

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

OR

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.

(Exact name of Registrant as specified in its charter)

Ohio  
(State or other jurisdiction of  
incorporation or organization)

10000 Alliance Road  
Cincinnati, Ohio 45242  
(Address of principal executive offices)

IRS Employer I.D.  
No. 31-0888951

(513) 793-3200  
(Telephone of principal executive offices)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common shares, no par value	LYTS	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities Registered Pursuant to Section 12(g) of the Act:  
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of December 31, 2022, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately \$310,976,226 based upon a closing sale price of \$12.11 per share as reported on The NASDAQ Global Select Market.

At August 31, 2023, there were 28,550,376 shares of common stock.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the 2023 Annual Meeting of Shareholders to be held on November 1, 2023 are incorporated by reference in Part III, as specified.

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**LSI INDUSTRIES INC.**  
**2023 FORM 10-K ANNUAL REPORT**  
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### **Note About Forward-Looking Statements**

This report includes estimates, projections, statements relating to our business plans, objectives, and expected operating results that are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this report, including the following sections: “Business” (Part I, Item 1 of this Form 10-K), “Risk Factors” (Part I, Item 1A of this Form 10-K), and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (Part II, Item 7 of this Form 10-K). These forward-looking statements generally are identified by the words “encourage,” “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “future,” “opportunity,” “plan,” “may,” “should,” “will,” “would,” “will be,” “will continue,” “will likely result,” and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause actual results to differ materially. We describe risks and uncertainties that could cause actual results and events to differ materially in “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quantitative and Qualitative Disclosures about Market Risk” (Part II, Item 7A of this Form 10-K). Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

### **Website and Social Media Disclosure**

We use our website ([www.lsicorp.com](http://www.lsicorp.com)) and our corporate Facebook, YouTube, LinkedIn, Vimeo and Instagram accounts as channels of distribution of company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, Securities and Exchange Commission, or SEC, filings and public conference calls and webcasts. The contents of our website and social media channels are not, however, a part of this report.

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## PART I

### ITEM 1. BUSINESS

#### Overview

LSI Industries Inc. (LSI) is a leading producer of non-residential lighting and retail display solutions. Non-residential lighting consists of high-performance, American-made lighting solutions. The Company's strength in indoor and outdoor lighting applications creates opportunities for LSI to introduce additional solutions to its valued customers. Retail display solutions consist of graphics solutions, digital signage, and technically advanced food display equipment for strategic vertical markets. LSI's team of internal specialists also provide comprehensive project management services in support of large-scale product rollouts.

Our business is organized as follows: the Lighting Segment, which represented 55% of our fiscal 2023 net sales and the Display Solutions Segment, which represented 45% of our fiscal 2023 net sales. See Note 2 of Notes to Consolidated Financial Statements beginning on page 44 of this Form 10-K for additional information on business segments. Net sales by segment are as follows (in thousands):

	2023	2022
Lighting Segment	\$ 272,451	\$ 233,449
Display Solutions Segment	224,528	221,671
Total Net Sales	\$ 496,979	\$ 455,120

#### Lighting Segment

Our Lighting Segment manufactures, markets, and sells outdoor and indoor lighting fixture and controls solutions in the following vertical markets: refueling and convenience store, parking lot and garage, quick-service restaurant, retail, grocery and pharmacy, automotive dealership, sports court and field, and warehouse. We service these markets through multiple channels: project business sold through electrical distributors and agents and shipped directly to the customer; standard products sold to and stocked by distributors; and direct to end-use customers. Our products are designed and manufactured to provide maximum customer value and meet the high-quality, competitively priced product requirements of the markets we serve. Focusing on key vertical applications allows us to deliver unique product solutions, which in turn provide differentiated value to our customers.

Our lighting fixtures, poles and accessories are produced in a variety of design, aesthetics, and finishes. Application of our lighting fixtures vary to include surface, pole, and pendant mounted applications. Functional light distributions from our products varies depending upon application providing application specific photometric outputs including, but not limited to, interior and exterior downlighting, wall-wash lighting, canopy lighting, floodlighting, emergency exit lighting, industrial lighting, area and parking structure lighting and security lighting. To further energy efficiency gains from our luminaires, we offer a suite of lighting control options including sensors, photocontrols, dimming, motion detection and circuit controllers in both analog and wireless technologies to further support the application of our luminaires and provide means to additional energy savings. We design and certify to all applicable safety, photometric and performance standards including UL Solutions, Design Lights Consortium, International Dark-Sky Association, Norma Oficial Mexicana (NOM), and Institute for Printed Circuits (IPC). Utilizing LED light sources, our products are designed for energy efficiency, reliability, performance, ease of installation and service while providing a high degree of overall aesthetic appeal. We focus on providing performance based, energy efficient lighting solutions implemented across all key vertical markets served.

#### Display Solutions Segment

The Display Solutions Segment manufactures, sells and installs exterior and interior visual image and display elements, including printed graphics, structural graphics, digital signage, menu board systems, store display fixtures, refrigerated displays, and custom display elements. The major products and services offered within our Display Solutions Segment include signage and canopy graphics, pump dispenser graphics, building fascia graphics, decals, interior signage and marketing graphics, aisle markers, wall mural graphics, and refrigerated and non-refrigerated merchandising displays. We also provide a variety of project management services to complement our display elements, such as installation management, site surveys, permitting, and content management which are offered to our customers to support our digital signage. We also manage and execute the implementation of large rollout programs with our professional services group. These programs provide our customers a variety of display solutions and visual image upgrades in the same markets served in the lighting segment, which include the following markets: refueling and convenience store, quick-service restaurant, retail, grocery and pharmacy, and automotive dealerships. We believe our expertise with the products and services we offer in the markets we serve represents a significant competitive advantage. We work with our customers and design firms to establish and implement cost-effective corporate visual image programs to advance our customer's brands and deliver value to their customers. Increasingly, we have become the primary supplier of exterior and interior visual image and display elements for our customers.

## **Sales, Customers and Marketing**

The products and services we offer are sold primarily throughout the United States, but also in Canada, Mexico, and Latin America (approximately 4% of consolidated net sales are outside the United States). Our lighting product sales originate from two primary revenue streams. The first revenue stream is from project-based business, quoting and receiving orders as a preferred vendor for product sales to multiple end-users, including customer-owned as well as franchised and licensed dealer operations. The second revenue stream is from selling standard products to stocking distributors, who subsequently provide products to electrical contractors and end users for a variety of lighting applications. Our lighting products are primarily sold through manufacturer's sales representatives and to a lesser degree directly through our own sales force. Our display solution elements and related services, which in many instances are program-driven, are sold primarily through our own sales force. This revenue stream is from more significant program initiatives that often represent multiple sites over a period of time. These customers are usually established and have a long-term relationship with LSI. These products and services are sold directly to the customer or a brand marketer acting as an intermediary.

Sales are developed through a wide variety of contacts such as, but not limited to, national retail marketers, branded product companies, and franchised and dealer operations. In addition, sales are also achieved through recommendations from local architects, engineers, electrical distributors, and contractors. The Company utilizes the latest technology to track sales leads and customer quotes with the goal to turn them into orders from our customers. Our sales are partially seasonal as installation of our non-residential outdoor lighting and visual display solutions in the northern states decreases during the winter months.

The Company markets its products and service capabilities to end users in multiple channels through a broad spectrum of marketing and promotional methods, including direct customer contact, trade shows, on-site and virtual training, print advertising in industry publications, product brochures and other literature, e learning, the company's website, as well social media. Our marketing approach and means of distribution vary by product line and by market.

## **Manufacturing and Distribution**

We currently operate out of eleven manufacturing facilities located within six U.S. states and one province in Ontario, Canada.

We design, engineer and manufacture most of our lighting and visual display products through the utilization of lean manufacturing principles. Our investment in our production facilities is focused primarily on improving capabilities, product quality, and manufacturing efficiency, as well as environmental, health, and safety compliance. The majority of products we sell are engineered, designed, and assembled by the Company, while a small portion of the products and components we sell are purchased from select qualified vendors. Our lighting and display solutions products are delivered directly from our manufacturing facilities to our customers utilizing third-party common carriers.

The principal raw materials and purchased components used in the manufacturing of our products are steel, aluminum, aluminum castings, fabrications, LEDs, power supplies, sensors, powder paint, steel tubing, wire harnesses, acrylic, silicon and glass lenses, inks, various graphics substrates such as Aluminum Composite Material (ACM), Expanded PVC sheet (EPVC), vinyl film, styrene, foamboards, wood and wood laminates, condensing units, and digital screens. We source these materials and components from a variety of suppliers. Although an interruption of these supplies and components could disrupt our operations, we believe generally that alternative sources of supply exist and could be readily arranged. When faced with supply chain challenges, we increase our safety stock in certain components in order to mitigate potential disruption to our operations resulting from an anticipated shortage of certain components. We are not dependent on any one supplier for critical component parts. We strive to reduce price volatility in our purchases of raw materials and components through annual contracts with strategic suppliers. Our Lighting operations generally carry a certain level of sub-assemblies and finished goods inventory to meet quick delivery requirements. The Company's operations dealing with LED products generally carry LED and LED component inventory due to longer lead times. Most lighting products are made to order and shipped shortly after they are manufactured. Our display solutions operations manufacture custom products for customers who require us to stock certain amounts of finished goods in exchange for their commitment to that inventory. An example is our digital signage business, where customers require us to carry an inventory of digital screens to meet the demands of a large rollout program.

## **Research and Development:**

We invest in the development of new products and solutions as well as the enhancement of existing product offerings to meet the needs of our customers. Research and development costs are 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, outside legal costs and filing fees related to obtaining patents, supplies, depreciation, and other administrative costs. Research and development costs related to both product and software development totaled \$3.4 million and \$3.6 million for the fiscal years ended June 30, 2023, and 2022, respectively.

## **Competition**

We experience competition in both segments and in all markets we serve based on numerous factors, including price, brand name recognition, product quality, product design, prompt delivery, energy efficiency, customer relationships, reputation, and service capabilities. Although we have many competitors, both nationally and internationally, some of which have greater financial and other resources, we do not compete with the same companies across both segments and all markets.

## **Working Capital**

For a discussion of our working capital, see "Liquidity and Capital Resources" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

## **Environmental Regulations**

We are subject to a variety of federal, state, and local provisions regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. These include statutory and regulatory provisions under which we are responsible for the management of hazardous materials we use and the disposition of hazardous wastes resulting from our manufacturing processes. Failure to comply with such provisions could result in fines and other liabilities to the government or third parties.

## **Human Capital**

We recognize that in order to drive innovation, growth, and operational excellence, we must identify, attract, retain, and motivate top talent. Our approach is to develop talent from within and supplement with external hires. We are committed to building a diverse, inclusive, and engaged workforce. Our management teams and all of our employees are expected to exhibit the principles of fairness, honesty, and integrity in the actions we undertake. Our employees must adhere to a code of conduct that sets standards for appropriate behavior and includes required annual training on preventing, identifying, reporting, and stopping any type of unlawful discrimination or unethical actions.

We have 1,540 full-time employees and 87 agency employees as of June 30, 2023. We offer a comprehensive compensation and benefits program to our employees, including competitive wages, medical and dental insurance, and a 401(k)-retirement savings plan. The Company offers a nonqualified deferred compensation plan, an equity-based incentive plan and an incentive plan that is based upon the achievement of the Company's business plan goals, for certain employees.

## **Information Concerning the Company**

We file reports with the Securities and Exchange Commission ("SEC") on Forms 10-K, 10-Q and 8-K. The SEC maintains an internet website that contains reports, proxy and information statements and other information regarding us. The address of that site is <http://www.sec.gov>. Our internet address is <http://www.lsicorp.com>. We make available free of charge through our internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practical after we electronically file them with the SEC.

The information found on our website is not part of, or incorporated by reference into, this or any other report we file with, or furnish to, the SEC. In addition to these channels, we use social media to communicate to the public. It is possible that the information we post on social media could be deemed to be material to investors. We encourage investors, the media, and others interested in LSI to review the information we post on the social media channels listed on our Investor Relations website.

## ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the following factors which could materially affect our business, financial condition, cash flows or future results. Any one of these factors could cause the Company's actual results to vary materially from recent results or from anticipated future results. The risks described below are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### **Risk Factor Summary**

#### **Risks Related to Our Strategy**

- Lower levels of economic activity in our end markets could adversely affect our operating results.
- Our operating results may be adversely affected by unfavorable economic, political and market conditions.
- The inability to effectively execute our business strategies could adversely affect our financial condition and results of operations.
- The markets in which we operate are subject to competitive pressures that could affect selling prices, and therefore could adversely affect our operating results.
- We have a concentration of net sales to the refueling and convenience store and grocery markets, and any substantial change in these markets could have an adverse effect on our business.
- The Company may pursue future growth through strategic acquisitions and investments, which may not yield anticipated benefits.
- If we do not develop the appropriate new products or if customers do not accept new products, we could experience a loss of competitive position which could adversely affect future revenues.
- If we are unable to adequately protect our intellectual property, we may lose some of our competitive advantage.

#### **Risks Related to our Operations**

- Sudden or unexpected changes in a customer's creditworthiness could result in significant accounts receivable write-offs.
- Price increases, significant shortages of raw materials and components, shortages in transportation and an increase in fuel prices could adversely affect our operating margin.
- Our information technology systems are subject to certain cyber risks and could be subject to interruptions that are beyond our control.
- Labor shortages or increases in labor costs could adversely impact our business and results of operations.
- If the Company's products are improperly designed, manufactured, packaged, or labeled, the Company may need to recall those items, may have increased warranty costs, and could be the target of product liability claims.
- Changes in a customer's demands and commitment to proprietary inventory could result in significant inventory write-offs.
- The turnover of independent commissioned sales representatives could cause a significant disruption in sales volume.
- The Company may be unable to sustain significant customer and/or channel partner relationships.
- A loss of key personnel or inability to attract qualified personnel could have an adverse effect on our operating results.
- Changes in a shift in product mix can have a significant impact on our gross margins.
- We may not recognize all revenues from our backlog or receive all payments anticipated under awarded projects and customer contracts.

#### **Risks Related to Legal and Regulatory Matters**

- Potential changes in U.S. trade policies could have a material adverse effect on the Company.

#### **Risks Related to Financial Matters**

- A significant decline in our stock price could adversely affect our ability to raise additional capital.
- Recent increases in inflation and interest rates in the United States and elsewhere could adversely affect our business.
- Anti-takeover provisions in our organizational documents and in Ohio law could make difficult or delay a change in management or negatively impact our share price.



## **RISKS RELATED TO OUR STRATEGY**

### **Lower levels of economic activity in our end markets could adversely affect our operating results.**

Our businesses operate in several market segments including the refueling and convenience store markets, parking lot and garage markets, quick-service restaurant market, retail and grocery store markets, the automotive market, the warehouse market, and the sports complex market. Operating results can be negatively impacted by volatility in these markets. Future downturns in any of the markets we serve could adversely affect our overall sales, profitability, and cash flow. In addition, customer difficulties in the future could result from economic declines or issues arising from the cyclical nature of their business and, in turn, result in decreases in product demand, increases in bad debt write-offs, decreases in timely collection of accounts receivable and adjustments to our allowance for credit losses, resulting in material reductions to our revenues and net earnings.

### **Our operating results may be adversely affected by unfavorable economic, political and market conditions.**

Economic and political conditions worldwide have from time to time contributed to slowdowns in our industry at large, as well as to the specific markets in which we operate. When combined with ongoing customer consolidation activity, an uncertain macro-economic and political climate, including but not limited to a recession or inflationary pressures, and the effects of possible weakness in domestic and foreign financial and credit markets, could lead to reduced demand from our customers and increased price competition for our products, increased risk of excess and obsolete inventories and uncollectible receivables, and higher overhead costs as a percentage of revenue. If the markets in which we participate experience further economic downturns, as well as a slow recovery period, this could negatively impact our sales and revenue generation, margins, and operating expenses, and consequently have a material adverse effect on our business, financial condition and results of operations.

