

LSI INDUSTRIES INC  
Form DEF 14A  
October 05, 2015

**SCHEDULE 14A**

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)  
of the Securities Exchange Act of 1934

Filed by the Registrant

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))
- 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):

No fee required.  
Fee computed on table below per Exchange Act Rules 14a-6(i) (1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(5) Total fee paid:

Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**Notice of Annual Meeting of Shareholders  
and Proxy Statement**

October 2, 2015

Dear Shareholder:

We invite you to attend our Annual Meeting of Shareholders on Thursday, November 19, 2015, 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.

We are pleased to continue to take advantage of U.S. Securities and Exchange Commission rules that allow companies to furnish their proxy materials over the Internet. As a result, we are including a Notice of Internet Availability of Proxy Materials (the "Notice") with this Proxy Statement. The Notice contains instructions on how to access and review the proxy materials and our Annual Report on Form 10-K over the Internet. The Company believes that this process allows us to provide our shareholders with the information they need in a more timely manner.

Even if you own only 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/ Dennis W. Wells

Dennis W. Wells

Chief Executive Officer and President; Director

**NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE  
ANNUAL MEETING TO BE HELD ON NOVEMBER 19, 2015**

**The Notice of Meeting and Proxy Statement as well as the Company's Annual Report on  
Form 10-K are available at [www.edocumentview.com/LYTS](http://www.edocumentview.com/LYTS)**

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

**Time:**

10:00 a.m., Eastern Standard Time

**Date:**

Thursday, November 19, 2015

**Place:**

LSI Industries Corporate Headquarters

10000 Alliance Road

Cincinnati, Ohio 45242

**Purpose:**

- Elect as Directors the seven nominees named in the accompanying proxy materials
- Ratify the appointment of Grant Thornton LLP as the Company's independent registered public accounting firm for fiscal 2015
- Amend the Company's Amended and Restated 2012 Stock Incentive Plan and re-approve the material terms of its performance measures for purposes of Section 162(m) of the Internal Revenue Code
- Conduct an advisory vote on executive compensation
- Conduct other business if properly raised

Only shareholders of record on September 21, 2015 may vote at the meeting. The approximate mailing date of the Proxy Statement and accompanying proxy card is October 2, 2015.

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

/s/ Dennis W. Wells

Dennis W. Wells

Chief Executive Officer and President; Director

October 2, 2015

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The Company makes available, free of charge on its website, all of its filings that are made electronically with the Securities and Exchange Commission (“SEC”), including Forms 10-K, 10-Q, and 8-K and any amendments thereto. To access these filings, go to the Company’s website ([www.lsi-industries.com](http://www.lsi-industries.com)) and click on the “SEC Filings” tab in the left

margin on the “Investor Relations” page. Copies of the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2015, including financial statements and schedules thereto, filed with the SEC are also available without charge to shareholders upon written request addressed to:

**LSI Industries Inc.**

**Ronald S. Stowell**

**Vice President, Chief Financial Officer**

**& Treasurer**

**10000 Alliance Road**

**Cincinnati, Ohio 45242**





**LSI INDUSTRIES INC.**

**10000 Alliance Road**

**Cincinnati, Ohio 45242**

**Telephone (513) 793-3200**

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**PROXY STATEMENT**

**Annual Meeting of Shareholders**

**November 19, 2015**

**INTRODUCTION**

The Board of Directors of LSI Industries Inc. is requesting your proxy for the Annual Meeting of Shareholders on November 19, 2015, and at any postponement or adjournment of such meeting. This Proxy Statement and the accompanying proxy card were first mailed on October 2, 2015 to shareholders of record as of September 21, 2015.

**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 hold shares through someone else, such as a stockbroker or bank, you may get material from them asking how you want to vote. Specifically, if your shares are held in the name of your stockbroker or bank and you wish to vote in person at the meeting, you should request your stockbroker or bank to issue you a proxy covering your shares. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote. The Company will bear the entire cost of soliciting proxies from our shareholders.

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 seven persons nominated as Directors by the Nominating and Corporate Governance Committee of the Board of Directors, "FOR" Proposal 2 (Ratification of Appointment of Independent Registered Public Accounting Firm), "FOR" Proposal 3 (Amendment of the Company's Amended and Restated 2012 Stock Incentive Plan and re-approval of the material terms of its performance measures for purposes of Section 162(m) of the Internal Revenue Code) and "FOR" Proposal 4 (Approval, on a non-binding, advisory basis, of the Executive Compensation Package). If any other matters come before the meeting or any postponement or adjournment thereof, each proxy will be voted in the discretion of the individuals named as proxies on the proxy card. With respect to Proposal 1, the seven nominees receiving the greatest number of votes will be elected. Proposal 2 for the ratification of appointment of the Company's Independent Registered Public Accounting Firm and Proposal 3 for the amendment of the Company's Amended and Restated 2012 Stock Incentive Plan and re-approval of its performance measures will be adopted only if they receive approval by a majority of the Common Shares voting at the Annual Meeting. Since Proposal 4 on executive compensation is an advisory vote, the Board of Directors will give due consideration to the outcome of the vote; however, the vote shall not be binding on the Company.

