Segment's net sales of light fixtures having solid-state LED technology totaled \$28.7 million in the first half of fiscal 2011, representing a 34% increase from first half fiscal 2010 net sales of solid-state LED light fixtures of \$21.4 million.

Gross profit of \$22,230,000 in the first half of fiscal 2011 increased \$1.4 million or 6.8% from the same period of fiscal 2010, and decreased from 23.5% to 23.1% as a percentage of Lighting Segment net sales (customer plus inter-segment net sales). The increase in amount of gross profit is due to the net effect of increased net sales at increased margins, increased overhead absorption. The following items also influenced the Lighting Segment's gross profit margin: competitive pricing pressures; \$0.1 million increased freight costs; \$0.2 million decreased benefits and compensation; \$0.2 million increased warranty costs; \$0.2 million increased utilities; \$0.1 million increased repairs and maintenance; \$0.1 million increased outside service costs; and \$0.2 million increased manufacturing supplies expense.

Selling and administrative expenses of \$15,977,000 in the first half of fiscal 2011 increased \$1.7 million from the same period of fiscal 2010 primarily as the net result of increased sales commission expense (\$0.7 million), increased research and development expense (\$0.3 million), increased customer relations expense (\$0.2 million), and increased bad debt expense (\$0.2 million).

The Lighting Segment first half fiscal 2011 operating income of \$6,253,000 decreased \$0.3 million or 4.7% from operating income of \$6,564,000 in the same period of fiscal 2010. This reduction of \$0.3 million was the net result of increased net sales, increased gross profit (at lower margin percentages), and increased selling and administrative expenses.

Graphics Segment
(In thousands)

	Six Months Ended December 31	
	2010	2009
Net Sales	\$ 46,870	\$ 41,421
Gross Profit	\$ 12,486	\$ 9,142
Operating Income	\$ 7,185	\$ 3,548

Graphics Segment net sales of \$46,870,000 in the first half of fiscal 2011 increased 13.2% from fiscal 2010 same period net sales of \$41,421,000. The \$5.4 million increase in Graphics Segment net sales is primarily the net result of image conversion programs and sales to nine petroleum / convenience store customers (\$14.1 million net increase), a grocery retailer (\$0.7 million decrease), the LED video sports screen market (\$5.1 million decrease), a national drug store retailer (\$2.6 million decrease), and changes in volume or completion of several other graphics programs. Sales of graphics products and services to the petroleum / convenience store market represented 77% and 56% of Graphics Segment net sales in the first half of fiscal years 2011 and 2010, respectively. Graphics Segment net sales of graphics to this, the Company's largest niche market, were up 56% from last year to \$36,237,000, with approximately \$26.9 million related to a program with 7-Eleven, Inc., who replaced traditional sign lighting with solid-state LED lighting. The Company expects to continue to make sales to this particular customer for additional stores to be converted in the third quarter of fiscal 2011. The petroleum / convenience store market has been, and will continue to be, a very important niche market for the Company. The Graphics Segment net sales of products and services related to solid-state LED video screens and LED lighting for signage totaled \$4.3 million in the first half of fiscal 2011 as compared to \$13.9 million in the same period of the prior year.

Image and brand programs, whether full conversions or enhancements, are important to the Company's strategic direction. Image programs include situations where our customers refurbish their retail sites around the country by replacing some or all of the lighting, graphic elements, menu board systems and possibly other items they may source from other suppliers. These image programs often take several quarters to complete and involve both our customers' corporate-owned sites as well as their franchisee-owned sites, the latter of which involve separate sales efforts by the Company with each franchisee. The Company may not always be able to replace net sales immediately when a large image conversion program has concluded. Brand programs typically occur as new products are offered or new departments are created within existing retail stores. Relative to net sales to a customer before and after an image or brand program, net sales during the program are typically significantly higher, depending upon how much business is awarded to the Company. Sales related to a customer's image or brand program are reported in either the Lighting Segment, Graphics Segment, or the All Other Category depending upon the product and/or service provided.