### **The inability to effectively execute our business strategies could adversely affect our financial condition and results of operations.**

Various uncertainties and risks are associated with our approach to strategically penetrate existing and new market verticals, including but not limited to, the development, marketing and selling of new products and solutions, new product development, and the overall development, marketing, and selling of lighting and display solutions. Those uncertainties and risks include but are not limited to diversion of management's attention; difficulty in retaining or attracting employees; negative impact on business relationships and customers; obsolescence of current products and slow new product development; inability to produce products with quality, performance, and cost attributes equal to or better than provided by our competitors; and unforeseen difficulties in the implementation of the management operating structure. Problems with strategy execution could offset anticipated benefits, disrupt service to customers, and impact product quality as well as adversely affect our business. With the addition of new products and solutions, we may encounter new and different competitors that may have more experience with respect to such products and solutions.

### **The markets in which we operate are subject to competitive pressures that could affect selling prices, and therefore could adversely affect our operating results.**

Our businesses operate in markets that are highly competitive, and we compete on the basis of price, quality, service and/or brand name across the industries and markets served. Some of our competitors for certain products, primarily in the Lighting Segment, have greater sales, assets, and financial resources. Some of our competitors are based in foreign countries and have cost structures and prices in foreign currencies. Accordingly, currency fluctuations could cause our U.S. dollar-priced products to be less competitive than our competitors' products which are priced in other currencies. Aggressive pricing actions of our competitors could affect prices we charge our customers or demand for our products, which could adversely affect our operating results. Additionally, customers for our products may attempt to reduce the number of vendors from which they purchase in order to reduce the size and diversity of their inventories and their transaction costs. To remain competitive, we will need to invest continuously in research and development, manufacturing, marketing, and customer service and support. We may not have sufficient resources to continue to make such investments and we may be unable to maintain our competitive position.

**We have a concentration of net sales to the refueling and convenience store and grocery markets, and any substantial change in these markets could have an adverse effect on our business.**

The Company has a concentration of sales in the refueling and convenience store and grocery markets. Sales to the refueling and convenience store market are dependent upon the general conditions prevailing in and the profitability of the Petroleum industry and general market conditions. The refueling and convenience store market can be subject to reactions by the petroleum industry due to world political events, to the price and supply of oil, and to a decline in demand resulting from an economic recession, or other factors. Major disruptions in the petroleum industry generally result in a curtailment of retail marketing efforts, including expansion and refurbishing of retail outlets by the petroleum industry, which could adversely affect our business. The operating environment for the grocery market continues to be characterized by the fragmentation of local, regional, and national retailers, including both retail and digital formats, market consolidation, intense competition, and entry of non-traditional competitors. Customer behavior shifted quickly and considerably during the pandemic, including a shift from dining away from home to food at home. The changing operating environment along with changes in customer behaviors within the grocery market could have an adverse impact on the purchasing decisions by one or more of our larger customers in this market. In addition, actions by our competitors, our customer's financial constraints, and industry factors or otherwise, could have an adverse effect on our business in either of these markets.

**The Company may pursue future growth through strategic acquisitions and investments, which may not yield anticipated benefits**

The Company has grown and strengthened its business through strategic acquisitions and will continue to do so as opportunities arise in the future in order to meet the Company's growth objectives. The Company will benefit from such activity only to the extent that it can effectively leverage and integrate the assets or capabilities of the acquired businesses including, but not limited to, personnel, technology, and operating processes. Moreover, unanticipated events, negative revisions to valuation assumptions and estimates, diversions of resources and management's attention from other business concerns, and difficulties in attaining synergies, among other factors, could adversely affect the Company's ability to recover initial and subsequent investments, particularly those related to acquired goodwill and intangible assets, which in turn could result in the impairment of the acquired company's goodwill and related assets. In addition, such investment transactions may limit the Company's ability to invest in other activities, which could be more profitable or advantageous.

**If we do not develop the appropriate new products or if customers do not accept new products, we could experience a loss of competitive position which could adversely affect future revenues.**

The Company is committed to product innovation on a timely basis to meet customer demands. Development of new products for targeted markets requires the Company to develop or otherwise leverage leading technologies in a cost-effective and timely manner. Failure to meet these changing demands could result in a loss of competitive position and seriously impact future revenues. Products or technologies developed by others may render the Company's products or technologies obsolete or noncompetitive. A fundamental shift in technologies in key product markets could have a material adverse effect on the Company's operating results and competitive position within the industry. More specifically, the development of new or enhanced products is a complex and uncertain process requiring the anticipation of technological and market trends. Rapidly changing product technologies could adversely impact operating results due to potential technological obsolescence of certain inventories or increased warranty expense related to newly developed LED lighting products or any of the Company's other products and services. We may experience design, manufacturing, marketing, or other difficulties, such as an inability to attract a sufficient number of experienced engineers which could delay or prevent our development, introduction or marketing of new products or enhancements and result in unexpected expenses. Such difficulties could cause us to lose business from our customers and could adversely affect our competitive position. In addition, added expenses could decrease the profitability associated with those products that do not gain market acceptance.

**If we are unable to adequately protect our intellectual property, we may lose some of our competitive advantage.**

Our success is determined in part by our ability to obtain United States and foreign patent protection for our technology and to preserve our trade secrets. Our ability to compete and the ability of our business to grow could suffer if our intellectual property rights are not adequately protected. There can be no assurance that our patent applications will result in patents being issued or that current or additional patents will afford protection against competitors. We rely on a combination of patents, copyrights, trademarks and trade secret protection and contractual rights to establish and protect our intellectual property. Failure of our patents, copyrights, trademarks and trade secret protection, non-disclosure agreements and other measures to provide protection of our technology and our intellectual property rights could enable our competitors to compete with us more effectively and have an adverse effect on our business, financial condition, and results of operations. In addition, our trade secrets and proprietary know-how may otherwise become known or be independently discovered by others. No guarantee can be given that others will not independently develop substantially equivalent proprietary information or techniques, or otherwise gain access to our proprietary technology.

## **RISKS RELATED TO OUR OPERATIONS**

### **Sudden or unexpected changes in a customer's creditworthiness could result in significant accounts receivable write-offs.**

The Company takes a conservative approach when extending credit to its customers. Customers are granted an appropriate credit limit based upon the due diligence performed on the customer which includes, among other things, the review of the company's financial statements and banking information, various credit checks, and payment history the customer has with the Company. At any given time, the Company can have a significant amount of credit exposure with its larger customers. While the Company is frequently monitoring its outstanding receivables with its customers, the risk does exist that a customer with large credit exposure is unable to make payment on its outstanding receivables which could result in a significant write-off of accounts receivable.

### **Price increases, significant shortages of raw materials and components, shortages in transportation and an increase in fuel prices could adversely affect our operating margin.**

The Company purchases large quantities of raw materials and components such as steel, aluminum, aluminum castings, fabrications, LEDs, power supplies, powder paint, steel tubing, wire harnesses, acrylic, silicon and glass lenses, inks, various graphics substrates such as Aluminum Composite Material (ACM), Expanded PVC sheet (EPVC), vinyl film, styrene, foamboards, wood and wood laminates, condensing units, and digital screens. Materials comprise the largest component of costs, representing approximately 63% and 66% of the cost of sales in 2023 and 2022, respectively. The Company's operating results could be affected by the availability and price fluctuations of these materials. The Company's strategic sourcing plans include mitigating supply chain risk by utilizing multiple suppliers for a commodity to avoid significant dependence on any single supplier. Although an interruption of these supplies and components could disrupt our operations, we believe generally that alternative sources of supply exist and could be readily arranged. To mitigate the risk of disruptions in the supply chain, we have on occasion increased our safety stock in certain components in order to mitigate a potential disruption to our operations resulting from an anticipated shortage of these same components. With regard to price fluctuations of our raw material and component purchases, the price risk for materials the Company purchases is related to price increases in commodity items that affect all users of the materials, including the Company's competitors. Significant tariffs or increases in the price of these raw materials and components could further increase the Company's operating costs and materially adversely affect margins. The Company does, however, seek and qualify new suppliers, negotiate with existing suppliers, and arrange stocking agreements to mitigate risk of supply and price increases. The Company can also be impacted by shortages and the availability of transportation of our products to our customers, in addition to rising fuel prices. The Company's Lighting Segment has implemented price increases with customers to offset raw material price increases along, rising transportation costs, and to mitigate the impact of trade tariffs. The Company's Display Solutions Segment generally establishes new sales prices, reflective of the then current raw material prices and transportation costs, for each program as it begins with further price increases throughout the life of the program when warranted. Although the Company attempts to pass along increased costs in the form of price increases to its customers, the Company may be unsuccessful in doing so for competitive reasons. Even when price increases are successful, the timing of such price increases may lag significantly behind the incurrence of higher costs.

### **Our information technology systems are subject to certain cyber risks and could be subject to interruptions that are beyond our control.**

We depend heavily on the proper functioning and availability of our information, communications, and data processing systems, including operating and financial reporting systems, in operating our business. Our systems and those of our technology and communications providers are vulnerable to interruptions caused by natural disasters, power loss, telecommunication and internet failures, cyber-attack, and other events beyond our control. Accordingly, information security and the continued development and enhancement of the controls and processes designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us.

We have been, and in the future may be, targeted by malicious cyber activity. Any failure to identify address or prevent malicious cyber activity could result in service interruptions, operational difficulties, loss of revenues or market share, liability to our customers or others, the diversion of corporate resources, injury to our reputation and increased service and maintenance costs. We have significantly enhanced and will continue to improve our cybersecurity controls in order to minimize the likelihood or impact of a malicious cyber activity.

Our information systems are protected through physical and software security as well as redundant backup systems, however, as cyber-attacks continue to evolve, we are committed to investing in our cyber defenses in order to mitigate the risks. Some of our software systems are provided and/or utilized by third parties who maintain responsibility for mitigating cybersecurity risk. We have invested and continue to invest in technology security initiatives, employee training, information technology risk management and disaster recovery plans. The development and maintenance of these measures is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become increasingly more sophisticated. Despite our efforts, we are not fully insulated from data breaches, technology disruptions or data loss, which could adversely impact our competitiveness and results of operations. Any future successful cyber-attack or catastrophic natural disaster could significantly affect our operating and financial systems and could temporarily disrupt our ability to provide required services to our customers, impact our ability to manage our operations and perform vital financial processes, any of which could have a materially adverse effect on our business.

**Labor shortages or increases in labor costs could adversely impact our business and results of operations.**

We rely heavily on our employees and any shortage of qualified labor could adversely affect our business. If we are not successful in our recruiting and retention efforts due to general labor shortages or otherwise, we could encounter a shortage of qualified employees in future periods. Any such shortage would decrease our ability to produce sufficient quantities of our product to serve our customers effectively. Such a shortage may also require us to pay higher wages for employees and incur a corresponding reduction in our profitability. Improvements in the economy and labor markets also could impact our ability to attract and retain key personnel. Rising wages across an improving economy can increase the competition among employers for a scarce labor force and make it difficult for us to attract and retain key personnel.

**If the Company's products are improperly designed, manufactured, packaged, or labeled, the Company may need to recall those items, may have increased warranty costs, and could be the target of product liability claims**

The Company may need to recall products if they are improperly designed, manufactured, packaged, or labeled, and the Company's insurance may not provide full coverage for such recall events. Many of the Company's products and solutions have become complex and include sophisticated and sensitive electronic components. The Company has manufactured certain of those components and products in its own facilities. Widespread product recalls could result in significant losses due to the costs of a recall, the destruction of product inventory, penalties, and lost sales due to the unavailability of a product for a period of time. In addition, products developed by the Company that incorporate LED technology, generally provide for more extensive warranty protection which may result in increased warranty claim costs. The Company may also be liable if the use of any of its products causes harm and could suffer losses from a significant product liability judgment against the Company in excess of its insurance limits. The Company may not be able to obtain indemnity or reimbursement from its suppliers or other third parties for the warranty costs or liabilities associated with its products. A significant product recall, warranty claim, or product liability case could also result in adverse publicity, damage to the Company's reputation, and a loss of consumer confidence in its products.

**Changes in a customer's demands and commitment to proprietary inventory could result in significant inventory write-offs.**

Upgrading or replacing a customer's current image requires the manufacture of inventory that is specific to the particular customer. This is particularly true in the Display Solutions Segment. In as many instances as possible, we require a commitment from the customer before the inventory is produced. Our request for a commitment can range from a single site or store to a large rollout program involving many sites or stores. The risk does exist that a customer cannot or will not honor its commitment to us. The reasons a customer cannot or will not honor its commitment can range from the bankruptcy of the customer to the change in the image during the rollout program, to canceling the program before its completion and before the inventory is sold to the customer. In each of these instances, we could be left with significant amounts of inventory required to support the customer's re-imaging. While all efforts are made to hold the customer accountable for its commitment, there is the risk that a significant amount of inventory could be deemed obsolete or no longer usable which could result in significant inventory write-offs.

**The turnover of independent commissioned sales representatives could cause a significant disruption in sales volume.**

Commissioned sales representatives are critical to generating business in the Lighting Segment. From time to time, commissioned sales representatives representing a particular region resign, are terminated and replaced with new commissioned sales representatives, or consolidated with another local firm. During this period of transition from the previous agency to the new one, sales in the particular region will likely fall as business is disrupted. It may take several months for the new sales representative to generate sales that will equal or exceed the previous sales representative. There is also the risk that the new sales agency will not attain the sales volume of the previous agency. These sales representative changes may occur individually as one agency is replaced due to lack of performance or changes may occur as a result of the mergers or acquisitions within the lighting industry. On the other hand, these sales representative changes can be widespread as a result of the competitive nature of the lighting industry as LSI and its competition vie for the strongest sales agency in a particular region.

**The Company may be unable to sustain significant customer and/or channel partner relationships.**

Relationships with customers are directly impacted by the Company's ability to deliver quality products and services. The loss of or a substantial decrease in the volume of purchases by certain large customers could significantly harm the Company. The Company has relationships with channel partners such as electrical distributors, independent sales agencies, system integrators, contractors, and value-added resellers, to name a few. While the Company maintains positive, and in many cases long-term relationships with these channel partners, the loss of a number of channel partners or substantial decrease in the volume of purchases from a major channel partner or group of channel partners could adversely affect the Company.

**A loss of key personnel or inability to attract qualified personnel could have an adverse effect on our operating results.**

The Company's future success depends on the ability to attract and retain highly skilled technical, managerial, marketing and finance personnel, and, to a significant extent, upon the efforts and abilities of senior management. The Company's management philosophy of cost-control results in a lean workforce. Future success of the Company will depend on, among other factors, the ability to attract and retain other qualified personnel, particularly executive management, research and development engineers, and sales professionals. The loss of the services of any key employees or the failure to attract or retain other qualified personnel could have a material adverse effect on the Company's results of operations.

**Changes in a shift in product mix can have a significant impact on our gross margins**

Certain of our products have higher gross profit margins than others. Further, the difference in gross margin of the products sold within the Lighting and Display Solutions Segments can also vary significantly. Consequently, changes in the product mix of our sales from quarter-to-quarter or from year-to-year can have a significant impact on our reported gross profit margins.

**We may not recognize all revenues from our backlog or receive all payments anticipated under awarded projects and customer contracts.**

Our customers have the right under some circumstances to terminate contracts or defer the timing of our shipments or installments and their payments to us. We may not receive all of the revenues from our backlog. If we do not receive all of the revenues we currently expect to receive, our future operating results could be adversely affected. In addition, a delay in the receipt of revenues, even if such revenues are eventually received, may cause our operating results for a particular quarter to fall below our expectations.

**RISKS RELATED TO LEGAL AND REGULATORY MATTERS**

**Potential changes in U.S. trade policies could have a material adverse effect on the Company.**

Changes in the U.S. trade policy, U.S. social, political, regulatory, and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently purchase component parts and sell products, and any resulting negative sentiments towards the United States as a result of such changes, could have an adverse effect on our business.

Some of our purchased components are sourced from or manufactured in foreign countries. Import tariffs and potential import tariffs have resulted or may result in increased prices for these imported goods and materials and, in some cases, may result or have resulted in price increases for domestically sourced goods and materials. Changes in U.S. trade policy have resulted and could result in additional reactions from U.S. trading partners, including adopting responsive trade policies making it more difficult or costly for us to export our products or import goods and materials from those countries. These measures could also result in increased costs for goods imported into the U.S. or may cause us to adjust our foreign supply chain. Either of these could require us to increase prices to our customers which may reduce demand, or, if we are unable to increase prices, result in lowering our margin on products sold.