Banks or brokers holding shares for beneficial owners must vote those shares as instructed. If the bank or broker has not received instructions from you, the beneficial owner, the bank or broker generally has discretionary voting power only with respect to the ratification of appointment of the independent registered public accountants. A bank or broker does not have discretion to cast votes with respect to the election of Directors unless it has received voting instructions from the beneficial owner of the shares. **It is therefore important that you provide instructions to your bank or broker if your shares are held by such a bank or broker so that your vote with respect to Directors is counted.**

As of September 21, 2015, the record date for determining shareholders entitled to notice of and to vote at the Annual Meeting, LSI had 24,558,461 Common Shares outstanding. Each share is entitled to one vote. Only shareholders of record at the close of business on September 21, 2015, 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, except as otherwise described herein. Broker non-votes occur when a broker returns a proxy card but does not have authority to vote on a particular proposal.

### **Principal Shareholders**

As of September 15, 2015, 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 Percent	
	Beneficial Ownership	Of Class
Royce & Associates LLC		
1414 Avenue of the Americas, 9th Floor	2,249,019	8.88%
New York, NY 10019-2578		
Columbia Management Group Inc.		
100 Federal Street, 19th Floor	1,897,426	7.49%
Boston, MA 02110		
Blackrock Fund Advisors		
400 Howard Street	1,325,180	5.23%
San Francisco, CA 94105		
Dimensional Fund Advisors LP	1,293,222	5.11%
Palisades West, Building One		
6300 Bee Cave Road		

Austin, TX 78746

### **Shareholder Proposals**

Shareholders who desire to have proposals included in the Notice for the 2016 Annual Meeting of Shareholders must submit their proposals to the Company at its offices on or before June 6, 2016.

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 or postponement 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 2016 Annual Shareholders' Meeting, it must be received prior to August 19, 2016. 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**

In accordance with the Company's Regulations, the number of LSI Directors has been set at seven, and each Director is elected for a one-year term. The terms of the Company's Directors expire at the 2015 Annual Meeting of Shareholders.

The Nominating and Corporate Governance Committee of the Board has nominated for reelection the seven current Directors, namely, Robert P. Beech, Gary P. Kreider, Dennis B. Meyer, Wilfred T. O'Gara, Mark A. Serrienne, James P. Sferra and Dennis W. Wells. Proxies solicited by the Board will be voted for the election of these seven nominees.

All Directors elected at the Annual Meeting will be elected to hold office for one year and until their successors are elected and qualified. 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 seven nominees receiving the greatest number of votes cast will be elected.

**Recommendation of the Board of Directors**

The Board of Directors recommends a vote FOR each of the seven Directors nominated in this Proxy Statement. The seven nominees receiving the greatest 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 registered public accounting firm for fiscal 2015. Grant Thornton LLP has been the independent registered public accounting firm for the Company since September 8, 2009, and had also previously served the Company in this capacity from April 2002 to December 2005. 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 2016.

Representatives of Grant Thornton LLP are expected to be present at the Annual 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.

Audit Fees

Aggregate fees billed to the Company by Grant Thornton LLP for the fiscal years ended June 30, 2014 and 2015 were as follows:

	2014	2015
Audit fees	\$559,210	\$549,500
Audit-related fees	29,200	95,750
Tax fees	85,661	84,153
All other fees	4,900	4,900
Total fees	\$678,971	\$734,303

Audit fees represent fees and out-of-pocket expenses related to the audit of the Company's financial statements; review, documentation and testing 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, acquisition due diligence services, and to audits of the Company's qualified retirement plan. 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 to approve this proposal.

**Proposal 3. Amendment of the Company's Amended and Restated 2012 Stock Incentive Plan and Re-Approval of Performance Measures**

Based on the recommendation of the Compensation Committee, the Board voted to approve and recommend to shareholders that they approve amendments to the Amended and Restated 2012 Stock Incentive Plan (the "2012 Stock Incentive Plan" or "2012 Plan"). The amendments include an increase in the number of Common Shares available for issuance under the 2012 Plan from 1,600,000 to 2,800,000 (which includes an increase in the total number of Common Shares available for issuance with respect to incentive stock options from 1,600,000 to 2,800,000 in accordance with the Internal Revenue Code), and an increase in the number of stock options or stock appreciation rights that may be granted to an individual in a calendar year from 175,000 to 250,000. Shareholders are being asked at the Annual Meeting to approve these amendments and to re-approve the material terms of the performance measures set forth in the 2012 Plan, as described below. The 2012 Plan, however, includes other technical amendments that do not require shareholder approval which were effective upon the Board's approval on August 19, 2015. The 2012 Plan document attached as Annex A is marked to show all of these amendments.

