

LSI INDUSTRIES INC
Form DEF 14A
September 29, 2004

SCHEDULE 14A
(Rule 14a-10) INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a)
of the Securities and Exchange Act of 1934
(Amendment No. __)

Filed by the Registrant [X]

Filed by a Party other than the Registrant []

Check the appropriate box:

[] Preliminary Proxy Statement

[] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e) (2))

[X] Definitive Proxy Statement

[] Definitive Additional Materials

[] Soliciting Material Under Rule 14a-12

LSI Industries Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

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- (3) Filing Party:
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**Notice of Annual Meeting of Shareholders
and Proxy Statement**

September 29, 2004

Dear Shareholder:

We invite you to attend our Annual Meeting of Shareholders on Thursday, November 18, 2004, at 10:00 a.m. at the Company's headquarters located at 10000 Alliance Road, Cincinnati, Ohio. At the meeting, you will hear a report on our operations and have a chance to meet your Company's directors and executives.

This booklet includes the formal notice of the meeting and the proxy statement. The proxy statement tells you more about the agenda and procedures for the meeting. It also describes how the Board operates and provides information about our director candidates.

Even if you only own a few shares, we want your shares to be represented at the meeting. I urge you to complete, sign, date and promptly return your proxy card in the enclosed envelope.

Sincerely yours,

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

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS OF
LSI INDUSTRIES INC.**

Time:

10:00 a.m., Eastern Standard Time

Date:

Thursday, November 18, 2004

Place:

LSI Industries Corporate Headquarters
10000 Alliance Road
Cincinnati, Ohio 45242

Purpose:

Elect Directors

Purpose:

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Ratify the appointment of Grant Thornton LLP as the Company's independent registered public accounting firm for fiscal year 2005

Amend the Code of Regulations to remove the classified Board structure and provide for the annual election of all directors

Conduct other business if properly raised

Only shareholders of record on September 17, 2004 may vote at the meeting. The approximate mailing date of the Proxy Statement and accompanying proxy card is September 30, 2004.

Your vote is important. Please complete, sign, date, and promptly return your proxy card in the enclosed envelope.

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

September 29, 2004

LSI Industries Inc.
Proxy Statement

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Purpose:

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LSI INDUSTRIES INC.

**10000 Alliance Road
Cincinnati, Ohio 45242**

Telephone (513) 793-3200

PROXY STATEMENT

**Annual Meeting of Shareholders
November 18, 2004**

INTRODUCTION

The Board of Directors of LSI Industries Inc. is requesting your proxy for the Annual Meeting of Shareholders on November 18, 2004, and at any postponement or adjournment of such meeting. This Proxy Statement and the accompanying proxy card were first mailed on September 30, 2004 to shareholders of record as of September 17, 2004.

VOTING AT ANNUAL MEETING

General Information

In order to carry on the business of the meeting, we must have a quorum. This means at least a majority of the outstanding shares eligible to vote must be represented at the meeting either by proxy or in person. Shareholders may vote in person or by proxy at the Annual Meeting. Proxies given may be revoked at any time by filing with the Company (to the attention of Ronald S. Stowell) either a written revocation or a duly executed proxy bearing a later date, or by appearing at the Annual Meeting and voting in person. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote. All shares will be voted as specified on each properly executed proxy card. If no choice is specified, the shares will be voted as recommended by the Board of Directors, namely FOR Proposal 1 to elect the three persons nominated as Class B directors by the Board of Directors, FOR Proposal 2 (Ratification of Appointment of Independent Registered Public Accounting Firm), and FOR Proposal 3 (Amendment of the Code of Regulations). If any other matters come before the meeting or any postponement or adjournment, each proxy will be voted in the discretion of the individuals named as proxies on the proxy card.

As of September 17, 2004, the record date for determining shareholders entitled to notice of and to vote at the Annual Meeting, LSI Industries had 19,776,396 Common Shares outstanding. Each share is entitled to one vote. Only shareholders of record at the close of business on September 17, 2004, will be entitled to vote at the Annual Meeting. Abstentions and shares otherwise not voted for any reason, including broker non-votes, will have no effect on the outcome of any vote taken at the Annual Meeting.