We cannot predict future trade policy or the terms of any renegotiated trade agreements and their impacts on our business. The adoption and expansion of trade restrictions, the occurrence of a trade war, or other governmental action related to tariffs or trade agreements, or policies has the potential to adversely impact demand for our products, our costs, our customers, our suppliers, and the U.S. economy, which in turn could adversely impact our business, financial condition, and results of operations.

## **RISKS RELATED TO FINANCIAL MATTERS**

### **A significant decline in our stock price could adversely affect our ability to raise additional capital.**

The market price of our common stock can experience significant fluctuations. Our progress in developing and commercializing our products, our quarterly operating results, announcements of new products by us or our competitors, our perceived prospects, changes in general conditions in the economy or the financial markets, adverse events related to our strategic relationships, and other developments affecting us, or our competitors could cause the market price of our common stock to fluctuate substantially. This volatility of the stock market has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These market fluctuations, regardless of the cause, may materially and adversely affect our stock price, regardless of our operating results, and this could impact our ability to raise capital.

### **Recent increases in inflation and interest rates in the United States and elsewhere could adversely affect our business.**

We are exposed to fluctuations in inflation and interest rates, which could negatively affect our business, financial condition, and results of operations. The United States and other jurisdictions have recently experienced high levels of inflation. If the inflation rate continues to increase, it will likely affect our expenses, including, but not limited to, employee compensation and labor expenses along with the cost of various goods and services the Company purchases, and we may not be successful in offsetting such cost increases. In addition, a continued increase in interest rates will further result in increased interest expense.

### **Anti-takeover provisions in our organizational documents and in Ohio law could make difficult or delay a change in management or negatively impact our share price.**

Certain provisions of our Articles of Incorporation and Code of Regulations could make it more difficult for a third party to acquire control of us even if such a change in control would increase the value of our common stock and could prevent or hinder attempts by our shareholders to replace or remove our current board of directors or management.

We have a number of provisions in place that will hinder takeover attempts and could reduce the market value of our common stock or prevent sale at a premium. These provisions include:

- the authorization of undesignated preferred stock, which makes it possible for the board of directors to issue preferred stock with voting or other rights or preferences in a manner that could delay or prevent a transaction or a change in control;
- a provision that specifies that special meetings of our shareholders may be called only by our board of directors, our chairman of the board, if one has been elected, our president, or persons holding 50% of our outstanding voting stock;
- any business combination between us and a beneficial owner of 15% or more of our voting power requires the vote of 66 2/3% of the voting power of disinterested shareholders for five years after a party became an interested shareholder;
- any person who becomes a beneficial owner of 15% or more of our voting power must offer to purchase all of our voting securities and securities convertible into or exercisable for our voting securities within 25 days after achieving 15% ownership. The price to be paid would be the greater of the highest price paid by such 15% owner in acquiring its shares or the highest trading price for a period of time prior to such person becoming a 15% owner;
- the votes of holders of 66 2/3% of all outstanding shares is required to amend our Articles of Incorporation and to approve mergers, reorganizations, and similar transactions; and advance notice requirements by shareholders for director nominations and actions to be taken at annual meetings.

Ohio corporation law contains provisions that may discourage takeover bids for our company that have not negotiated with the board of directors. Such provisions could limit the price that investors might be willing to pay in the future for our shares of common stock. Additionally, shareholders may act by written consent without a meeting only if such written consent is signed by all shareholders.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

We have received no written comments regarding our periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of our fiscal year 2023 that remain unresolved.

## ITEM 2. PROPERTIES

Description	Size	Location	Status
1) Corporate Headquarters and Lighting and Display Solutions manufacturing	243,000 sq. ft. (includes 66,000 sq. ft. of office space)	Cincinnati, OH	Owned
2) Lighting manufacturing	122,000 sq. ft.	Cincinnati, OH	Owned
3) Lighting office and manufacturing	96,000 sq. ft. (includes 5,000 sq. ft. of office space)	Independence, KY	Owned
4) Display Solutions office and manufacturing	183,000 sq. ft. (includes 34,000 sq. ft. of office space)	Houston, TX	Leased
5) Display Solutions office and manufacturing	46,000 sq. ft. (includes 10,000 sq. ft. of office space)	Akron, OH	Leased
6) Lighting office and manufacturing	57,000 sq. ft. (includes 5,000 sq. ft. of office space)	Columbus, OH	Owned
7) Lighting office and manufacturing	336,000 sq. ft. (includes 60,000 sq. ft. of office space)	Burlington, NC	Leased
8) Display Solutions office and manufacturing	77,000 sq. ft. (includes 8,000 sq. ft. of office space)	Milo, ME	Owned
9) Display Solutions office and manufacturing	42,000 sq. ft. (includes 4,000 sq. ft. of office space)	Bangor, ME	Leased
10) Display Solutions manufacturing	77,000 sq. ft.	Collingwood, ON	Leased
11) Display Solutions office	1,000 sq. ft.	Gloucester, MA	Leased
12) Display Solutions manufacturing	68,000 sq. ft.	Payson, UT	Leased
13) Display Solutions warehouse	5,400 sq. ft.	Queretaro, Mexico	Leased

## ITEM 3. LEGAL PROCEEDINGS

Refer to Note 13 – Contingencies of the Notes to the Consolidated Financial Statements beginning on page 39 of this Form 10-K for information regarding legal proceedings in which we are involved.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

LSI's shares of common stock are traded on the NASDAQ Global Select Market under the symbol "LYTS." At August 31, 2023, there were approximately 550 registered holders of record of our common stock.

The Company's Board of Directors has adopted a dividend policy which indicates that dividends will be determined by the Board of Directors in its discretion based upon its evaluation of earnings, cash flow requirements, financial condition, debt levels, stock repurchases, future business developments and opportunities, and other factors deemed relevant by the Board of Directors. The Company has paid annual cash dividends beginning in fiscal 1987 through fiscal 1994, and quarterly cash dividends since fiscal 1995. The Company's indicated annual rate for payment of a cash dividend at the end of fiscal 2023 was \$0.20 per share.

On April 28, 2022, the Company announced that its Board of Directors authorized a new share repurchase program under which the Company may repurchase up to \$15 million of its outstanding shares of common stock in the open market, in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. The Company's decision to repurchase its shares, as well as the timing of such repurchases, will depend on a variety of factors, including the ongoing assessment of the Company's capital needs, the market price of the Company's common stock, general market conditions and other corporate considerations, as determined by management. The repurchase program may be suspended or discontinued at any time. The Company did not repurchase any shares in the fiscal year ended June 30, 2023.

### ITEM 6. [RESERVED]

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis of Financial Condition and Results of Operations" appears on pages 23 through 29 of this Form 10-K.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in variable interest rates, changes in prices of raw materials and purchased component parts, and changes in foreign currency translation rates. Each of these risks is discussed below.

#### **Interest Rate Risk**

The Company earns interest income on its cash, cash equivalents, and short-term investments (if any) and pays interest expense on its debt (if any). Because of variable interest rates, the Company is exposed to the risk of interest rate fluctuations, which impact interest income, interest expense, and cash flows.

The Company's \$75 million revolving line of credit and \$25 million term loan is subject to interest rate fluctuations. Additionally, the Company expects to generate cash from its operations that will subsequently be used to pay down as much of the debt (if any is outstanding) as possible or invest cash in short-term investments (if no debt is outstanding), while still funding the growth of the Company.

#### **Raw Material Price Risk**

The Company purchases large quantities of raw materials and components such as steel, aluminum, aluminum castings, fabrications, LEDs, power supplies, powder paint, steel tubing, wire harnesses, acrylic, silicon and glass lenses, inks, various graphics substrates such as Aluminum Composite Material (ACM), Expanded PVC sheet (EPVC), vinyl film, styrene, foamboards, wood and wood laminates, condensing units, and digital screens. The Company's operating results could be affected by the availability and price fluctuations of these materials. The Company's strategic sourcing plans include mitigating supply chain risk by utilizing multiple suppliers for a commodity to avoid significant dependence on any single supplier. Although an interruption of these supplies and components could disrupt our operations, we believe generally that alternative sources of supply exist and could be readily arranged. We have, on occasion, increased our safety stock in certain components in order to mitigate a potential disruption to our operations resulting from an anticipated shortage of these same components. The Company has not experienced any significant supply chain problems in recent years. With regard to price fluctuations of our raw material and component purchases, the price risk for materials the Company purchases is related to price increases in commodity items that affect all users of the materials, including the Company's competitors. For the fiscal year ended June 30, 2023, the raw material component of cost of goods sold subject to price risk was approximately \$226.3 million. The Company does not actively hedge or use derivative instruments to manage its risk in this area. The Company does, however, seek and qualify new suppliers, negotiate with existing suppliers, and arranges stocking agreements to mitigate risk of supply and price increases. The Company's Lighting Segment has implemented price increases with customers to offset raw material price increases. The Company's Display Solutions Segment generally establishes new sales prices, reflective of the then current raw material prices, for each program as it begins with further price increases throughout the life of the program when warranted.



## Foreign Currency Translation Risk

The Company has minimal foreign currency risk with respect to its Mexican and Canadian subsidiaries. The sales transacted by these subsidiaries in pesos and Canadian dollars combined represents approximately 4% of the Company's fiscal 2022 consolidated net sales. All other business conducted by the Company is in U.S. dollars.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Schedules other than those listed above are omitted for the reason(s) that they are either not applicable or not required or because the information required is contained in the financial statements or notes thereto. Selected quarterly financial data is found in Note 15 of the accompanying consolidated financial statements.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

## ITEM 9A. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as such term is defined Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is recorded, processed, summarized, and reported within required time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We conducted, under the supervision of our management, including the Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2023, our disclosure controls and procedures were effective. Management believes that the consolidated financial statements included in this Annual Report on Form 10-K are fairly presented in all material respects in accordance with U.S GAAP, and the Company's Chief Executive Officer and Chief Financial Officer have certified that, based on their knowledge, the consolidated financial statements included in this report fairly present in all material respects the Company's financial condition, results of operations, statement of shareholders' equity, and cash flows for each of the periods presented in this report.

Management's Report on Internal Control over Financial Reporting appearing on page 30 of this report is incorporated by reference in this Item 9A.

### 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 June 30, 2023, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. See Management's Report On Internal Control Over Financial Reporting on page 30.

## ITEM 9B. OTHER INFORMATION

During the three months ended June 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) informed us of the adoption or termination of a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as defined in Item 408 of Regulation S-K.

## ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

## **PART III**

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information about our directors and officers may be found under the captions "Nominees for Board of Directors" and "Executive Officers" in our Proxy Statement for the Annual Meeting of Shareholders to be held November 1, 2023 (the "Proxy Statement"). Information about our Audit Committee may be found under the caption "Committees of the Board" in the Proxy Statement. That information is incorporated herein by reference.

We have adopted a code of ethics that applies to all of our employees, including our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and other finance organization employees. The code of ethics is publicly available on our website at [Isicorp.com](http://Isicorp.com). If we make any substantive amendments to the code of ethics or grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer, Chief Financial Officer, or Chief Accounting Officer, we will disclose the nature of the amendment or waiver on that website or in a report on Form 8-K.

#### ITEM 11. EXECUTIVE COMPENSATION

The information in the Proxy Statement set forth under the captions "Director Compensation," "Compensation Discussion and Analysis" "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report" is incorporated herein by reference.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in the Proxy Statement set forth under the captions "Security Ownership," and "Equity Compensation Plan Information" is incorporated herein by reference.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information set forth in the Proxy Statement under the captions "Corporate Governance" and "Related Person Transactions" is incorporated herein by reference.

#### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning fees and services provided by our principal accountant, Grant Thornton LLP (PCAOB ID No. [248]), appears in the Proxy Statement under the headings "Ratification of Appointment of Independent Registered Public Accounting Firm" and "Committees of the Board" and is incorporated herein by reference.

### **PART IV**

#### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

- (1) Consolidated Financial Statements appear as part of Item 8 of this Form 10-K.
- (2) Exhibits – Exhibits set forth below are either on file with the Securities and Exchange Commission and are incorporated by reference as exhibits hereto, or are filed with this Form 10-K.

<u>Exhibit No.</u>	<u>Exhibit Description</u>
2.1	<a href="#">Stock Purchase Agreement dated as of May 21, 2021, among LSI Fresh Subsidiary Inc., JSI Holding Corp., Fresh Seller Rep, LLC and the Sellers identified therein ++ (incorporated by reference to Exhibit 2.1 to LSI's Form 8-K filed on May 24, 2021)</a>
3.1	<a href="#">Amended and Restated (Consolidated) Articles of Incorporation of LSI (incorporated by reference to Exhibit 3.1 to LSI's Form 8-K filed on November 7, 2022).</a>
3.2	<a href="#">Amended and Restated Code of Regulations of LSI (incorporated by reference to Exhibit 3.2 to LSI's Form 10-K filed on September 11, 2020).</a>
4.1	<a href="#">Description of Securities (incorporated by reference to Exhibit 4.1 to LSI's Annual Report on Form 10-K filed on September 6, 2019).</a>
10.1	<a href="#">Third Amendment to Loan Documents dated February 21, 2017 between LSI and PNC Bank, National Association (incorporated by reference to Exhibit 4.2 to LSI's Form 8-K filed on February 21, 2017).</a>
10.2	<a href="#">Fourth Amendment to Loan Documents dated February 28, 2019 between LSI and PNC Bank, National Association (incorporated by reference to Exhibit 10.2 to LSI's Form 10-Q filed on May 8, 2019).</a>
10.3	<a href="#">Amended and Restated Loan Agreement dated as of June 19, 2014 between LSI and PNC Bank, National Association (incorporated by reference to Exhibit 10.1 of LSI's Form 10-K filed on September 10, 2014)</a>

- 10.4\* [Amended and Restated 2012 Stock Incentive Plan amended as of November 17, 2016 \(incorporated by reference to Exhibit 10.1 to LSI's Form 10-Q filed on February 3, 2017\).](#)
- 10.5\* [Form of Indemnification Agreement \(incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed on June 23, 2016\)](#)
- 10.6\* [LSI Industries Inc. Nonqualified Deferred Compensation Plan \(Amended and Restated as of August 17, 2022\) \(incorporated by reference to Exhibit 10.3 of LSI's Form 10-Q filed on November 4, 2022\).](#)
- 10.7\* [Employment Agreement between LSI and James A. Clark \(incorporated by reference to Exhibit 10.1 to LSI's 8-K filed on October 17, 2018\).](#)
- 10.8\* [Employment Offer Letter between LSI and James E. Galeese \(incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed on June 13, 2017\).](#)
- 10.9\* [Employment Offer Letter between LSI and Thomas A. Caneris \(incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed on August 5, 2019\).](#)
- 10.10\* [Form of Change in Control Agreement \(incorporated by reference to Exhibit 10.1 to LSI's Form 10-Q filed on January 29, 2021\).](#)
- 10.11\* [2019 Omnibus Award Plan \(incorporated by reference to Exhibit 10.1 to LSI's Form S-8 Registration Statement File No. 333-234556 filed on November 7, 2019\).](#)
- 10.12 [Fifth Amendment to Loan Documents dated as of March 30, 2021, between LSI and PNC Bank, National Association \(incorporated by reference to Exhibit 10.1 to LSI's Form 8-K filed on April 1, 2021\).](#)
- 10.13\* [Form of Supplemental Benefits Agreement \(incorporated by reference to Exhibit 10.2 to LSI's Form 10-Q filed on January 29, 2021\).](#)
- 10.14\* [Fiscal Year 2021 Long-Term Incentive Plan \(LTIP\)++ \(incorporated by reference to Exhibit 10.1 to LSI's Form 10-Q filed on November 5, 2020\).](#)
- 10.15\* [Form of 2019 Omnibus Award Plan Non-Qualified Stock Option Award Agreement \(incorporated by reference to Exhibit 10.3 to LSI's Form 10-Q filed on November 5, 2020\).](#)
- 10.16\* [Form of 2019 Omnibus Award Plan Restricted Stock Unit Award Agreement \(incorporated by reference to Exhibit 10.3 to LSI's Form 10-Q filed on February 4, 2022\).](#)
- 10.17\* [Form of 2019 Omnibus Award Plan Performance Stock Unit Award Agreement++ \(incorporated by reference to Exhibit 10.4 to LSI's Form 10-Q filed on February 4, 2022\).](#)
- 10.18\* [LSI Industries Inc. 2021 Employee Stock Purchase Plan \(incorporated by reference to LSI's Proxy Statement on Schedule 14A filed on September 15, 2021\).](#)
- 10.19 [Sixth Amendment to Loan Documents dated as of September 30, 2021, between LSI and PNC Bank National Association \(incorporated by reference to Exhibit 10.1 to LSI's Form 10-Q filed on February 4, 2022\).](#)
- 10.20\* [Fiscal Year 2022 Long-Term Incentive Plan \(LTIP\)++ \(incorporated by reference to Exhibit 10.1 to LSI's Form 10-Q filed on February 4, 2022\).](#)
- 10.21\* [Fiscal Year 2023 Long-Term Incentive Plan \(LTIP\) ++ \(Incorporated by reference to Exhibit 10.1 of LSI's Form 10-Q filed on November 4, 2022\)](#)

10.22*	<a href="#">Fiscal Year 2023 Short-Term Incentive Plan (STIP) ++ (Incorporated by reference to Exhibit 10.2 of LSI's Form 10-Q filed on November 4, 2022)</a>
14	<a href="#">Code of Conduct (incorporated by reference to Exhibit 14 to LSI's Form 10-K filed on September 10, 2021)</a>
19	<a href="#">Insider Trading Policy and Anti-Hedging and Pledging Policy</a>
21	<a href="#">Subsidiaries of the Registrant</a>
23.1	<a href="#">Consent of Independent Registered Public Accounting Firm (Grant Thornton LLP)</a>
24	<a href="#">Power of Attorney (included as part of signature page)</a>
31.1	<a href="#">Certification of Principal Executive Officer required by Rule 13a-14(a)</a>
31.2	<a href="#">Certification of Principal Financial Officer required by Rule 13a-14(a)</a>
32.1	<a href="#">18 U.S.C. Section 1350 Certification of Principal Executive Officer</a>
32.2	<a href="#">18 U.S.C. Section 1350 Certification of Principal Financial Officer</a>
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Document
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

\*Management compensatory agreement.