Gross profit of \$12,486,000 in the first half of fiscal 2011 increased \$3.3 million or 37% from the same period fiscal 2010, and increased from 21.8% to 26.3% as a percentage of Graphics Segment net sales (customer plus inter-segment net sales). The increase in amount of gross profit is due to the net effect of increased net sales at increased margins,

increased overhead absorption. The following items also influenced the Graphics Segment's gross profit margin: competitive pricing pressures; \$0.8 million increased freight costs; \$0.1 million increased benefits and compensation; \$0.1 million increased warranty costs; and \$0.1 million increased manufacturing supplies.

Selling and administrative expenses of \$5,301,000 in the first half of fiscal 2011 decreased \$0.3 million from the same period of fiscal 2010 primarily as a net result of decreased benefits and compensation expense (\$0.1 million), decreased bad debt expense (\$0.1 million), decreased customer relations expense (\$0.1 million), and decreased commissions expense (\$0.1 million).

The Graphics Segment first half fiscal 2011 operating income of \$7,185,000 increased \$3.6 million or 103% from operating income of \$3,548,000 in the same period of fiscal 2010. The \$3.6 million increase in operating income was the result of increased net sales, increased gross profit, and decreased selling and administrative expenses.

Electronic Components Segment
(In thousands)

	Six Months Ended December 31	
	2010	2009
Net Sales	\$ 9,841	\$ 7,647
Gross Profit	\$ 3,700	\$ 1,848
Operating Income	\$ 2,843	\$ 805

Electronic Components Segment net sales of \$9,841,000 in the first half of fiscal 2011 increased 28.7% from fiscal 2010 same period net sales of \$7,647,000. The \$2.2 million increase in Electronic Components Segment net sales is primarily the result of increased net sales to recurring customers served and the addition of a new customer. In addition to this segment's growth in customer sales, its intersegment net sales grew 227% in support of LED lighting sales.

Gross profit of \$3,700,000 in the first half of fiscal 2011 increased \$1.9 million or 100% from the same period fiscal 2010, and increased from 17.9% to 19.8% as a percentage of Electronic Components Segment net sales (customer plus inter-segment net sales). Operating income and gross profit of the Electronic Components Segment in the first half of fiscal 2010 was reduced by \$613,000 related to the roll-out of fair value inventory adjustments for LSI ADL Technology's sales of products that were in finished goods or work-in-process inventory on the acquisition date and therefore were valued at fair value, as opposed to manufactured cost, in the opening balance sheet in accordance with the requirements of purchase accounting. The additional \$1.8 million increase in amount of gross profit is due to increased Electronic Components net sales at increased margins. The following items also influenced the Electronic Components Segment's gross profit margin: competitive pricing pressures; \$0.1 million increased benefits and compensation; and \$0.1 million increased manufacturing supplies.

Selling and administrative expenses of \$857,000 in the first half of fiscal 2011 decreased \$0.2 million from the same period of fiscal 2010 primarily as the net result of decreased employee compensation and benefits expense (\$0.2 million).

The Electronic Components Segment first half fiscal 2011 operating income of \$2,843,000 increased \$2.0 million from operating income of \$805,000 in the same period of fiscal 2010. The \$2.0 million increase in operating income was the result of increased net sales, increased gross profit, and decreased selling and administrative expenses.

All Other Category
(In thousands)

	Six Months Ended December 31	
	2010	2009
Net Sales	\$ 2,980	\$ 4,653
Gross Profit	\$ 1,165	\$ 1,176
Operating Income (Loss)	\$ (367)	\$ (232)

All Other Category net sales of \$2,980,000 in the first half of fiscal 2011 decreased 36.0% from fiscal 2010 net sales of \$4,653,000. The \$1.7 million decrease in the All Other Category net sales is primarily the net result of net increased sales of menu board systems (\$0.3 million), decreased installation net sales (\$0.1 million), no sales of electrical wire harnesses (\$1.8 million) and changes in volume or completion of other customer programs. The Company sold its wire harness operation and business at the end of the third quarter of fiscal 2010 and therefore has no further sales or expenses related to wire harnesses.