Principal Shareholders

As of September 17, 2004, the following are the only shareholders known by the Company to own beneficially 5% or more of its outstanding Common Shares:

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent Of Class
Babson Capital Management 1295 State Street Springfield, MA 01111-0002	2,667,492	13.36%
William Blair Capital Management LLC 222 West Adams Street, 13th Floor	1,334,292	6.68%

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Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent Of Class
Columbia Management Group, Inc. 590 Madison Avenue New York, NY 10022-2524	1,237,775	6.20%
Royce & Associates LLC 1414 Avenue of the Americas, 9th Floor New York, NY 10019-2578	1,102,911	5.52%
Artisan Partners LP 875 Wisconsin Avenue, Suite 800 Milwaukee, WI 53202-3197	1,088,699	5.45%
Robert J. Ready 10000 Alliance Road Cincinnati, Ohio 45242	1,046,708(a)	5.24%

- (a) Includes 33,751 options exercisable within 60 days, 42,556 shares held in the Company's Non-Qualified Deferred Compensation Plan, and 211,116 shares held in trust for Mr. Ready's children. Mr. Ready disclaims beneficial ownership of shares held by or in trust for his children.

Shareholder Proposals

Shareholders who desire to have proposals included in the Notice for the 2005 Annual Meeting of Shareholders must submit their proposals to the Company at its offices on or before May 30, 2005.

The form of Proxy for the Annual Meeting of Shareholders grants authority to the persons designated therein as proxies to vote in their discretion on any matters that come before the meeting, or any adjournment thereof, except those set forth in the Company's Proxy Statement and except for matters as to which adequate notice is received. In order for a notice to be deemed adequate for the 2005 Annual Shareholders Meeting, it must be received prior to August 12, 2005. If there is a change in the anticipated date of next year's annual meeting or if these deadlines change by more than 30 days, we will notify you of this change through our Form 10-Q filings.

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Proposal 1. Election of Directors

The Company's Code of Regulations provides that the Board of Directors be composed of two classes of directors, with each class elected for a two-year term. One class is elected annually. The terms of the Class A directors expire at the 2005 Annual Meeting of Shareholders while the terms of the Class B directors expire at the 2004 Annual Meeting of Shareholders.

The Nominating and Corporate Governance Committee of the Board has nominated for reelection three present Class B directors, namely, Wilfred T. O'Gara, Mark A. Serrienne and James P. Sferra. Proxies solicited by the Board will be voted for the election of these three nominees.

All Class B directors elected at the Annual Meeting will be elected to hold office for two years and until their successors are elected and qualified. However, if Proposal 3 relating to the Amendment of Regulations to Remove Classified Board is approved at the 2004 Annual Meeting, the classified Board will be eliminated and the term of office for each director elected at the 2004 Annual Meeting will be one year.

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In voting to elect directors, shareholders are entitled to one vote for each share held of record. Shareholders are not entitled to cumulate their votes in the election of directors.

Should any of the nominees become unable to serve, proxies will be voted for any substitute nominee designated by the Board. The three nominees receiving the highest number of votes cast will be elected.

Recommendation of the Board of Directors

The Board of Directors recommends a vote FOR each of the Class B directors nominated in this Proxy Statement. Nominees receiving the highest number of votes will be elected.

Proposal 2. Ratification of Appointment of Independent Registered Public Accounting Firm

The Audit Committee of the Board of Directors appointed Grant Thornton LLP as the Company's independent certified public accountants for fiscal 2002. Grant Thornton LLP has been the independent certified public accounting firm for the Company since April 2002. Although not required by law, the Board is seeking shareholder ratification of its selection. If ratification is not obtained, the Audit Committee intends to continue the employment of Grant Thornton LLP at least through fiscal 2005.

Representatives of Grant Thornton LLP are expected to be present at the Shareholders' Meeting and will be given an opportunity to make a statement, if they so desire, and to respond to appropriate questions that may be asked by shareholders.