++ Certain portions of this exhibit have been omitted pursuant to Item 601(b)(10) of Regulation S-K. The omitted information is not material and would likely cause competitive harm to the Registrant if publicly disclosed. The Registrant hereby agrees to furnish a copy of any omitted portion to the SEC upon request.

LSI will provide shareholders with any exhibit upon the payment of a specified reasonable fee, which fee shall be limited to LSI's reasonable expenses in furnishing such exhibit. The exhibits identified herein as being filed with the SEC have been so filed with the SEC but may not be included in this version of the Annual Report to Shareholders.

#### ITEM 16. FORM 10-K SUMMARY

Not included.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

September 8, 2023  
Date

BY: /s/ James A. Clark  
James A. Clark  
Chief Executive Officer and President

We, the undersigned directors, and officers of LSI Industries Inc. hereby severally constitute James A. Clark and James E. Galeese, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>
<u>/s/ James A. Clark</u> James A. Clark Date: September 8, 2023	Chief Executive Officer and President (Principal Executive Officer)
<u>/s/ James E. Galeese</u> James E. Galeese Date: September 8, 2023	Executive Vice President, and Chief Financial Officer (Principal Financial Officer)
<u>/s/ Jeffery S. Bastian</u> Jeffery S. Bastian Date: September 8, 2023	Vice President and Chief Accounting Officer (Principal Accounting Officer)
<u>/s/ Robert P. Beech</u> Robert P. Beech Date: September 8, 2023	Director
<u>/s/ Ronald D. Brown</u> Ronald D. Brown Date: September 8, 2023	Director
<u>/s/ Amy L. Hanson</u> Amy L. Hanson Date: September 8, 2023	Director
<u>/s/ Ernest W. Marshall, Jr.</u> Ernest W. Marshall, Jr. Date: September 8, 2023	Director
<u>/s/ Chantel E. Lenard</u> Chantel E. Lenard Date: September 8, 2023	Director
<u>/s/ Wilfred T. O'Gara</u> Wilfred T. O'Gara Date: September 8, 2023	Director

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand the results of the Company's operations and financial condition. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying Notes to Financial Statements (Part II, Item 8 of this Form 10-K). This section generally discusses the results of our operations for the year ended June 30, 2023, compared to the year ended June 30, 2022. For a discussion of the year ended June 30, 2022, compared to the year ended June 30, 2021, please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended June 30, 2022.

### Overview

LSI is a leading producer of non-residential lighting and retail display solutions. Non-residential lighting consists of high-performance, American-made lighting products. The Company's strength in outdoor and indoor lighting applications creates opportunities for it to introduce additional solutions to its customers. Retail display solutions consist of graphics solutions, digital signage, and technically advanced food display equipment for strategic vertical markets. LSI's team of internal specialists also provide comprehensive project management services in support of large-scale rollouts.

### Summary of Consolidated Results

#### Net Sales by Business Segment

<i>(In thousands)</i>	2023	2022
Lighting Segment	\$ 272,451	\$ 233,449
Display Solutions Segment	224,528	221,671
Total Net Sales	<u>\$ 496,979</u>	<u>\$ 455,120</u>

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

<i>(In thousands)</i>	2023	2022
Lighting Segment	\$ 31,633	\$ 20,942
Display Solutions Segment	24,920	17,589
Corporate and Eliminations	(19,525)	(17,330)
Total Operating Income	<u>\$ 37,028</u>	<u>\$ 21,201</u>

Fiscal 2023 net sales of \$497.0 million increased \$41.9 million or 9.2% as compared to fiscal 2022 net sales of \$455.1 million. Net sales were favorably influenced by increased net sales in the Lighting Segment (an increase of \$39.0 million or 16.7%) and primarily driven by increased net sales in the Display Solutions Segment (an increase of \$2.9 million or 1.3%). The increase in sales is attributed to continued strength and focus in the key market verticals the Company serves.

Fiscal 2023 operating income of \$37.0 million represents a \$15.8 million increase from fiscal 2022 operating income of \$21.2 million. Non-GAAP adjusted operating income in fiscal 2023 of \$42.0 million increased \$17.0 million or 68% from adjusted fiscal 2022 operating income of \$25.0 million. Refer to "Non-GAAP Financial Measures" below for a reconciliation of Non-GAAP financial measures to U.S. GAAP measures. The increase in adjusted operating income was the net result of an increase in net sales, sustained price disciplines, a higher-value sales mix, and strong operational execution.

## Non-GAAP Financial Measures

We believe it is appropriate to evaluate our performance after making adjustments to the as-reported U.S. GAAP operating income, net income, and earnings per share. Adjusted operating income, net income, and earnings per share, which exclude the impact of acquisition costs, long-term performance based compensation expense, severance costs, and commercial growth opportunity expense, are Non-GAAP financial measures. Also included below are Non-GAAP financial measures including Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA and Adjusted EBITDA), Free Cash Flow, and Net Debt to adjusted EBITDA. 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. These Non-GAAP measures may be different from Non-GAAP measures used by other companies. In addition, the Non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Non-GAAP measures have limitations, in that they do not reflect all amounts associated with our results as determined in accordance with U.S. GAAP. Therefore, these measures should only be used to evaluate our results in conjunction with corresponding GAAP measures. Below is a reconciliation of these non-GAAP measures to operating income, net income, and earnings per share for the periods indicated along with the calculation of EBITDA and Adjusted EBITDA, Free Cash Flow, and Net Debt to adjusted EBITDA.

### Reconciliation of net income to adjusted net income

(In thousands, except per share data)

	2023		2022	
		Diluted EPS		Diluted EPS
<b>Net Income as reported</b>	<b>\$ 25,762</b>	<b>\$ 0.88</b>	<b>\$ 15,032</b>	<b>\$ 0.54</b>
Acquisition costs	-	-	373	(4)
Long-Term Performance Based Compensation	2,879	(1)	2,594	(5)
Severance costs	51	(2)	4	(6)
Consulting Expense: Commercial Growth Opportunities	707	(3)	-	-
Net Tax impact due to the Distribution of Shares from the Company's Long-Term Performance Based Compensation Plan	(402)	(0.01)	-	-
<b>Net Income adjusted</b>	<b>\$ 28,997</b>	<b>\$ 0.99</b>	<b>\$ 18,003</b>	<b>\$ 0.64</b>

The following represents the income tax effects of the adjustments in the tables above, which were calculated using the estimated combined U.S., Canada and Mexico effective income tax rates for the periods indicated:

- (1) \$1,119
- (2) \$15
- (3) \$157
- (4) \$100
- (5) \$694
- (6) \$7

The reconciliation of reported earnings per share to adjusted earnings per share may not produce identical amounts due to rounding differences.



**Reconciliation of operating income to adjusted operating income:***(In thousands)*

	<u>2023</u>	<u>2022</u>
<b>Operating Income as reported</b>	<b>\$ 37,028</b>	<b>\$ 21,201</b>
Acquisition costs	-	473
Long-Term Performance Based Compensation	3,998	3,288
Severance costs	66	11
Consulting Expense: Commercial Growth Opportunities	864	-
<b>Adjusted Operating Income</b>	<b>\$ 41,956</b>	<b>\$ 24,973</b>

**Reconciliation of net income to EBITDA and Adjusted EBITDA***(In thousands)*

	<u>2023</u>	<u>2022</u>
<b>Net Income - Reported</b>	<b>\$ 25,762</b>	<b>\$ 15,032</b>
Income Tax	7,564	4,053
Interest Expense, net	3,687	1,968
Other expense (income)	15	148
<b>Operating Income as reported</b>	<b>\$ 37,028</b>	<b>\$ 21,201</b>
Depreciation and Amortization	9,664	10,118
<b>EBITDA</b>	<b>\$ 46,692</b>	<b>\$ 31,319</b>
Acquisition costs	-	473
Long-Term Performance Based Compensation	3,998	3,288
Severance costs	66	11
Consulting Expense: Commercial Growth Initiatives	864	-
<b>Adjusted EBITDA</b>	<b>\$ 51,620</b>	<b>\$ 35,091</b>

**Reconciliation of cash flow from operations to free cash flow***(In thousands)*

	<u>2023</u>	<u>2022</u>
<b>Cash Flow from Operations</b>	<b>\$ 49,588</b>	<b>\$ (3,863)</b>
Capital expenditures	(3,208)	(2,122)
<b>Free Cash Flow</b>	<b>\$ 46,380</b>	<b>\$ (5,985)</b>

**Net Debt to Adjusted EBITDA**  
(In thousands)

	June 30, 2023	June 30, 2022
Debt as reported	\$ 35,200	\$ 79,596
Less:		
Cash and cash equivalents as reported	1,828	2,462
<b>Net Debt</b>	<b>\$ 33,372</b>	<b>\$ 77,134</b>
<b>Adjusted EBITDA</b>	<b>\$ 51,620</b>	<b>\$ 35,091</b>
<b>Net Debt to Adjusted EBITDA</b>	<b>0.65</b>	<b>2.20</b>

**Results of Operations**

**2023 Compared to 2022**

**Lighting Segment**  
(In thousands)

	2023	2022
Net Sales	\$ 272,451	\$ 233,449
Gross Profit	\$ 86,761	\$ 70,120
Operating Income	\$ 31,633	\$ 20,942

Lighting Segment net sales of \$272.5 million in fiscal 2023 increased 16.7% from fiscal 2022 net sales of \$233.4 million. The sales growth was across all key vertical markets, with significant contributions from new and enhanced products.

Gross profit of \$86.8 million in fiscal 2023 increased \$16.6 million or 23.7% from fiscal 2022. Gross profit as a percentage of net sales was 31.8% in fiscal 2023 compared to 30.0% in fiscal 2022. Contributors to the improvement of gross profit as a percentage of sales include an accelerated adoption of recently introduced products, sustained price disciplines, a higher value sales mix, and improved operational execution.

Operating expenses of \$55.1 million in fiscal 2023 increased \$5.9 million or 12.1% from fiscal 2022 operating expenses of \$49.2 million, primarily driven by higher commission expense as a result of higher sales.

Fiscal 2023 Lighting Segment operating income of \$31.6 million increased \$10.7 million or 51.1% from operating income of \$20.9 million in fiscal 2022 and operating income as a percentage of sales also increased from 9.1% to 11.6%. Both increases were primarily driven by sales volume and an improvement in gross profit as a percentage of sales.

**Display Solutions Segment**  
(In thousands)

	2023	2022
Net Sales	\$ 224,528	\$ 221,671
Gross Profit	\$ 50,179	\$ 39,076
Operating Income	\$ 24,920	\$ 17,589

Display Solutions Segment net sales of \$224.5 million in fiscal 2023 increased \$2.9 million or 1.3% from fiscal 2022 net sales of \$221.7 million. The net increase in sales in the grocery and refueling/c-store market verticals was partially offset by the near completion of a \$100 million QSR digital menu board program.

Gross profit of \$50.2 million in fiscal 2023 increased \$11.1 million or 28.4% from fiscal 2022. Gross profit as a percentage of net sales increased to 22.3% in fiscal 2023 compared from 17.6% in fiscal 2022. The increase in gross profit as a percentage of net sales was driven by improved program pricing and favorable customer mix.

Operating expenses of \$25.3 million in fiscal 2023 increased \$3.8 million or 17.6% from fiscal 2022. The increase of \$3.8 million was driven by several factors including compensation, benefits, and commercial sales and marketing program costs to support sales growth, along with an increase in short-term performance based incentive plan expenses driven by improved business performance.

Fiscal 2023 Display Solutions Segment operating income of \$24.9 million increased \$7.3 million or 41.7% million from operating income of \$17.6 million in fiscal 2022. The increase of \$7.3 million was primarily driven by an increase in sales and an improvement in gross profit as a percentage of sales.

#### Corporate and Eliminations

(In thousands)

	2023	2022
Gross Profit	\$ 5	\$ 12
Operating (Loss)	\$ (19,525)	\$ (17,330)

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

Operating expenses of \$19.5 million in fiscal 2023 increased \$2.2 million or 12.7% from fiscal 2022. The increase was primarily the result of an increase in short-term and long-term performance-based incentive plan expense driven by improved business performance and by commercial growth initiative consulting expense of \$0.9 million for which there was no comparable expense in fiscal 2022.

#### Consolidated Results

Net interest expense of \$3.7 million in fiscal 2023 compared to \$2.0 million net interest expense in fiscal 2022. The increase in interest expense is primarily the results of increased borrowing costs. The Company also recorded a negligible amount of other expense in fiscal 2023 and \$0.1 million of other expense in fiscal 2022, respectively, related to net foreign exchange currency transaction net losses through our Mexican and Canadian subsidiaries.

The \$7.6 million of tax expense in fiscal 2023 reflects a consolidated effective tax rate of 22.7%. The \$4.1 million of income tax expense in fiscal 2022 represents a consolidated effective tax rate of 21.2%. The increase in the effective tax rate is primarily driven by an increase in pre-tax profits in the higher taxing jurisdiction of Puerto Rico.

Reported net income of \$25.8 million in fiscal 2023 compared to net income of \$15.0 million in fiscal 2022. Non-GAAP adjusted net income was \$29.0 million in fiscal 2023 compared to adjusted net income of \$18.0 million in fiscal 2022 (Refer to the Non-GAAP tables above). The increase in Non-GAAP adjusted net income is primarily the result of an increase in net sales and an improvement of gross profit as a percentage of sales. Diluted earnings per share of \$0.88 was reported in fiscal 2023 compared to \$0.54 diluted earnings per share in fiscal 2022. The weighted average common shares outstanding for purposes of computing diluted earnings per share in fiscal 2023 were 29,316,000 shares compared to 27,993,000 shares in fiscal 2022.