The gross profit of \$1,165,000 in the first half of fiscal 2011 compares to gross profit of \$1,176,000 in the same period of fiscal 2010. Gross profit was level with the same period of the prior fiscal year primarily the net result of decreased net sales, increased installation costs (\$0.5 million), decreased freight costs (\$0.1 million), decreased indirect wage compensation and benefits (\$0.4 million), and decreased depreciation expense (\$0.1 million).

Selling and administrative expenses of \$1,532,000 in the first half of fiscal 2011 increased \$0.1 million or 9% as compared to the same period of the prior year. Changes of expense between years include decreased benefits and compensation (\$0.2 million), increased bad debt expense (\$0.3 million), and increased sales commission expense (\$0.1 million).

The All Other Category first half fiscal 2011 operating loss of \$(367,000) compares to an operating loss of \$(232,000) in the same period of fiscal 2010. This \$0.1 million decreased operating income was the net result of decreased net sales, decreased gross profit, and increased selling and administrative expenses. Sales and resulting gross margins were not high enough to cover selling and administrative expenses.

Corporate and Eliminations (In thousands)	Six Months Ended December 31	
	2010	2009
Gross Profit	\$ (312)	\$ (92)
Operating Income (Loss)	\$ (4,643)	\$ (5,255)

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

Selling and administrative expenses of \$4,331,000 in the first half of fiscal 2011 were down \$0.8 million or 16.1% from the same period of the prior year. The reduction in expense is primarily related to the net result of increased repair and maintenance expense (\$0.1 million), reduced audit and accounting fees (\$0.1 million), reduced outside consulting services (\$0.1 million) and no acquisition deal costs in the first half of fiscal 2011 as compared to \$0.5 million in the same period of the prior year.

Consolidated Results

The Company reported net interest expense of \$60,000 in the first half of fiscal 2011 as compared to net interest expense of \$66,000 in the same period of fiscal 2010. Commitment fees related to the unused portions of the Company's lines of credit, interest expense on a mortgage, and interest income on invested cash are included in the net interest expense amounts above.

The \$3,995,000 income tax expense in the first half of fiscal 2011 represents a consolidated effective tax rate of 35.6%. This is the net result of an income tax rate of 34.4% for the Company's U.S. operations, influenced by certain permanent book-tax differences that were significant relative to the amount of taxable income, by certain U.S. federal and Canadian income tax credits, by a benefit related to uncertain income tax positions, and by a full valuation reserve on the Company's Canadian tax position. The \$2,135,000 income tax expense in the same period of the prior year represents a consolidated effective tax rate of 39.8%. This is the net result of an income tax rate of 40.7% for the Company's U.S. operations, combined with a 30.4% effective tax rate benefit for the Company's Canadian operations plus a full \$0.1 million valuation reserve for the Canadian net operating loss tax benefit and Canadian tax credits.

The Company reported net income of \$7,216,000 in the first half of fiscal 2011 as compared to net income of \$3,229,000 in the same period of the prior year. The increased net income is primarily the result of increased net sales and increased gross profit, partially offset by increased operating expenses and increased income tax expense. Diluted earnings per share were \$0.30 in the first half of fiscal 2011 as compared to \$0.13 in the same period of fiscal 2010. The weighted average common shares outstanding for purposes of computing diluted earnings per share in the first half of fiscal 2011 was 24,316,000 shares as compared to 23,986,000 shares in the same period last year.

Liquidity and Capital Resources

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

measures.