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Audit Fees

The Company expensed the following fees from Grant Thornton LLP in the fiscal years ended June 30, 2003 and 2004:

	<u>2003</u>	<u>2004</u>
Audit fees	\$111,962	\$161,562
Audit-related fees	36,214	46,551
Tax fees	35,898	41,665
All other fees	--	--
Total fees	<u>\$184,074</u>	<u>\$249,779</u>

Audit fees represent fees and out-of-pocket expenses related to the fiscal 2004 audit of the Company's financial statements, review and documentation of the Company's system of internal controls, filing of the Form 10-K, services related to review of the Company's quarterly financial statements and Form 10-Q's, and attendance at the Company's quarterly Audit Committee meetings. Audit-related fees represent fees for consultation related to accounting and regulatory filing matters, and to audits of the Company's two qualified retirement plans. Tax fees relate to services and out-of-pocket expenses related to tax compliance (or filing of the Company's various income and franchise tax returns), tax planning, and tax advice. All other fees represent fees related to services and consultation related to various planning matters.

Recommendation of the Board of Directors

The Board of Directors recommends a vote FOR Proposal 2. The affirmative vote of a majority of Common Shares voting at the Annual Meeting is required for approval of this proposal.

Proposal 3. Amendment of Regulations to Remove Classified Board

The Board of Directors is asking shareholders to repeal Article III, Section 2(b) of the Company's Code of Regulations. That section provides that the Board of Directors be classified into two classes with the number of directors in each class elected to hold office for a two-year term. If shareholders approve this proposal, the classified Board of Directors will be eliminated and the current term of office of each director, including those elected at this 2004 Annual Meeting, will end at the 2005 Annual Meeting of Shareholders. Directors would thereafter be elected for one year terms at each Annual Meeting of Shareholders beginning at the 2005 Annual Meeting of Shareholders.

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The Board believes that shareholders should have an opportunity to vote on all directors every year and that this will be an effective way to maintain and enhance the accountability of the directors to the shareholders. Approval of this proposal will replace Article III, Section 2(b) with a new section, which is attached as Annex A, and will also repeal those portions of Article X of the Code of Regulations which specify the vote required to adopt an amendment relating to the classification of directors.

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Recommendation of the Board of Directors

The Board of Directors recommends a vote FOR Proposal 3. The affirmative vote of the holders of over two-thirds of the outstanding Common Shares is required to approve this proposal.

Other Matters

Approval of any other matters considered at the Annual Meeting, including adjournment, will require the affirmative vote of a majority of Common Shares voting at the meeting.

MANAGEMENT

Directors and Executive Officers

The directors and executive officers of LSI Industries are:

Name and Age	Position	Common Shares Beneficially Owned	
		Amount	Percentage
Robert J. Ready(a) 64	Chairman, President, and Chief Executive Officer	1,046,708(e)	5.24%
James P. Sferra(a) 65	Executive Vice President- Manufacturing; Secretary and Director	437,690(f)	2.19%
Ronald S. Stowell 54	Vice President, Chief Financial Officer and Treasurer	75,163(f)	*
David W. McCauley 55	President of LSI Graphic Solutions <i>Plus</i> and President of Grady McCauley Inc.	58,594(f)	*
Scott D. Ready 42	President of LSI Lighting Solutions <i>Plus</i>	130,245(f)	*
Wilfred T. O'Gara(b)(c)(d) 47	Director	18,492(f)	*
Gary P. Kreider(b)(d) 66	Director	20,240(f)	*
Dennis B. Meyer(b)(c)(d) 70	Director	8,115(f)	*
Mark A. Serrienne(b)(c)(d) 57	Director	1,659(f)	*
		1,706,271(g)	8.55%

**Common Shares
Beneficially Owned**

All Directors and Executive Officers as a Group (Nine Persons)

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Information as of September 17, 2004

- (a) Executive Committee Member
- (b) Compensation Committee Member
- (c) Audit Committee Member
- (d) Nominating Committee Member
- (e) See Principal Shareholders
- (f) Includes options exercisable within 60 days for Mr. Sferra of 43,126 shares, Mr. Stowell of 39,939 shares, Mr. McCauley of 34,689 shares, Mr. Scott Ready of 17,502 shares, Mr. O Gara of 15,002 shares, Mr. Kreider of 5,625 shares, Mr. Meyer of 6,563 shares, and Mr. Serrienne of 1,500 shares; and indirect beneficial ownership for Mr. Sferra of 12,622 shares.
- (g) This total counts only once 90,635 shares reported above as both indirect beneficial holdings of Robert J. Ready and as direct holdings of Scott D. Ready.