#### Liquidity and Capital Resources

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

Working capital was \$73.3 million at June 30, 2023, compared to \$81.8 million at June 30, 2022. The ratio of current assets to current liabilities was 1.96 to 1 as of June 30, 2023, compared to a ratio of 2.06 to 1 as of June 30, 2022. The \$8.5 million decrease in working capital from June 30, 2022, to June 30, 2023, is primarily driven by a \$10.7 million decrease in inventory, partially offset by a \$2.1 million increase in refundable income taxes.

Net accounts receivable were \$77.7 million and \$77.8 million at June 30, 2023, and June 30, 2022, respectively. Net accounts receivable remained relatively flat from prior year. Days Sales Outstanding (DSO) was 57 days and 54 days as of June 30, 2023, and June 30, 2022, respectively. We believe that our receivables are ultimately collectible or recoverable, net of certain reserves, and that aggregate allowances for credit losses are adequate.

Net inventories of \$63.7 million at June 30, 2023, decreased \$10.7 million from \$74.4 million at June 30, 2022. The decrease of \$10.7 million is the primarily the result of a combination of decrease in gross inventory of \$9.9 million and an increase of \$0.8 million in obsolescence reserves. Lighting Segment net inventory decreased \$7.8 million, and net inventory in the Display Solutions Segment decreased \$2.9 million.

Cash generated from operations and borrowing capacity under our credit facility is our primary source of liquidity. In September 2021, we amended our previous \$100 million secured line of credit, to a \$25 million term loan and the remaining \$75 million as a secured revolving line of credit. Both facilities expire in the third quarter of fiscal 2026. As of June 30, 2023, \$58.5 million of the line of credit was available. As of June 30, 2023, we are in compliance with all of our loan covenants. We believe that our \$100 million credit facility plus cash flows from operating activities are adequate for operational and capital expenditure needs for the next 12 months.

The Company generated \$49.6 million of cash from operating activities in fiscal 2023 compared to a use of cash of \$3.8 million in fiscal 2022. The \$53.4 million increase in net cash flows from operating activity is primarily the result of strong improvement of cash flow generated from effective working capital management and from cash flow from earnings.

The Company used \$3.2 million of cash from investing activities in fiscal 2023 compared to a use of cash of \$1.6 million in fiscal 2022. Capital expenditures were \$3.2 million in fiscal 2023 compared to \$2.1 million in fiscal 2022. The Company received \$0.5 million of cash related to the settlement of working capital adjustments from the acquisition of JSI in fiscal 2022 with no comparable event in fiscal 2023.

The Company had a use of cash of \$47.1 million related to financing activities in fiscal 2023 compared to a source of cash of \$5.6 million in fiscal 2022. The \$52.7 million change in cash flow was primarily the result of cash generated from improved working capital management and from improved earnings, which was used to pay down the Company's line of credit in fiscal 2023. Also contributing to the reduction of debt was \$3.9 million of cash received from the exercise of stock options in the second and third quarters of fiscal 2023

The Company has on its balance sheet 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.

#### **Off-Balance Sheet Arrangements**

We have no financial instruments with off-balance sheet risk.

#### **Cash Dividends**

In August 2023, the Board of Directors declared a regular quarterly cash dividend of \$0.05 per share payable September 5, 2023, to shareholders of record as of August 28, 2023. The indicated annual cash dividend rate for fiscal 2023 was \$0.20 per share. The Board of Directors has adopted a policy regarding dividends which indicates that dividends will be determined by the Board of Directors at its discretion based upon its evaluation of earnings, cash flow requirements, financial conditions, debt levels, stock repurchases, future business developments and opportunities, and other factors deemed relevant.

#### **Critical Accounting Policies and Use of Estimates**

We have adopted various accounting policies to prepare the consolidated financial statements in accordance with U.S. GAAP. Our significant accounting policies are described in Note 1. "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements. Some of those significant accounting policies require us to make difficult, subjective, or complex judgments or estimates. An accounting estimate is considered to be critical if it meets both of the following criteria: (i) the estimate requires assumptions about matters that are highly uncertain at the time the accounting estimate is made, and (ii) different estimates reasonably could have been used, or changes in the estimate that are reasonably likely to occur may have a material impact on our financial condition or results of operations. The significant accounting policy that management believes is critical to the understanding and evaluating our reported financial results is the warranty reserve. For further information see Note 1. "Summary of Significant Accounting Policies " of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K

**Warranty Reserves:**

The Company offers a limited warranty that its products are free from defects in workmanship and materials. The specific terms and conditions vary somewhat by product line, but generally cover defective products returned within one to five years, with some exceptions where the terms extend to 10 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 based upon historical claims as a percentage of sales to cover unknown claims, as well as estimating the total amount to be incurred for known warranty issues. Warranty reserves are subject to large reserve adjustments when actual warranty costs differ significantly from cost estimates. The Company also periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amount as necessary which can also cause large reserve adjustments. These adjustments may be required in the future, which could adversely affect our gross profit and results of operations. The same methodology was used for calculating warranty reserves in fiscal 2022 and fiscal 2023.

## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Management of LSI Industries Inc. and subsidiaries (the "Company" or "LSI") is responsible for the preparation and accuracy of the financial statements and other information included in this report. LSI's Management is also responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Securities Exchange Act Rules 13a-15(f). Under the supervision and with the participation of Management, including LSI's principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting as of June 30, 2023, based on the criteria set forth in "the 2013 Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A control system, no matter how well conceived and operated, can provide only reasonable assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the reality that judgments in decision making can be faulty, the possibility of human error, and the circumvention or overriding of the controls and procedures.

In meeting its responsibility for the reliability of the financial statements, the Company depends upon its system of internal accounting controls. The system is designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded. The system is supported by policies and guidelines, and by careful selection and training of financial management personnel. The Company also has a Disclosure Controls Committee, whose responsibility is to help ensure appropriate disclosures and presentation of the financial statements and notes thereto. Additionally, the Company has an Internal Audit Department to assist in monitoring compliance with financial policies and procedures.

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

Based upon LSI's evaluation, the Company's principal executive officer and principal financial officer concluded that internal control over financial reporting was effective as of June 30, 2023. We reviewed the results of Management's assessment with the Audit Committee of our Board of Directors. Additionally, our independent registered public accounting firm audited and independently assessed the effectiveness of the Company's internal control over financial reporting. Grant Thornton LLP, an independent registered public accounting firm, has issued an opinion on the effectiveness of the Company's internal control over financial reporting, which is presented in the financial statements.

**James A. Clark**

President and Chief Executive Officer  
(Principal Executive Officer)

**James E. Galeese**

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
LSI Industries Inc.

### Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of LSI Industries Inc. (an Ohio corporation) and subsidiaries (the "Company") as of June 30, 2023 and 2022, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2023, and the related notes and financial statement schedule included under Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2023, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of June 30, 2023, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated September 8, 2023 expressed unqualified opinion.

### Basis for opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical audit matters

The critical audit matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2009.

Chicago, Illinois  
September 8, 2023

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

LSI Industries Inc.

### **Opinion on internal control over financial reporting**

We have audited the internal control over financial reporting of LSI Industries Inc. (an Ohio corporation) and subsidiaries (the "Company") as of June 30, 2023, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2023, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of and for the year ended June 30, 2023, and our report dated September 8, 2023 expressed an unqualified opinion on those financial statements.

### **Basis for opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and limitations of internal control over financial reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Chicago, Illinois  
September 8, 2023



**LSI INDUSTRIES INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the years ended June 30, 2023, and 2022**  
*(In thousands, except per share data)*

	Twelve Months Ended	
	2023	2022
Net Sales	\$ 496,979	\$ 455,120
Cost of products and services sold	360,003	345,912
Severance costs	31	-
Gross profit	136,945	109,208
Selling and administrative expenses	99,882	87,995
Severance costs	35	12
Operating income	37,028	21,201
Interest expense	3,687	1,968
Other expense	15	148
Income before income taxes	33,326	19,085
Income tax expense	7,564	4,053
Net income	<u>\$ 25,762</u>	<u>\$ 15,032</u>
Basic	<u>\$ 0.92</u>	<u>\$ 0.55</u>
Diluted	<u>\$ 0.88</u>	<u>\$ 0.54</u>
Weighted average common shares outstanding		
Basic	28,127	27,286
Diluted	<u>29,316</u>	<u>27,993</u>

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

**LSI INDUSTRIES INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the years ended June 30, 2023, and 2022**  
*(In thousands)*

(In thousands)

	<u>2023</u>	<u>2022</u>
Net Income	\$ 25,762	\$ 15,032
Foreign currency translation adjustment	<u>294</u>	<u>(4)</u>
Comprehensive Income	<u>\$ 26,056</u>	<u>\$ 15,028</u>

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

**LSI INDUSTRIES INC.**

**CONSOLIDATED BALANCE SHEETS**

**June 30, 2023, and 2022**

*(In thousands, except shares)*

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,828	\$ 2,462
Accounts receivable, less allowance for credit losses of \$435 and \$499, respectively	77,681	77,750
Inventories	63,718	74,421
Refundable income tax	3,120	1,041
Other current assets	<u>3,529</u>	<u>3,243</u>
Total current assets	149,876	158,917
Property, Plant and Equipment, at cost		
Land	4,010	4,010
Buildings	24,561	24,495
Machinery and equipment	67,457	66,762
Buildings under finance leases	2,033	2,033
Construction in progress	<u>1,231</u>	<u>618</u>
	99,292	97,918
Less accumulated depreciation	<u>(73,861)</u>	<u>(70,760)</u>
Net property, plant and equipment	25,431	27,158
Goodwill	45,030	45,030
Other Intangible Assets, net	63,203	67,964
Operating Lease Right-Of-Use Assets	8,921	8,664
Other Long-Term Assets, net	<u>3,688</u>	<u>3,347</u>
Total assets	<u>\$ 296,149</u>	<u>\$ 311,080</u>

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

**LSI INDUSTRIES INC.**  
**CONSOLIDATED BALANCE SHEETS (continued)**  
**June 30, 2023, and 2022**  
*(In thousands, except shares)*

	<u>June 30,</u> <u>2023</u>	<u>June 30,</u> <u>2022</u>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Current maturities of long-term debt	\$ 3,571	\$ 3,571
Accounts payable	29,206	34,783
Accrued expenses	43,785	38,728
Total current liabilities	76,562	77,082
Long-Term Debt	31,629	76,025
Finance Lease Liabilities	960	1,246
Operating Lease Liabilities	5,954	5,776
Other Long-Term Liabilities	3,466	3,182
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 50,000,000 shares; Outstanding 28,448,570 and 27,484,514 shares, respectively	148,691	139,500
Treasury shares, without par value	(7,166)	(5,927)
Deferred compensation plan	7,166	5,927
Retained Earnings	28,548	8,224
Accumulated other comprehensive income	339	45
Total shareholders' equity	177,578	147,769
Total liabilities & shareholders' equity	\$ 296,149	\$ 311,080

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

LSI INDUSTRIES INC.  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
For the years ended June 30, 2023, and 2022  
(amounts in thousands)

	Common Shares		Treasury Shares		Key Executive	Accumulated	Retained Earnings	Total
	Number Of Shares	Amount	Number Of Shares	Amount	Compensation Amount	Other Comprehensive Income (Loss)		
<b>Balance at June 30, 2021</b>	<u>26,863</u>	<u>\$ 132,526</u>	<u>(346)</u>	<u>\$ (2,450)</u>	<u>\$ 2,450</u>	<u>49</u>	<u>\$ (1,405)</u>	<u>\$ 131,170</u>
Net Income	-	-	-	-	-	-	15,032	15,032
Other comprehensive loss	-	-	-	-	-	(4)	-	(4)
Board stock compensation	42	300	-	-	-	-	-	300
Restricted stock units issued, net of shares withheld for tax withholdings	80	(250)	-	-	-	-	-	(250)
Shares issued for deferred compensation	494	3,610	-	-	-	-	-	3,610
Activity of treasury shares, net	-	-	(476)	(3,477)	-	-	-	(3,477)
Deferred stock compensation	-	-	-	-	3,477	-	-	3,477
Stock-based compensation expense	-	3,288	-	-	-	-	-	3,288
Stock options exercised, net	5	26	-	-	-	-	-	26
Dividends — \$0.20 per share	-	-	-	-	-	-	(5,403)	(5,403)
<b>Balance at June 30, 2022</b>	<u>27,484</u>	<u>\$ 139,500</u>	<u>(822)</u>	<u>\$ (5,927)</u>	<u>\$ 5,927</u>	<u>\$ 45</u>	<u>\$ 8,224</u>	<u>\$ 147,769</u>
Net Income	-	-	-	-	-	-	25,762	25,762
Other comprehensive income	-	-	-	-	-	294	-	294
Board stock compensation	44	368	-	-	-	-	-	368
ESPP stock awards	14	142	-	-	-	-	-	142
Restricted stock units issued, net of shares withheld for tax withholdings	301	(896)	-	-	-	-	-	(896)
Shares issued for deferred compensation	207	2,017	-	-	-	-	-	2,017
Activity of treasury shares, net	-	-	(100)	(1,239)	-	-	-	(1,239)
Deferred stock compensation	-	-	-	-	1,239	-	-	1,239
Stock-based compensation expense	-	3,698	-	-	-	-	-	3,698
Stock options exercised, net	438	3,862	-	-	-	-	-	3,862
Dividends — \$0.20 per share	-	-	-	-	-	-	(5,438)	(5,438)
<b>Balance at June 30, 2023</b>	<u>28,488</u>	<u>\$ 148,691</u>	<u>(922)</u>	<u>\$ (7,166)</u>	<u>\$ 7,166</u>	<u>\$ 339</u>	<u>\$ 28,548</u>	<u>\$ 177,578</u>

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

**LSI INDUSTRIES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended June 30, 2023, and 2022**  
*(In thousands)*

	<b>2023</b>	<b>2022</b>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 25,762	\$ 15,032
Non-cash items included in net income		
Depreciation and amortization	9,664	10,118
Deferred income taxes	(418)	(342)
Deferred compensation plan	2,017	3,610
Stock compensation expense	3,698	3,288
ESPP discount	142	-
Issuance of common shares as compensation	368	300
Loss on disposition of fixed assets	59	65
Allowance for doubtful accounts	(19)	246
Inventory obsolescence reserve	2,496	2,111
<b>Changes in certain assets and liabilities:</b>		
Accounts receivable	88	(20,311)
Inventories	8,207	(17,586)
Refundable income taxes	(2,079)	235
Accounts payable	(5,577)	1,784
Accrued expenses and other	5,180	(2,413)
Net cash flows provided by (used in) operating activities	<u>49,588</u>	<u>(3,863)</u>
<b>Cash Flows from Investing Activities</b>		
Acquisition of JSI	-	500
Purchases of property, plant, and equipment	(3,208)	(2,122)
Proceeds from the sale of fixed assets	5	49
Net cash flows (used in) investing activities	<u>(3,203)</u>	<u>(1,573)</u>
<b>Cash Flows from Financing Activities</b>		
Payments on long-term debt	(198,306)	(161,627)
Borrowings on long-term debt	153,910	173,074
Cash dividends paid	(5,438)	(5,322)
Shares withheld on employees' taxes	(896)	(250)
Payments on financing lease obligations	(281)	(268)
Proceeds from stock option exercises	3,862	26
Net cash flows (used in) provided by financing activities	<u>(47,149)</u>	<u>5,633</u>
Change related to Foreign Currency	130	(17)
(Decrease) increase in cash and cash equivalents	(634)	180
Cash and cash equivalents at beginning of period	<u>2,462</u>	<u>2,282</u>
Cash and cash equivalents at end of period	<u>\$ 1,828</u>	<u>\$ 2,462</u>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Consolidation:

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

#### Revenue Recognition:

The Company recognizes revenue when it satisfies the performance obligation in its customer contracts or purchase orders. Most of the Company's products have a single performance obligation which is satisfied at a point in time when control is transferred to the customer. Control is generally transferred at time of shipment when title and risk of ownership passes to the customer. For customer contracts with multiple performance obligations, the Company allocates the transaction price and any discounts to each performance obligation based on relative standalone selling prices. Payment terms are typically within 30 to 90 days from the shipping date, depending on the terms with the customer. The Company offers standard warranties that do not represent separate performance obligations.