At December 31, 2010, the Company had working capital of \$80.1 million, compared to \$73.6 million at June 30, 2010. The ratio of current assets to current liabilities was 4.37 to 1 as compared to a ratio of 3.85 to 1 at June 30, 2010. The \$6.5 million increase in working capital from June 30, 2010 to December 31, 2010 was primarily related to the net effect of increased net accounts receivable (\$3.0 million), increased inventory (\$4.2 million), increased refundable income taxes (\$1.3 million), decreased accounts payable (\$0.8 million), and decreased accrued expenses (\$1.2 million), partially offset by decreased cash and cash equivalents (\$3.0 million), and decreased other current assets (\$1.1 million). The Company has a strategy of aggressively managing working capital, including reduction of the accounts receivable days sales outstanding (DSO) and reduction of inventory levels, without reducing service to our customers.

29

The Company generated \$2.3 million of cash in operating activities in the first half of fiscal 2011 as compared to a generation of \$8.0 million in the same period of the prior year. This \$5.7 million decrease in net cash flows from operating activities is primarily the net result of greater net income (\$4.0 million favorable), a greater increase in accounts receivable (unfavorable change of \$3.4 million), an increase rather than a decrease in inventories (unfavorable change of \$6.5 million), an increase rather than a decrease in refundable income taxes (unfavorable \$3.3 million), less of a decrease in accounts payable and other (favorable change of \$1.4 million), less of a decrease customer prepayments (favorable \$1.1 million), an increase rather than a decrease in the allowance for doubtful accounts (favorable \$0.7 million), more of an increase in the inventory obsolescence reserve (favorable \$0.2 million), decreased stock option expense (unfavorable \$0.1 million) and more of a decrease in deferred income tax assets (favorable \$0.2 million).

Net accounts receivable and notes receivable were \$38.3 million and \$35.3 million at December 31, 2010 and June 30, 2010, respectively. The increase of \$3.0 million in net receivables is primarily due to combined effects of a higher amount of net sales in the second quarter of fiscal 2011 as compared to the fourth quarter of fiscal 2010 at an increased DSO. The DSO increased to 50 days at December 31, 2010 from 48 days at June 30, 2010. The Company believes that its receivables are ultimately collectible or recoverable, net of certain reserves, and that aggregate allowances for doubtful accounts are adequate.

Net inventories of \$44.3 million at December 31, 2010 increased \$4.2 million from June 30, 2010 levels. Based on a strategy of balancing inventory reductions with customer service and the timing of shipments, net inventory increases occurred in the first half of fiscal 2011 in the Lighting Segment of approximately \$3.1 million and in the Electronic Components Segment of approximately \$3.0 million, and net inventory decreases occurred in the Graphics Segment of approximately \$0.4 million and in the All Other Category of approximately \$1.3 million.

Cash generated from operations and borrowing capacity under two line of credit facilities are the Company's primary source of liquidity. The Company has an unsecured \$30 million revolving line of credit with its bank group, with all \$30 million of the credit line available as of January 25, 2011. This line of credit is a \$30 million three year committed credit facility expiring in the third quarter of fiscal 2013. Additionally, the Company has a separate \$5 million line of credit, renewable annually in the third fiscal quarter, for the working capital needs of its Canadian subsidiary, LSI Saco Technologies. As of January 25, 2011, all \$5 million of this line of credit is available. The Company believes that \$35 million total lines of credit plus cash flows from operating activities are adequate for the Company's fiscal 2011 operational and capital expenditure needs. The Company is in compliance with all of its loan covenants.

The Company used \$2.9 million of cash related to investing activities in the first half of fiscal 2011 as compared to a use of \$3.0 million in the same period of the prior year, a favorable change of \$0.1 million. The change between years relates to the amount of fixed assets purchased, \$2,913,000 in the first half of fiscal 2011 as compared to \$2,280,000 in the same period of the prior year (\$0.6 million unfavorable) and the fiscal 2010 acquisition of AdL Technology, net of cash received (\$0.7 million favorable). Capital spending in both periods is primarily for tooling and equipment. The Company expects fiscal 2011 capital expenditures to be approximately \$5.0 million, exclusive of business acquisitions, if any.