*Less than 1%

Robert J. Ready is the founder of the Company and has been its President and a Class A Director since 1976. Mr. Ready was appointed Chairman of the Board of Directors in February 1985. Mr. Ready is also a Director of Meridian Bioscience, Inc. and WS Packaging Group, Inc.

James P. Sferra shared in the formation of the Company. Mr. Sferra has served as Corporate Vice President of Manufacturing from November 1989 to November 1992, and as Executive Vice President-Manufacturing since then. Prior to that, he served as Vice President-Manufacturing of LSI Lighting Systems, a division of the Company. Mr. Sferra has served as a Class B Director since 1976, and was appointed Secretary in 1996.

Ronald S. Stowell has served as Chief Financial Officer since December 1992, and was appointed Treasurer in November 1993 and Vice President in November 1997. From 1985 to November 1992, Mr. Stowell served as Corporate Controller of Esfef Corporation (a Nasdaq listed company), Chardon, Ohio, a manufacturer of high performance composite and engineered plastics products.

David W. McCauley has served as President of LSI Graphic Solutions *Plus* since April 2003 and as either President or Vice President of Operations of Grady McCauley Inc. (a subsidiary of the Company involved in graphics) since June 1997. Prior to the June 1997 acquisition date, Mr. McCauley was a founder and Vice President of Grady McCauley, Inc.

Scott D. Ready has served as President of LSI Lighting Solutions *Plus* since July 2004. Prior to that, he held various sales and other positions at the Company, including Vice President of the Image Group, Vice President Petroleum Sales, and Regional Sales Manager. Mr. Scott Ready has been employed by the Company since 1985.

Gary P. Kreider has been a Class A Director since April 2002. Mr. Kreider is a senior partner in the Cincinnati law firm of Keating, Muething & Klekamp, P.L.L., the Company's outside counsel. His primary practice areas are securities law, mergers and acquisitions, and general corporate law, and he has been with Keating, Muething & Klekamp since 1963. Mr. Kreider has been an Adjunct Professor of Law in securities regulation at the University of Cincinnati College of Law since 1977 and is Chairman of the Ohio State Bar Association Corporate Law Committee. Mr. Kreider is also a Director of Meridian Bioscience, Inc.

Dennis B. Meyer has been a Class A Director since August 2001. Mr. Meyer serves on the Board and Executive Committee of Midmark Corporation. Mr. Meyer was Executive Vice President of Midmark Corporation from 1985 to 2001, and held several other executive and managerial positions during his 36 years with that company.

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Wilfred T. O'Gara was appointed a Class B Director of the Company in January 1999. Mr. O'Gara is the President and Chief Executive Officer of The O'Gara Group, Inc., a security and defense related firm and the President of The O'Gara Group, LLC, an unrelated financial and advisory consulting firm. Mr. O'Gara was the CEO of Ohio Medical Inc. from January 2002 until the sale of substantially all of its assets in May of 2004. Previously, he was the Chief Executive Officer of O'Gara-Hess & Eisenhardt Armoring Co., a subsidiary of Armor Holdings, Inc. He was named Co-Chief Executive Officer of Kroll-O'Gara and Chief Executive Officer of the Security Products and Services Group in April, 2000 and served as such until May 2001 when O'Gara-Hess & Eisenhardt was sold to Armor Holdings, Inc. He had also served as Kroll-O'Gara's President and Chief Operating Officer since the Kroll Holdings merger and as its CEO from August, 1996 until that merger. In addition, Mr. O'Gara has served in various executive officer and director positions in its subsidiaries and predecessors since 1983.

Mark A. Serrienne was appointed a Class B Director of the Company in August 2004. Mr. Serrienne has been principal owner and Chief Executive Officer of Northlich, Inc. since 1998. Northlich is a privately held advertising, marketing communication and public relations company with headquarters in Cincinnati, Ohio. Mr. Serrienne has held a number of positions with Northlich from 1974 through 1996 when he became President.