Installation is a separate performance obligation, except for the Company's digital signage products. For digital signage products, installation is not a separate performance obligation as the product and installation is the combined item promised in digital signage contracts. The Company is not always responsible for installation of products it sells and has no post-installation responsibilities other than standard warranties.

A number of the Company's display solutions and select lighting products are customized for specific customers. As a result, these customized products do not have an alternative use. For these products, the Company has a legal right to payment for performance to date and generally does not accept returns on these items. The measurement of performance is based upon cost plus a reasonable profit margin for work completed. Because there is no alternative use and there is a legal right to payment, the Company transfers control of the item as the item is being produced and therefore, recognizes revenue over time. The customized product types are as follows:

- Customer specific branded print graphics
- Electrical components based on customer specifications
- Digital signage and related media content

The Company also offers installation services for its display solutions elements and select lighting products. Installation revenue is recognized over time as the customer simultaneously receives and consumes the benefits provided through the installation process.

For these customized products and installation services, revenue is recognized using a cost-based input method: recognizing revenue and gross profit as work is performed based on the relationship between the actual cost incurred and the total estimated cost for the performance obligation.

On occasion, the Company enters into bill-and-hold arrangements on a limited basis. Each bill-and-hold arrangement is reviewed and revenue is recognized only when certain criteria have been met: (1) the customer has requested delayed delivery and storage of the products by the Company because the customer wants to secure a supply of the products but lacks storage space; (ii) the risk of ownership has passed to the customer; (iii) the products are segregated from the Company's other inventory items held for sale; (iv) the products are ready for shipment to the customer; and (v) the Company does not have the ability to use the products or direct them to another customer.

## Disaggregation of Revenue

The Company disaggregates the revenue from contracts with customers by the timing of revenue recognition because the Company believes it best depicts the nature, amount, and timing of its revenue and cash flows. The table below presents a reconciliation of the disaggregation by reportable segments:

(In thousands)

	Twelve Months Ended June 30, 2023	
	Lighting Segment	Display Solutions Segment
<b>Timing of revenue recognition</b>		
Products and services transferred at a point in time	\$ 234,736	\$ 177,564
Products and services transferred over time	37,715	46,964
	<u>\$ 272,451</u>	<u>\$ 224,528</u>
<b>Type of Product and Services</b>		
LED lighting, digital signage solutions, electronic circuit boards	\$ 224,529	\$ 25,011
Poles and other display solutions elements	44,473	156,057
Project management, installation services, shipping and handling	3,449	43,460
	<u>\$ 272,451</u>	<u>\$ 224,528</u>

(In thousands)

	Twelve Months Ended June 30, 2022	
	Lighting Segment	Display Solutions Segment
<b>Timing of revenue recognition</b>		
Products and services transferred at a point in time	\$ 204,241	\$ 156,241
Products and services transferred over time	29,208	65,430
	<u>\$ 233,449</u>	<u>\$ 221,671</u>
<b>Type of Product and Services</b>		
LED lighting, digital signage solutions, electronic circuit boards	\$ 191,791	\$ 44,771
Poles and other display solutions elements	39,339	136,573
Project management, installation services, shipping and handling	2,319	40,327
	<u>\$ 233,449</u>	<u>\$ 221,671</u>

## Practical Expedients and Exemptions

- The Company's contracts with customers have an expected duration of one year or less, as such, the Company applies the practical expedient to expense sales commissions as incurred and has omitted disclosures on the amount of remaining performance obligations.
- Shipping costs that are not material in context of the delivery of products are expensed as incurred.
- The Company's accounts receivable balance represents the Company's unconditional right to receive payment from its customers with contracts. Payments are generally due within 30 to 90 days of completion of the performance obligation and invoicing; therefore, payments do not contain significant financing components.
- The Company collects sales tax and other taxes concurrent with revenue-producing activities which are excluded from revenue. Shipping and handling costs are treated as fulfillment activities and included in cost of products and services sold on the Consolidated Statements of Operations.

## Credit and Collections:

The Company maintains allowances for credit losses 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 credit losses by first considering all known collectability 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 credit losses is an estimate based upon the Company's knowledge of its business and customer base, the current economic climate, and historical trends. Receivables deemed uncollectable are written-off against the allowance for credit losses after all reasonable collection efforts have been exhausted. 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 receivable at the dates indicated.

(In thousands)

	June 30, 2023	June 30, 2022
Accounts receivable	\$ 78,116	\$ 78,249
Less: Allowance for credit losses	(435)	(499)
Accounts receivable, net	<u>\$ 77,681</u>	<u>\$ 77,750</u>



**Cash and Cash Equivalents:**

The cash balance includes cash and cash equivalents which have original maturities of less than three months. Cash and cash equivalents consist primarily of bank deposits and a bank money market account that is stated at cost, which approximates fair value. The Company maintains balances at financial institutions in the United States, Canada, and Mexico. In the United States, the FDIC limit for insurance coverage on non-interest-bearing accounts is \$250,000 per institution. As of June 30, 2023, and June 30, 2022, the Company had bank balances of \$2.3 million and \$2.7 million, respectively, without insurance coverage.

**Inventories, Net:**

Inventories are stated at the lower of cost or net realizable value. Cost of inventories includes the cost of purchased raw materials and purchased components, direct labor, as well as manufacturing overhead which is generally applied to inventory based on direct labor and on material content, is determined on the first-in, first-out basis.

The Company maintains an inventory reserve for obsolete and excess inventory. The Company first determines its excess and 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. Judgment is used to establish excess and obsolete inventory reserves and management adjusts these reserves as more information becomes available about the ultimate disposition of the inventory item.

**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 (in years)	28	-	40
Machinery and equipment (in years)	3	-	10
Computer software (in years)	3	-	8

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. Leasehold improvements are depreciated over the shorter of fifteen years or the remaining term of the lease.

The Company recorded \$4.9 million and \$5.3 million of depreciation expense in the years ended June 30, 2023, and 2022 respectively.

**Goodwill and Intangible Assets:**

Intangible assets consisting of customer relationships, trade names and trademarks, patents, technology and software are recorded on the Company's balance sheet. The definite-lived intangible assets are being amortized to expense over periods ranging between five and twenty years. The Company evaluates definite-lived intangible assets for possible impairment when triggering events are identified. 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 intangible assets in Note 6.

**Fair Value:**

The Company has financial instruments consisting primarily of cash and cash equivalents, revolving lines of credit, accounts receivable, accounts payable, 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.

Fair value measurements of nonfinancial assets and nonfinancial liabilities are primarily used in goodwill and other intangible asset impairment analyses, long-lived asset impairment analyses and valuation of acquired assets and assumed liabilities. The accounting guidance on fair value measurement was used to measure the fair value of these nonfinancial assets and nonfinancial liabilities.

**Product Warranties:**

The Company offers a limited warranty that its products are free from defects in workmanship and materials. The specific terms and conditions vary somewhat by product line, but generally cover defective products returned within one to five years, with some exceptions where the terms extend to 10 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 based upon historical claims as a percentage of sales 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 amount 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:

**Product Warranties**

*(In thousands)*

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Balance at beginning of the period	\$ 4,491	\$ 5,295
Additions charged to expense	6,626	2,960
Deductions for repairs and replacements	(4,616)	(3,764)
Balance at end of the period	<u>\$ 6,501</u>	<u>\$ 4,491</u>

**Employee Benefit Plans:**

The Company has a 401(k) retirement plan whereby employee's contributions to the 401(k) are matched by the Company. The 401(k) match program covers substantially all of its employees. The Company also has a nonqualified deferred compensation plan covering certain employees. The costs of employee benefit plans are charged to expense and funded annually. Total costs were \$2.5 million and \$2.9 million in June 30, 2023, and 2022, respectively.

**Research and Development Costs:**

Research and development costs are 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, outside legal costs and filing fees related to obtaining patents, supplies, depreciation, and other administrative costs. The Company expenses as research and development all costs associated with development of software used in solid-state LED products. All costs are expensed as incurred and are included in selling and administrative expenses. Research and development costs related to both product and software development totaled \$3.4 million and \$3.6 million for the fiscal years ended June 30, 2023, and 2022, respectively.

**Cost of Products and Services Sold:**

Cost of products sold is primarily comprised of direct materials and supplies consumed in the manufacture of products, as well as manufacturing labor, depreciation expense and direct overhead expense necessary to acquire and convert the purchased materials and supplies into finished product. Cost of products sold also includes the cost to distribute products to customers, inbound freight costs, warehousing costs and other shipping and handling activity. Cost of services sold is primarily comprised of the internal and external labor costs required to support the Company's project management and installation costs to support its service revenue along with the management of media content.

**Stock-Based Compensation:**

The Company accounts for stock-based compensation to certain employees in accordance with accounting guidance for stock-based compensation. The accounting guidance requires companies to measure the cost of employee services received in exchange for an award of equity instruments, including stock options, restricted stock units, and performance stock units, based on the grant date fair value of the award and to recognize it as compensation expense over the period the employee is required to provide service in exchange for the award, usually the vesting period. Equity award forfeitures are recognized at the date of employee termination.

**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 nonqualified 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, restricted stock units, contingently issuable shares and common shares to be issued under a deferred compensation plan, all of which totaled 2,156,000 shares and 1,375,000 shares in fiscal 2023 and 2022, respectively. See further discussion in Note 3.

**Income Taxes:**

The Company accounts for income taxes in accordance with the accounting guidance for 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 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.

**Foreign Exchange:**

The functional currency of the Company's Mexican subsidiary is the Mexican Peso and the functional currency of the Company's Canadian subsidiary is the Canadian Dollar. Assets and liabilities of foreign operations are translated using period end exchange rates. Revenue and expenses are translated using average exchange rates during each period reported. Translation losses (gains) are reported in accumulated other comprehensive loss (gain) as a component of shareholders equity and was (\$0.3) million as of June 30, 2023, and a nominal amount as of June 30, 2022. The Company recognizes foreign currency transaction (gains) and losses on certain assets and liabilities that are denominated in the Mexican Peso and Canadian Dollar. These transaction (gains) and losses are reported in other expense in the consolidated statements of operations and was a nominal amount for the fiscal year ended June 30, 2023 and \$0.1 million for the fiscal year ended June 30, 2022.

**New Accounting Pronouncements:**

In October 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers," creating an exception to the recognition and measurement principles in ASC 805. The amendment requires that entities apply ASC 606, "Revenue from Contracts with Customers," rather than using fair value, to recognize and measure contracts assets and contract liabilities from contracts with customers acquired in a business combination. The ASU is effective for fiscal years beginning after December 15, 2022, and interim periods therein. Early adoption is permitted, including adoption in an interim period, regardless of whether a business combination occurs in that period. The guidance should be applied prospectively; however, an entity that elects to early adopt in an interim period should apply the amendments to all business combinations that occurred during the fiscal year that includes that interim period. The Company is evaluating the impact this guidance may have on its consolidated financial statements and related disclosures.

**Use of Estimates:**

The preparation of 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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Subsequent Events:**

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

**NOTE 2 — BUSINESS SEGMENT INFORMATION**

The accounting guidance on 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 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 Chief Executive Officer or "CODM") in making decisions on how to allocate resources and assess performance. The Company's two operating segments are Lighting and Display Solutions (formerly known as the Graphics Segment), with one executive team under the organizational structure reporting directly to the CODM with responsibilities for managing each segment. Corporate and Eliminations, which captures the Company's corporate administrative activities, is also reported in the segment information.

The Lighting Segment includes non-residential outdoor and indoor lighting fixtures utilizing LED light sources that have been fabricated and assembled for the Company's markets, primarily the refueling and convenience store markets, parking lot and garage markets, quick-service restaurant market, retail and grocery store markets, the automotive market, the warehouse market, and the sports court and field market. The Company also services lighting product customers through the commercial and industrial project, stock and flow, and renovation channels. In addition to the manufacture and sale of lighting fixtures, the Company offers a variety of lighting controls to complement its lighting fixtures which include sensors, photocontrols, dimmers, motion detection and Bluetooth systems. The Lighting Segment also includes the design, engineering and manufacturing of electronic circuit boards, assemblies and sub-assemblies which are sold directly to customers.

The Display Solutions Segment manufactures, sells and installs exterior and interior visual image and display elements, including printed graphics, structural graphics, digital signage, menu board systems, display fixtures, refrigerated displays, and custom display elements. These products are used in visual image programs in several markets including the refueling and convenience store markets, parking lot and garage markets, quick-service restaurant market, retail and grocery store markets, the automotive market, the warehouse market, and the sports court and field market. The Display Solutions Segment also provides a variety of project management services to complement our display elements, such as installation management, site surveys, permitting, and content management which are offered to our customers to support our digital signage.

The Company's corporate administration activities are reported in the Corporate and Eliminations line item. These activities primarily include intercompany profit in inventory eliminations, expense related to certain corporate officers and support staff, the Company's internal audit staff, expense related to the Company's Board of Directors, equity compensation expense for various equity awards granted to corporate administration employees, certain consulting expenses, investor relations activities, and a portion of the Company's legal, auditing, and professional fee expenses. Corporate identifiable assets primarily consist of cash, invested cash (if any), refundable income taxes (if any), and deferred income taxes.

There were no customers or customer programs representing a concentration of 10% or more of the Company's net sales in the fiscal year ended June 30, 2023, or 2022. There was no concentration of accounts receivable at June 30, 2023, or 2022. Summarized financial information for the Company's reportable business segments is provided for the indicated periods and as of June 30, 2023, and June 30, 2022:

(In thousands)

	Twelve Months Ended June 30	
	2023	2022
<b>Net Sales:</b>		
Lighting Segment	\$ 272,451	\$ 233,449
Display Solutions Segment	224,528	221,671
	<u>\$ 496,979</u>	<u>\$ 455,120</u>
<b>Operating Income (Loss):</b>		
Lighting Segment	\$ 31,633	\$ 20,942
Display Solutions Segment	24,920	17,589
Corporate and Eliminations	(19,525)	(17,330)
	<u>\$ 37,028</u>	<u>\$ 21,201</u>
<b>Capital Expenditures:</b>		
Lighting Segment	\$ 1,829	\$ 1,017
Display Solutions Segment	1,373	1,162
Corporate and Eliminations	6	(57)
	<u>\$ 3,208</u>	<u>\$ 2,122</u>
<b>Depreciation and Amortization:</b>		
Lighting Segment	\$ 5,423	\$ 5,782
Display Solutions Segment	3,977	4,073
Corporate and Eliminations	265	263
	<u>\$ 9,664</u>	<u>\$ 10,118</u>
	<b>June 30, 2023</b>	June 30, 2022
<b>Identifiable Assets:</b>		
Lighting Segment	\$ 142,941	\$ 152,431
Display Solutions Segment	145,307	152,302
Corporate and Eliminations	7,901	6,347
	<u>\$ 296,149</u>	<u>\$ 311,080</u>

The segment net sales reported above represent sales to external customers. Segment operating income, which is used in management's evaluation of segment performance, represents net sales less all operating expenses. Identifiable assets are those assets used by each segment in its operations.

The Company records a 10% mark-up on most intersegment revenues. Any intersegment profit in inventory is eliminated in consolidation. Intersegment revenues were eliminated in consolidation as follows:

**Inter-segment sales**

(In thousands)

	Twelve Months Ended June 30	
	2023	2022
Lighting Segment inter-segment net sales	\$ 22,283	\$ 38,310
Display Solutions Segment inter-segment net sales	\$ 274	\$ 352

**NOTE 3 — EARNINGS PER 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)*

<b>BASIC EARNINGS PER SHARE</b>	<u>2023</u>	<u>2022</u>
Net Income	\$ 25,762	\$ 15,032
Weighted average shares outstanding during the period, net of treasury shares	27,159	26,618
Weighted average vested restricted stock units outstanding	73	30
Weighted average shares outstanding in the Deferred Compensation Plan during the period	895	638
Weighted average shares outstanding	<u>28,127</u>	<u>27,286</u>
Basic income per share	<u>\$ 0.92</u>	<u>\$ 0.55</u>
<b>DILUTED EARNINGS PER SHARE</b>		
Net Income	\$ 25,762	\$ 15,032
Weighted average shares outstanding		
Basic	28,127	27,286
Effect of dilutive securities (a):		
Impact of common shares to be issued under stock option plans, and Contingently issuable shares, if any	1,189	707
Weighted average shares outstanding	<u>29,316</u>	<u>27,993</u>
Diluted income per share	<u>\$ 0.88</u>	<u>\$ 0.54</u>
Anti-dilutive securities (b)	154	1,100

(a) Calculated using the "Treasury Stock" method as if dilutive securities were exercised and the funds were used to purchase common shares at the average market price during the period.