The Company used \$2.5 million of cash related to financing activities in the first half of fiscal 2011 as compared to a use of \$4.7 million in the same period of the prior year. The \$2.2 million favorable change between periods is primarily related to the payment of long-term debt on the opening balance sheet of the acquired LSI ADL Technology in the first quarter of fiscal 2010 with no comparable payments in fiscal 2011 (\$2.2 million favorable).

The Company has, or could have, on its balance sheet financial instruments consisting primarily of cash and cash equivalents, short-term investments, revolving lines of credit, and long-term debt. The fair value of these financial

instruments approximates carrying value because of their short-term maturity and/or variable, market-driven interest rates.

Off-Balance Sheet Arrangements

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

Cash Dividends

On January 26, 2011 the Board of Directors declared a regular quarterly cash dividend of \$0.05 per share (approximately \$1,202,000) payable February 15, 2011 to shareholders of record on February 8, 2011. The Company's cash dividend policy is that the indicated annual dividend rate will be set between 50% and 70% of the expected net income for the current fiscal year. Consideration will also be given by the Board to special year-end cash or stock dividends. The declaration and amount of any cash and stock dividends will be determined by the Company's Board of Directors, in its discretion, based upon its evaluation of earnings, cash flow, capital requirements and future business developments and opportunities, including acquisitions. Accordingly, the Board established the indicated annual cash dividend rate of \$0.20 per share beginning with the first quarter of fiscal 2011 consistent with the above dividend policy.

Critical Accounting Policies and Estimates

The Company is required to make estimates and judgments in the preparation of its financial statements that affect the reported amounts of assets, liabilities, revenues and expenses, and related footnote disclosures. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The Company continually reviews these estimates and their underlying assumptions to ensure they remain appropriate. The Company believes the items discussed below are among its most significant accounting policies because they utilize estimates about the effect of matters that are inherently uncertain and therefore are based on management's judgment. Significant changes in the estimates or assumptions related to any of the following critical accounting policies could possibly have a material impact on the financial statements.

Revenue Recognition

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

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

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

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

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

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

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

Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification Topic 740, Income Taxes. Accordingly, deferred income taxes are provided on items that are reported as either income or expense in different time periods for financial reporting purposes than they are for income tax purposes. Deferred income tax assets and liabilities are reported on the Company's balance sheet. Significant management judgment is required in developing the Company's income tax provision, including the estimation of taxable income and the effective income tax rates in the multiple taxing jurisdictions in which the Company operates, the estimation of the liability for uncertain income tax positions, the determination of deferred tax assets and liabilities, and any valuation allowances that might be required against deferred tax assets.

The Company operates in multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Internal Revenue Service and other tax authorities routinely review the Company's tax returns. These audits can involve complex issues which may require an extended period of time to resolve. In management's opinion, adequate provision has been made for potential adjustments arising from these examinations.

The Company is recording estimated interest and penalties related to potential underpayment of income taxes as a component of tax expense in the Consolidated Statements of Operations. The reserve for uncertain tax positions is not expected to change significantly in the next twelve months.

Asset Impairment

Carrying values of goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment in accordance with Accounting Standards Codification Topic 350, Intangibles – Goodwill and Other. The Company's impairment review involves the estimation of the fair value of goodwill and indefinite-lived intangible assets using a combination of a market approach and an income (discounted cash flow) approach, at the reporting unit level, that requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease an impairment charge. Company management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as adverse business conditions, economic factors and technological change or competitive activities may signal that an asset has become impaired. Also see Note 8.