LSI has determined that the following Board members are independent: Gary P. Kreider, Dennis B. Meyer, Wilfred T. O'Gara and Mark A. Serrienne.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers, directors, and persons who own more than ten percent of the Company's Common Shares to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Such persons are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file, since September 2002 within two days of a transaction in shares of the Company. Based solely upon its review of copies of such forms received by it, and upon written representations from certain reporting persons that no Forms 5 were required for those persons, the Company believes that during fiscal 2004 all other filing requirements were met except that Mr. O'Gara reported on July 27, 2004 a May 6, 2004 acquisition of 1,000 shares.

Executive Compensation

The following table sets forth information regarding annual, long-term, and other compensation paid by the Company to its Chief Executive Officer and each of the other four executive officers at June 30, 2004 during each of the last three fiscal years for services rendered to the Company and its subsidiaries.

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Summary Compensation Table

Name and Principal Position	Year	Annual Compensation				
		Salary	Bonus	Other Annual Compensation (1)	Securities Underlying Options(2)	All Other Compensation (3)
Robert J. Ready Chairman, President and Chief Executive Officer	2004	\$ 515,923	\$ 127,500	\$ 34,988	--	\$ 101,818
	2003	500,000	--	34,218	--	106,468
	2002	500,000	142,500	29,388	22,500	103,238
James P. Sferra Executive Vice President- Manufacturing; Secretary	2004	416,322	105,000	19,896	--	67,492
	2003	388,125	--	18,496	--	54,954
	2002	385,601	110,616	19,496	18,750	50,307
Ronald S. Stowell Vice President, Chief Financial Officer, and Treasurer	2004	232,725	65,000	20,396	--	82,176
	2003	215,280	12,000	20,696	--	61,072
	2002	213,880	76,355	21,096	18,750	26,997
David W. McCauley	2004	199,698	64,260	12,000	--	15,526

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Annual Compensation

President of LSI Graphic Solutions Plus	2003	184,046	10,000	12,000	--	17,512
	2002	181,977	46,120	12,000	11,250	21,309
Scott D. Ready President of LSI Lighting Solutions Plus	2004	173,462	35,000	12,012	--	17,495
	2003	150,000	2,700	12,012	--	16,105
	2002	139,129	42,000	11,550	8,750	20,031

- (1) Other Annual Compensation consists of automobile allowances for all executive officers as well as professional fee allowances for Mr. Ready and Mr. Sferra.
- (2) Represents Common Shares underlying options awarded under the Company's stock option and equity compensation plans.
- (3) All Other Compensation includes Retirement Plan and Deferred Compensation Plan contributions, premiums paid on long-term disability and life insurance policies, and payment of accrued vacation.

Under separate agreements, Messrs. Ready and Sferra will receive disability payments for up to 50 months at 60% of their average salary and bonus received in the last five fiscal years, reduced by any Social Security payments, if they become disabled while employed by LSI. Health insurance will be maintained for the person and his spouse for five years after termination or death. If such person dies while employed by LSI or while receiving disability payments, the Company shall pay their heirs one million dollars less any payments made as disability compensation or from any policies of life insurance maintained by LSI. In order to provide clear continuity of management influence, LSI has also agreed to employ Messrs. Ready and Sferra as consultants for a period of three years commencing at an unspecified time in the future when such person determines to retire from employment. Such consulting compensation will be at annual rates of 60%, 50%, and 40% of the average of the last five full fiscal year salary levels. Messrs. Ready and Sferra have no plans to retire in the near future. However, the establishment of provisions for consulting services by Messrs. Ready and Sferra are intended to facilitate a smooth transition as part of any future management succession plan.

Stock Options

No stock options were granted to the Company's Executive Officers in fiscal year 2004. The following table contains information concerning the exercise and appreciation of stock options held by the Named Executives.

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Fiscal 2004 Option Exercises and Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year-End(1) Exercisable/Unexercisable
Robert J. Ready	--	--	33,751/16,874	\$91,969/\$ --
James P. Sferra	--	--	43,126/13,124	\$124,125/\$ --
Ronald S. Stowell	--	--	39,939/16,311	\$110,299/\$15,326
David W. McCauley	--	--		