(b) Anti-dilutive securities were excluded in the computation of diluted earnings per share for the year ended June 30, 2023, and June 30, 2022, because the exercise price was greater than the fair market price of the common shares or because the assumed proceeds from the award's exercise or vesting was greater than the average fair market price of the common shares.

#### NOTE 4 — INVENTORIES, NET

The following information is provided as of the dates indicated:

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

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Inventories:		
Raw materials	\$ 47,689	\$ 51,637
Work-in-progress	3,373	3,029
Finished goods	12,656	19,755
Total Inventories	<u>\$ 63,718</u>	<u>\$ 74,421</u>

#### NOTE 5 — ACCRUED EXPENSES

The following information is provided as of the dates indicated:

(In thousands)	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Accrued Expenses:		
Customer prepayments	\$ 5,425	\$ 6,416
Compensation and benefits	13,116	9,611
Accrued warranty	6,501	4,491
Accrued sales commissions	5,082	4,783
Accrued freight	3,821	3,680
Accrued FICA	546	1,122
Operating lease liabilities	3,566	3,738
Accrued income tax	-	109
Finance lease liabilities	284	275
Other accrued expenses	5,444	4,503
Total Accrued Expenses	<u>\$ 43,785</u>	<u>\$ 38,728</u>

#### NOTE 6 — GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying values of goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment. The Company may first assess qualitative factors in order to determine if goodwill and indefinite-lived intangible assets are impaired. If through the qualitative assessment it is determined that it is more likely than not that goodwill and indefinite-lived assets are not impaired, no further testing is required. If it is determined more likely than not that goodwill and indefinite-lived assets are impaired, or if the Company elects not to first assess qualitative factors, the Company's impairment testing continues with the estimation of the fair value of the reporting unit using a combination of a market approach and an income (discounted cash flow) approach, at the reporting unit level. The estimation of the fair value of reporting unit 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 the 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.

The Company identified its reporting units in conjunction with its annual goodwill impairment testing. The Company has a total of three reporting units that contain goodwill. One reporting unit is within the Lighting Segment and two reporting units are within the Display Solutions Segment. The tradename intangible assets have an indefinite life and are also tested separately on an annual basis. The Company relies upon a number of factors, judgments and estimates when conducting its impairment testing including, but not limited to, the Company's stock price, operating results, forecasts, anticipated future cash flows, and marketplace data. There are inherent uncertainties related to these factors and judgments in applying them to the analysis of goodwill impairment.

**Fiscal 2023:**

As of March 1, 2023, the Company performed its annual goodwill impairment test on the three reporting units that contain goodwill. The goodwill impairment test of the reporting unit in the Lighting Segment passed with a business enterprise value of \$34.4 million or 21% above the carrying value of the reporting unit including goodwill. The goodwill impairment test of one reporting unit with goodwill in the Display Solutions Segment passed with an estimated business enterprise value of \$13.6 million or 5,426% above the carrying value of the reporting unit including goodwill. The goodwill impairment test of the second reporting unit with goodwill in the Display Solutions Segment passed with an estimated business enterprise value of \$99.4 million or 15% above the carrying value of the reporting unit including goodwill.

The Company has two indefinite-lived intangible assets. The Company performed its annual review of indefinite-lived intangible assets as of March 1, 2023, and determined there was no impairment. The impairment test of the first indefinite-lived intangible asset passed with a fair market value of \$17.0 million or 399% above its carrying value. The impairment test of the second indefinite-lived intangible asset passed with a fair market value of and \$10.5 million or 21% above its carrying value.

**Fiscal 2022:**

As of March 1, 2022 the Company performed its annual goodwill impairment test on the three reporting units that contain goodwill. The goodwill impairment test of the reporting unit in the Lighting Segment passed with a business enterprise value of \$31.6 million or 18% above the carrying value of the reporting unit including goodwill. The goodwill impairment test of one reporting unit with goodwill in the Display Solutions Segment passed with an estimated business enterprise value of \$12.2 million or 1,316% above the carrying value of the reporting unit including goodwill. The goodwill impairment test of the second reporting unit with goodwill in the Display Solutions Segment passed with an estimated business enterprise value of \$100.4 million or 12% above the carrying value of the reporting unit including goodwill.

The Company has two indefinite-lived intangible assets. The Company also performed its annual review of indefinite-lived intangible assets as of March 1, 2022, and determined there was no impairment. The impairment test of the first indefinite-lived intangible asset passed with a fair market value of \$17.0 million or 396% above its carrying value. The impairment test of the second indefinite-lived intangible asset passed with a fair market value of and \$10.6 million or 22% above its carrying value.

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

<i>(In thousands)</i>	<b>Lighting Segment Segment</b>	<b>Display SolutionsSegment Solutions Segment</b>	<b>Total</b>
<b>Balance as of June 30, 2022</b>			
Goodwill	\$ 70,971	\$ 62,105	\$ 133,076
Measurement period adjustment	-	1,242	1,242
Accumulated impairment losses	(61,763)	(27,525)	(89,288)
<b>Goodwill, net as of June 30, 2022</b>	<b>\$ 9,208</b>	<b>\$ 35,822</b>	<b>\$ 45,030</b>
<b>Balance as of June 30, 2023</b>			
Goodwill	\$ 70,971	\$ 63,347	\$ 134,318
Accumulated impairment losses	(61,763)	(27,525)	(89,288)
<b>Goodwill, net as of June 30, 2023</b>	<b>\$ 9,208</b>	<b>\$ 35,822</b>	<b>\$ 45,030</b>



In fiscal 2022, the Company recorded measurement period adjustments to the original purchase price of JSI Store Fixtures which impacted the amount of goodwill originally reported.

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

(In thousands)

	<b>June 30, 2023</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Amount</b>
<b>Amortized Intangible Assets</b>			
Customer relationships	\$ 62,083	\$ 17,817	\$ 44,266
Patents	268	268	-
LED technology, software	20,966	15,783	5,183
Trade name	2,658	1,156	1,502
Non-compete	260	110	150
<b>Total Amortized Intangible Assets</b>	<b>\$ 86,235</b>	<b>\$ 35,134</b>	<b>\$ 51,101</b>
<b>Indefinite-lived Intangible Assets</b>			
Trademarks and trade names	12,102	-	12,102
<b>Total indefinite-lived Intangible Assets</b>	<b>12,102</b>	<b>-</b>	<b>12,102</b>
<b>Total Other Intangible Assets</b>	<b>\$ 98,337</b>	<b>\$ 35,134</b>	<b>\$ 63,203</b>

(In thousands)

	<b>June 30, 2022</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Amount</b>
<b>Amortized Intangible Assets</b>			
Customer relationships	\$ 62,083	\$ 14,400	\$ 47,683
Patents	268	268	-
LED technology, software	20,966	14,598	6,368
Trade name	2,658	1,049	1,609
Non-compete	260	58	202
<b>Total Amortized Intangible Assets</b>	<b>\$ 86,235</b>	<b>\$ 30,373</b>	<b>\$ 55,862</b>
<b>Indefinite-lived Intangible Assets</b>			
Trademarks and trade names	12,102	-	12,102
<b>Total indefinite-lived Intangible Assets</b>	<b>12,102</b>	<b>-</b>	<b>12,102</b>
<b>Total Other Intangible Assets</b>	<b>\$ 98,337</b>	<b>\$ 30,373</b>	<b>\$ 67,964</b>

(In thousands)

	<b>2023</b>	<b>2022</b>
<b>Amortization expense of other intangible assets</b>	<b>\$ 4,761</b>	<b>\$ 4,809</b>

The Company expects to record annual amortization expense as follows:

(In thousands)

2024	\$	4,760
2025	\$	4,760
2026	\$	4,760
2027	\$	4,754
2028	\$	4,708
After 2028	\$	27,359

#### NOTE 7 — REVOLVING LINE OF CREDIT AND LONG-TERM DEBT

The Company's long-term debt as of June 30, 2023, and June 30, 2022, consisted of the following:

(In thousands)	June 30, 2023	June 30, 2022
Secured line of credit	\$ 18,729	\$ 57,275
Term loan, net of debt issuance costs of \$21 and \$30, respectively	16,471	22,321
Total debt	35,200	79,596
Less: amounts due within one year	3,571	3,571
Total amounts due after one year, net	\$ 31,629	\$ 76,025

In September 2021, the Company amended its existing \$100 million secured line of credit, to a \$25 million term loan and \$75 million remaining as a secured revolving line of credit. Both facilities expire in the third quarter of fiscal 2026. The principal of the term loan is repaid annually in the amount of \$3.6 million over a five-year period with a balloon payment of the remaining balance due on the last month. Interest on both the revolving line of credit and the term loan is charged based upon an increment over the LIBOR rate or a base rate, at the Company's option. The base rate is calculated as the highest of (a) the Prime rate, (b) the sum of the Overnight Funding Rate plus 50 basis points and (c) the sum of the Daily LIBOR Rate plus 100 basis points as long as a Daily LIBOR rate is offered, ascertainable and not unlawful. The increment over the LIBOR borrowing rate fluctuates between 100 and 225 basis points, and the increment over the Base Rate fluctuates between 0 and 125 basis points, both of which depend upon the ratio of indebtedness to earnings before interest, taxes, depreciation, and amortization ("EBITDA"), as defined in the line of credit agreement. As of June 30, 2023, the Company's borrowing rate against its revolving line of credit was 6.5%. The increment over LIBOR borrowing rate will be 100 basis points for the second quarter of fiscal 2024. The fee on the unused balance of the \$75 million committed line of credit fluctuates between 15 and 25 basis points. Under the terms of this line of credit, the Company has agreed to a negative pledge of real estate assets and is required to comply with financial covenants that limit the ratio of indebtedness to EBITDA and require a minimum fixed charge ratio. As of June 30, 2023, there was \$58.5 million available for borrowing under the \$75 million line of credit.

The Company is in compliance with all of its loan covenants as of June 30, 2023.

#### NOTE 8 — CASH DIVIDENDS

The Company paid cash dividends of \$5.4 million in fiscal years 2023 and 2022, respectively. Dividends on restricted stock units in the amount of \$0.1 million and \$0.2 million were accrued as of June 30, 2023, and 2022, respectively. These dividends are paid upon the vesting of the restricted stock units when shares are issued to the award recipients. In August 2023, the Board of Directors declared a regular quarterly cash dividend of \$0.05 per share payable September 5, 2023, to shareholders of record August 28, 2023.

## NOTE 9 — EQUITY COMPENSATION

In November 2019, the Company's shareholders approved the 2019 Omnibus Award Plan ("2019 Omnibus Plan"). The purpose of the 2019 Omnibus Plan is to provide a means through which the Company may attract and retain key personnel and to provide a means by which directors, officers, and employees can acquire and maintain an equity interest in the Company. The 2019 Omnibus Plan replaced the 2012 Stock Incentive Plan ("2012 Stock Plan"). The number of shares of common stock authorized for issuance under the 2019 Omnibus Plan is 2,650,000 which were combined with the remaining shares available under the 2012 Stock Plan. The number of shares reserved for issuance under the 2019 Omnibus Plan is 2,417,793 shares, all of which are available for future grant or award as of June 30, 2023. The 2019 Omnibus Plan allows for the grant of non-qualified stock options, stock appreciation rights, restricted stock awards, restricted stock units (RSU's), performance stock units (PSU's), and other stock-based awards. The Company also awards Inducement awards that are granted by the Company to attract and retain key executives. Inducement awards are separately registered securities and are not part of the 2019 Omnibus Plan.

In fiscal 2023, 197,915 RSUs and 190,510 PSUs were granted. In fiscal 2022, 146,821 RSUs and 190,980 PSUs were granted.

### ***Employee Stock Purchase Plan***

In November of 2021, our board of directors approved the LSI Employee Stock Purchase Plan ("ESPP"). A total of 270,000 shares of common stock were provided for issuance under the ESPP. Employees may participate at their discretion and are able to purchase, through payroll deduction, common stock at a 10% discount on a quarterly basis. Employees may end their participation at any time during the offering period, and participation ends automatically upon termination of employment with the company. During fiscal year 2023, employees purchased 14,000 shares. At June 30, 2023, 256,000 shares remained available for purchase under the ESPP.

### ***Stock Options***

The fair value of each option on the date of grant was estimated using the Black-Scholes option pricing model. There were no options granted in fiscal 2023 and fiscal 2022.

Stock option expense is recorded on a straight-line basis, or sooner if the grantee is retirement eligible as defined in the 2019 Omnibus Plan, net of forfeitures. The forfeiture rate is based on historical rates and reduces the compensation expense recognized. 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.

Service-based options have a three-year ratable vesting period beginning one year after the date of grant. Inducement stock options have a term of ten years only if the employee is employed for three years from the date of grant. The maximum exercise period of service-based and performance-based stock options granted under the 2019 Omnibus Plan is ten years. There were no service - based or inducement stock options awarded in fiscal 2023 and fiscal 2022.

The Company recorded \$0.3 million and \$0.7 million of expense related to stock options in fiscal years 2023 and 2022, respectively.

A summary of stock option activity as of June 30, 2023, and changes during the period from July 1, 2022, through June 30, 2023, are as follows:

	Shares	Weighted Average Exercise Price Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Intrinsic Value
Outstanding at June 30, 2022	2,300,791	\$ 6.05	5.7	\$ 2,287,764
Granted	-	\$ -		
Exercised	(520,566)	\$ 7.12		
Forfeited	-	\$ -		
Expired	(73,262)	\$ 6.58		
Outstanding at June 30, 2023	1,706,963	\$ 5.70	5.4	\$ 11,705,731
Exercisable at June 30, 2023	1,616,265	\$ 5.64	5.3	\$ 11,189,810
Vested and expected to vest at June 30, 2023	1,711,976	\$ 5.71	5.4	\$ 11,734,827

The aggregate intrinsic value of options exercised during the years ended June 30, 2023, and June 30, 2022, was \$2.0 million as of June 30, 2023, and was nominal as of June 30, 2022. The Company received \$3.9 million of cash proceeds from the exercise of stock options in fiscal 2023 and a nominal amount of proceeds from the exercise of stock options in fiscal 2022.

As of June 30, 2023, there was \$0.1 million of unrecognized compensation cost, net of forfeitures, related to stock options, which is expected to be recognized over a weighted-average remaining period of 0.2 years.

For fiscal year 2023, the Company recognized a current income tax benefit of \$0.8 million for tax deductions related to equity compensation. A discrete tax expense of \$0.1 million was recognized to reduce deferred tax assets for cancelled awards and detriments in excess of the tax deductions.

For fiscal year 2022, the Company recognized a current income tax benefit of \$0.2 million for tax deductions related to equity compensation. A discrete tax expense of \$0.1 million was recognized to reduce deferred tax assets for cancelled awards and detriments in excess of the tax deductions.

#### **Restricted Stock Units**

A total of 197,915 RSUs with a weighted average fair value of \$6.9 per share were awarded to employees during fiscal 2023. The RSUs awarded during fiscal 2023 have a three-year vesting period, with one-third vesting on each of the anniversary dates. The Company determined the fair value of the awards based on the closing price of the Company stock on the date the RSUs were awarded. The unvested RSUs are non-voting but accrue cash dividends at the same per share rate as those cash dividends declared and paid on LSI's common stock. Dividends on RSUs in the amount of \$101,931 and \$65,743 were accrued as of June 30, 2023, and 2022, respectively. Accrued dividends are paid to the holder upon vesting of the RSUs and issuance of shares.

The Company recorded \$1.3 million and \$0.9 million of expense related to RSUs during fiscal years 2023, and 2022, respectively.