Carrying values for long-lived tangible assets and definite-lived intangible assets, excluding goodwill and indefinite-lived intangible assets, are reviewed for possible impairment as circumstances warrant as required by Accounting Standards Codification Topic 360, Property, Plant, and Equipment. Impairment reviews are conducted at the judgment of Company management when it believes that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the forecast for a product, changes in technology or in the way an asset is being used, a history of negative operating cash flow, or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review. The Company's initial impairment review to determine if a potential impairment charge is required is based on an undiscounted cash flow analysis at the lowest level for which identifiable cash flows exist. The analysis requires judgment with respect to changes in technology, the continued success of product lines and future volume, revenue and expense growth rates, and discount rates.

Credit and Collections

The Company maintains allowances for doubtful accounts receivable for probable estimated losses resulting from either customer disputes or the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in their inability to make the required payments, the Company may be required to record additional allowances or charges against income. The Company determines its allowance for doubtful accounts by first considering all known collectibility problems of customers' accounts, and then applying certain percentages against the various aging categories based on the due date of the remaining receivables. The resulting allowance for doubtful accounts receivable is an estimate based upon the Company's knowledge of its business and customer base, and historical trends. The amount ultimately not collected may differ from the reserve established, particularly in the case where percentages are applied against aging categories. In all cases, it is management's goal to carry a reserve against the Company's accounts receivable which is adequate based upon the information available at that time so that net accounts receivable is properly stated. The Company also establishes allowances, at the time revenue is recognized, for returns and allowances, discounts, pricing and other possible

customer deductions. These allowances are based upon historical trends.

Inventory Reserves

The Company maintains an inventory reserve for probable obsolescence of its inventory. The Company first determines its obsolete inventory reserve by considering specific known obsolete items, and then by applying certain percentages to specific inventory categories based upon inventory turns. The Company uses various tools, in addition to inventory turns, to identify which inventory items have the potential to become obsolete. Significant judgment is used to establish obsolescence reserves and management adjusts these reserves as more information becomes available about the ultimate disposition of the inventory item. Management values inventory at lower of cost or market.

Warranty Reserves

The Company maintains a warranty reserve which is reflective of its limited warranty policy. The warranty reserve covers the estimated future costs to repair or replace defective product or installation services, whether the product is returned or it is repaired in the field. The warranty reserve is first determined based upon known claims or issues, and then by the application of a specific percentage of sales to cover general claims. The percentage applied to sales to calculate general claims is based upon historical claims as a percentage of sales. Management addresses the adequacy of its warranty reserves on a quarterly basis to ensure the reserve is accurate based upon the most current information.

New Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

An evaluation was performed as of December 31, 2010 under the supervision and with the participation of the Registrant's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Registrant's disclosure controls and procedures pursuant to Rule 13a-15(b) and 15d-15(b) promulgated under the Securities Exchange Act of 1934. Based upon this evaluation, the Registrant's Chief Executive Officer and Chief Financial Officer concluded that the Registrant's disclosure controls and procedures were effective as of December 31, 2010, in all material respects, to ensure that information required to be disclosed in the reports the Registrant files and submits under the Exchange Act are recorded, processed, summarized and reported as and when required.

Changes in Internal Control

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

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

(c)

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

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/10 to 10/31/10	277	\$8.47	277	(1)
11/1/10 to 11/30/10	252	\$8.87	252	(1)
12/1/10 to 12/31/10	470	\$8.66	470	(1)
Total	999	\$8.67	999	(1)

(1) All acquisitions of shares reflected above have been made in connection with the Company's Non-Qualified Deferred Compensation Plan, which has been authorized for 475,000 shares of the Company to be held in and distributed by the Plan. At December 31, 2010, the Plan held 244,526 common shares of the Company and had distributed 125,739 common shares.

ITEM 6. EXHIBITS

a) Exhibits

31.1 Certification of Principal Executive Officer required by Rule 13a-14(a)

31.2 Certification of Principal Financial Officer required by Rule 13a-14(a)

32.1 Section 1350 Certification of Principal Executive Officer

32.2 Section 1350 Certification of Principal Financial Officer

SIGNATURES

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

LSI Industries Inc.

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

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

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

January 31, 2011

34