A summary of outstanding and unvested RSU activity as of June 30, 2023, and changes during the period from July 1, 2022, through June 30, 2023, are as follows:

	Shares	Weighted- Average Grant Date Fair Value
Unvested at June 30, 2022	249,331	\$ 7.49
Granted	197,915	\$ 6.90
Vested	(96,478)	\$ 3.82
Forfeited	-	\$ -
Unvested at June 30, 2023	350,768	\$ 7.34

As of June 30, 2023, there was \$1.1 million of unrecognized compensation cost, net of forfeitures, related to RSUs, which is expected to be recognized over a weighted-average remaining period of 1.6 years. The total fair value of RSUs that became fully vested during fiscal 2023 was \$0.8 million.

**Performance Stock Units**

A total of 190,510 PSUs with a weighted average fair value of \$6.9 per share were awarded to employees during fiscal 2023. The Company determined the fair value of the awards based on the closing price of the Company stock on the date the PSUs were awarded. PSUs vest if the Company meets certain financial metrics over a three-year period. The PSUs are non-voting and do not accrue cash dividends at the same per share rate as those cash dividends declared and paid on LSI's common stock.

The Company recorded \$2.0 million and \$1.6 million of expense related to PSUs during fiscal years 2023, and 2022, respectively.

A summary of outstanding and unvested PSU activity as of June 30, 2023, and changes during the period from July 1, 2022 through June 30, 2023 are as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at June 30, 2022	596,567	\$ 6.63
Granted	190,510	\$ 6.90
Vested	(200,626)	\$ 3.83
Forfeited	-	\$ -
Unvested at June 30, 2023	586,451	\$ 5.60

As of June 30, 2023, there was \$1.2 million of unrecognized compensation cost, net of forfeitures, related to PSUs, which is expected to be recognized over a weighted-average remaining period of 2.0 years.

**Director Stock Compensation Awards**

The Company awarded a total of 43,722 and 42,420 common shares as stock compensation awards in fiscal years 2023, and 2022, respectively. These common shares were valued at their approximate \$0.4 million fair market values based on their stock price at dates of issuance multiplied by the number of common shares awarded, pursuant to the compensation programs for non-employee directors who receive a portion of their compensation as an award of Company stock and for employees who received a nominal recognition award in the form of Company 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 matching contributions and participant funded deferrals of compensation. This plan is fully funded in a Rabbi Trust. All plan investments are in common shares of the Company. As of June 30, 2023, there were 30 participants, all with fully vested account balances. A total of 922,426 common shares with a cost of \$7.2 million, and 821,876 common shares with a cost of \$5.9 million, both of which included the Company contributions and the participant deferrals, were held in the plan as of June 30, 2023, and 2022, 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 newly issued shares as compensation deferred into the plan offset by distributions to terminated employees. The Company issued 207,090 and 494,047 new common shares for purposes of the non-qualified deferred compensation plan during fiscal 2023, and during fiscal 2022, respectively.

**NOTE 10 — LEASES AND PURCHASE COMMITMENTS**

Purchase commitments of the Company totaled \$50.0 million as of June 30, 2023.

The Company leases certain manufacturing facilities along with a small office space, several forklifts, several small tooling items, and various items of office equipment. All but two of the Company's leases are operating leases. Leases have a remaining term of one to seven years some of which have an option to renew. The Company does not assume renewals in determining the lease term unless the renewals are deemed reasonably certain. The lease agreements do not contain any material residual guarantees or material variable lease payments.

The Company has periodically entered into short-term operating leases with an initial term of twelve months or less. The Company elected not to record these leases on the balance sheet. The rent expense for these leases was immaterial for fiscal years 2023 and 2022.

The Company has certain leases that contain lease and non-lease components and has elected to utilize the practical expedient to account for these components together as a single lease component.

Lease expense is recognized on a straight-line basis over the lease term. The Company used its incremental borrowing rate when determining the present value of lease payments.

<i>(In thousands)</i>	<b>2023</b>	2022
Operating lease cost	\$ 3,551	\$ 3,483
Financing lease cost:		
Amortization of right of use assets	295	295
Interest on lease liabilities	67	80
Variable lease cost	87	87
Total lease cost	<u>\$ 4,000</u>	<u>\$ 3,945</u>

**Supplemental Cash Flow Information**

<i>(in thousands)</i>	<b>2023</b>	2022
Cash flows from operating leases		
Fixed payments - operating lease cash flows	\$ 3,704	\$ 3,576
Liability reduction - operating cash flows	\$ 3,319	\$ 3,064

Cash flows from finance leases		
Interest - operating cash flows	\$ 67	\$ 80
Repayments of principal portion - financing cash flows	\$ 281	\$ 268

Operating Leases:	<b>June 30, 2023</b>	June 30, 2022
Total operating right-of-use assets	\$ 8,921	\$ 8,664
Accrued expenses (Current liabilities)	\$ 3,566	\$ 3,738
Long-term operating lease liability	5,954	5,776
Total operating lease liabilities	<u>\$ 9,520</u>	<u>\$ 9,514</u>

Weighted Average remaining Lease Term (in years)	<u>3.31</u>	<u>3.05</u>
Weighted Average Discount Rate	<u>5.44%</u>	<u>4.81%</u>

	June 30, 2023	June 30, 2022
<b>Finance Leases:</b>		
Buildings under finance leases	\$ 2,033	\$ 2,033
Equipment under finance leases	34	11
Accumulated depreciation	(929)	(634)
Total finance lease assets, net	<u>\$ 1,138</u>	<u>\$ 1,410</u>
Accrued expenses (Current liabilities)	\$ 284	275
Long-term finance lease liability	960	1,246
Total finance lease liabilities	<u>\$ 1,244</u>	<u>\$ 1,521</u>
Weighted Average remaining Lease Term (in years)	3.83	4.80
Weighted Average Discount Rate	4.86%	4.86%

**Maturities of Lease Liability:**

	Operating Lease Liabilities	Finance Lease Liabilities	Operating Subleases	Net Lease Commitments
2024	3,566	337	(377)	3,526
2025	3,145	362	(31)	3,476
2026	1,860	362	-	2,222
2027	1,249	302	-	1,551
2028	632	-	-	632
Thereafter	2	-	-	2
Total lease payments	<u>\$ 10,454</u>	<u>\$ 1,363</u>	<u>\$ (408)</u>	<u>\$ 11,409</u>
Less: Interest	(934)	(119)		(1,053)
Present Value of Lease Liabilities	<u>\$ 9,520</u>	<u>\$ 1,244</u>		<u>\$ 10,356</u>

**NOTE 11 — INCOME TAXES**

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

*(In thousands)*

	2023	2022
<b>Components of income (loss) before income taxes:</b>		
United States	\$ 31,701	\$ 20,124
Foreign	1,625	(1,039)
Income before income taxes	<u>\$ 33,326</u>	<u>\$ 19,085</u>
<b>Provision for income taxes</b>		
U.S. Federal	\$ 6,327	\$ 3,586
Foreign	325	165
State and local	1,330	644
Total current	<u>\$ 7,982</u>	<u>\$ 4,395</u>
Deferred	(418)	(342)
Total provision for income taxes	<u>\$ 7,564</u>	<u>\$ 4,053</u>



<i>(In thousands)</i>	<b>2023</b>	<b>2022</b>
<b>Reconciliation to federal statutory rate:</b>		
Federal statutory rate	21.0%	21.0
State and local taxes, net of federal benefit	2.9	3.0
Foreign operations	0.6	-
Federal tax credits	(1.0)	(1.0)
Uncertain tax position activity	-	(0.3)
Stock-based compensation	(1.2)	(0.3)
Tax rate changes	(0.2)	(1.4)
Other	0.6	0.2
Effective tax rate	<u>22.7%</u>	<u>21.2</u>

The components of deferred income tax assets and (liabilities) at June 30, 2023, and 2022 are as follows:

**Components of deferred income tax assets and liabilities**

<i>(In thousands)</i>	<b>2023</b>	<b>2022</b>
Uncertain tax positions	\$ 185	\$ 169
Reserves against current assets	1,255	1,110
Accrued expenses	3,381	2,596
Deferred compensation	1,459	1,195
Stock-based compensation	1,680	1,421
State net operating loss carryover and credits	140	310
Lease Liability	2,397	2,667
Canadian NOL	319	538
U.S. Federal net operating loss carryover and credits	258	1,235
Deferred income tax asset before valuation allowance	<u>11,074</u>	<u>11,241</u>
Valuation allowance	(108)	(108)
Deferred income tax asset	<u>10,966</u>	<u>11,133</u>
Goodwill, acquisition costs and intangible assets	(3,749)	(3,519)
Depreciation	(1,634)	(2,205)
Right of Use Asset	(2,269)	(2,513)
Deferred income tax liability	<u>(7,652)</u>	<u>(8,237)</u>
Net deferred income tax asset	<u>\$ 3,314</u>	<u>\$ 2,896</u>

The Company has U.S. federal net operating loss carry forward deferred tax assets of \$0.2 million and \$1.1 million at June 30, 2023, and June 30, 2022, respectively. The federal net operating loss carry forward was from the acquisition of JSI in May 2021. The decrease of \$0.9 million in fiscal 2023 was from utilization of the net operating loss. The Company has deferred tax assets for research and development credits of \$0.1 million at both June 30, 2023, and June 30, 2022. Utilization of the federal net operating losses and research and development credits are limited by Internal Revenue Code Section 382 but are expected to be realized before expiration.

The Company has Canadian net operating loss carry forward deferred tax assets of \$0.3 million and \$0.5 million at June 30, 2023, and June 30, 2022, respectively. The decrease of \$0.2 million was from utilization of the net operating loss. The \$0.3 million deferred tax asset was from the acquisition of JSI and has a 20 year carryforward period.

The Company has state net operating loss carryovers and tax credit deferred tax assets of \$0.1 million and \$0.3 million at June 30, 2023, and June 30, 2022, respectively. A portion of the state net operating loss carry forward was from the acquisition of JSI in May 2021. A valuation allowance of \$0.1 million exists at June 30, 2023, against Oregon tax credits not expected to be used. The Oregon credits are otherwise expected to expire over a 4-year period beginning June 30, 2027.

At June 30, 2023, tax, interest, and penalties, net of potential federal tax benefits, were \$0.6 million, \$0.3 million, and \$0.1 million, respectively, of the total reserve for uncertain tax positions of \$1.0 million. The entire uncertain tax position of \$0.6 million, net of federal tax benefit, would impact the effective tax rate if recognized.

At June 30, 2022, tax, interest, and penalties, net of potential federal tax benefits, were \$0.6 million, \$0.3 million, and \$0.2 million, respectively, of the total reserve for uncertain tax positions of \$1.1 million. The entire uncertain tax position of \$0.6 million net of federal tax benefit, would impact the effective tax rate if recognized. The liability for uncertain tax position is included in Other Long-Term Liabilities.

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 Company recognized a \$0.1 million net tax (benefit)/expense in both fiscal 2023 and fiscal 2022, related to the change in reserves for uncertain tax positions. The Company recognized interest net of federal benefit and penalties of \$500 and (\$3,000), respectively, in fiscal 2023 and \$(8,000) and \$(10,000), respectively, in fiscal 2022. The reserve for uncertain tax positions is not expected to change significantly in the next twelve months.

The tax activity in the liability for uncertain tax positions was as follows:

**Uncertain tax positions**

(In thousands)	2023	2022
Balance at the beginning of the fiscal year	\$ 647	\$ 682
Decreases - tax positions in prior period	(134)	(117)
Increase - tax positions in current period	143	82
Balance at end of the fiscal year	\$ 656	\$ 647

The Company files a consolidated federal income tax return in the United States, and files various combined and separate tax returns in several state and local jurisdictions, and also in Canada, Mexico, and Puerto Rico. In general, the Company is no longer subject to U.S. Federal, state, and local tax examinations by tax authorities for fiscal years ending prior to June 30, 2020. Except that US tax years prior to June 30, 2020, are subject to exam to the extent of the US tax refunds generated from the carry back of the June 30, 2020, federal net operating loss. The IRS completed their examination of the US tax year ended June 30, 2020, and issued a no change report.

**NOTE 12 — SUPPLEMENTAL CASH FLOW INFORMATION**

*(in thousands)*

Cash Payments:	2023	2022
Interest	\$ 3,104	\$ 1,668
Income taxes	\$ 9,559	\$ 4,965
<b>Non-cash investing and financing activities</b>		
Issuance of common shares as compensation	\$ 368	\$ 300
Issuance of common shares to fund deferred compensation plan	\$ 2,017	\$ 3,610
Issuance of common shares to fund ESPP plan	\$ 142	\$ -

**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 does not disclose a range of potential loss because the likelihood of such a loss is remote. 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.

The Company may occasionally issue a standby letter of credit in favor of third parties. As of June 30, 2023, there were no such standby letters of credit issued.

**NOTE 14 – SEVERANCE COSTS**

The Company recorded severance charges of less than \$0.1 million in fiscal 2023 and 2022, respectively. This severance expense was related to reductions in staffing not related to plant restructuring.

The activity in the Company's accrued severance liability was as follows for the twelve months ended June 30, 2023, and 2022:

<i>(In thousands)</i>	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Balance at beginning of period	\$ -	\$ 13
Accrual of expense	83	13
Payments	(78)	(26)
Balance at end of period	<u>\$ 5</u>	<u>\$ -</u>

**NOTE 15 — SUMMARY OF QUARTERLY RESULTS (UNAUDITED)**

*(In thousands except per share data)*

	Quarter Ended				Fiscal Year
	Sep. 30	Dec. 31	Mar. 31	Jun. 30	
<b>2023</b>					
Net Sales	\$ 127,069	\$ 128,804	\$ 117,470	\$ 123,636	\$ 496,979
Gross Profit	34,738	34,140	32,204	35,863	136,945
Net Income	6,262	6,417	4,669	8,414	25,762
Earnings per share					
Basic	\$ 0.23	\$ 0.23	\$ 0.16	\$ 0.30	\$ 0.92
Diluted	\$ 0.22	\$ 0.22	\$ 0.16	\$ 0.28	\$ 0.88
Range of share prices					
High	\$ 8.81	\$ 12.39	\$ 15.88	\$ 14.12	\$ 15.88
Low	\$ 5.70	\$ 7.10	\$ 12.17	\$ 11.59	\$ 5.70
<b>2022</b>					
Net Sales	\$ 106,397	\$ 111,143	\$ 110,111	\$ 127,469	\$ 455,120
Gross Profit	24,510	25,448	26,793	32,457	109,208
Net Income	3,133	3,105	3,618	5,176	15,032
Earnings per share					
Basic	\$ 0.12	\$ 0.11	\$ 0.13	\$ 0.19	\$ 0.55
Diluted	\$ 0.11	\$ 0.11	\$ 0.13	\$ 0.18	\$ 0.54 (a)
Range of share prices					
High	\$ 8.43	\$ 8.42	\$ 7.49	\$ 7.66	\$ 8.43
Low	\$ 7.12	\$ 6.41	\$ 6.00	\$ 5.53	\$ 5.53

(a) The total of the earnings per share for each of the four quarters does not equal the total earnings per share for the full year because the calculations are based on the average shares outstanding during each of the individual periods. There is no difference between basic and diluted shares due to losses.

**LSI INDUSTRIES INC. AND SUBSIDIARIES**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**  
**FOR THE YEARS ENDED JUNE 30, 2023, and 2022**  
(In thousands)

Description	Balance Beginning of Period	Additions Charged to Costs and Expenses	Additions from Company Acquired	Deductions (a)	Balance End of Period
<b>Allowance for Credit Losses:</b>					
Year Ended June 30, 2023	\$ 499	\$ (19)	\$ -	\$ (45)	\$ 435
Year Ended June 30, 2022	\$ 256	\$ 249	\$ -	\$ (6)	\$ 499
<b>Inventory Obsolescence Reserve:</b>					
Year Ended June 30, 2023	\$ 5,447	\$ 2,496	\$ -	\$ (1,654)	\$ 6,289
Year Ended June 30, 2022	\$ 5,050	\$ 2,111	\$ -	\$ (1,714)	\$ 5,447
<b>Deferred Tax Asset Valuation Reserve:</b>					
Year Ended June 30, 2023	\$ 108	\$ -	\$ -	\$ -	\$ 108
Year Ended June 30, 2022	\$ 108	\$ -	\$ -	\$ -	\$ 108

(a) For Allowance for credit losses, deductions are uncollectible accounts charged off, less recoveries.