Set forth below are: (i) a summary of the principal features of the 2012 Plan as it is proposed to be amended; and (ii) a description of the U.S. federal income tax consequences under the 2012 Plan.

**1. Summary of the Amended and Restated 2012 Stock Incentive Plan**

The summary below does not purport to be complete and is qualified in its entirety by reference to the 2012 Plan document attached as Annex A. In the event and to the extent that this summary is inconsistent with the 2012 Plan document, the 2012 Plan document shall govern.

***Objectives of the 2012 Plan***

The Board believes that stock-based awards are an important element of the Company's compensation programs. The 2012 Plan promotes the Company's compensation philosophy and objectives by: (i) providing long-term incentives to those persons with significant responsibility for the success and growth of the Company, (ii) motivating participants to achieve the long-term success and growth of the Company, (iii) providing a vehicle to tie a significant portion of compensation to the long-term performance of the Company's shares, (iv) enabling the Company to attract and retain skilled and qualified officers, other employees, directors, and consultants who are expected to contribute to the Company's success in a competitive market for such individuals, (v) facilitating ownership of the Company's shares, and (vi) aligning the personal interests of officers, employees, and others in the Company's long-term growth and profitability with the interests of the Company's shareholders. As of September 15, 2015, approximately 363,873 shares remained available for grant under the 2012 Plan. Subject to shareholder approval at the Annual Meeting, the

amendment to the 2012 Plan will be effective as of November 19, 2015. The per share closing price of LSI's Common Shares on September 15, 2015 was \$9.17. Information on the total number of shares available under the Company's existing equity compensation plans and subject to outstanding options and rights is presented in the Equity Compensation Plan Information table on page 29.

The 2012 Plan allows the Company the flexibility to grant a variety of stock and stock-based awards, including stock options and stock appreciation rights, granted separately or in tandem with each other, and restricted shares and restricted share units, both time vested or conditioned on the attainment of performance goals. The 2012 Plan is also designed to allow compliance with Section 162(m). It is intended that awards under the 2012 Plan with a performance component (which does not include time-vested share awards) generally will satisfy the requirements for performance based compensation under Section 162(m) while granting the Compensation Committee the authority to grant nonperformance-based awards where it deems appropriate. Section 162(m) generally places a \$1,000,000 limit on the tax deduction allowable for compensation paid (or accrued for tax purposes) with respect to the Chief Executive Officer and the three other highest-paid executives (other than the CEO and CFO) during a tax year, unless the compensation meets certain requirements. All stock incentive awards to the Company's most highly compensated executives that may be made over the next few years are expected to be granted under the 2012 Plan.

#### *Shares Subject to the 2012 Plan*

The aggregate number of Common Shares that may be issued under the 2012 Plan after giving effect to the amendment is 2,800,000 plus shares subject to outstanding awards under the Company's prior plan which are forfeited, settled in cash or cancelled or expire. The 2012 Plan provides for appropriate adjustments in the number of shares subject to the 2012 Plan (and other share limitations contained therein and described below) and to grants previously made if there is a share split, dividend, reorganization, or other relevant change affecting the Company's corporate structure or its shares. If shares under an award are not issued prior to the expiration, termination, cancellation or forfeiture of the award, then those shares would again be available for inclusion in future grants.



### *Other Share Limitations*

The maximum number of shares subject to incentive stock options (“ISOs”) that may be granted under the 2012 Plan after giving effect to the amendment is 2,800,000. The maximum number of shares subject to restricted shares or restricted share units that may be granted to an individual in a calendar year is 50,000 shares. The maximum number of shares subject to stock options or stock appreciation rights that may be granted to an individual in a calendar year under the 2012 Plan after giving effect to the amendment is 250,000 shares.

### *Eligible Participants*

Officers and key employees of the Company, any consultant to the Company, and the Company’s non-employee directors are eligible to receive awards under the 2012 Plan. Awards are granted to those persons with significant responsibility for the Company’s success and growth.

### *Administration*

The 2012 Plan is administered by a committee (the “Committee”) consisting of at least three directors appointed by the Board, all of whom meet the definitions of the terms “outside director” set forth in the regulations under Section 162(m), “independent director” set forth in The Nasdaq Stock Market, Inc. rules, and “non-employee director” set forth in Rule 16b-3 under the Exchange Act. Unless determined otherwise by the Board, the Compensation Committee will administer the 2012 Plan and has the authority under the 2012 Plan to: (i) select the employees, consultants, and Directors to whom awards are granted; (ii) determine the type and timing of awards and the appropriate award agreement evidencing each award; (iii) determine the number of shares covered by each award and all other terms and conditions of awards, not inconsistent with the terms of the 2012 Plan; (iv) determine whether an award is, or is intended to be, performance based compensation within the meaning of 162(m); (v) determine whether terms, conditions, and objectives have been met or, including, without limitation, making certifications related thereto, if permissible, should be modified or waived, not inconsistent with the terms of the 2012 Plan; (vi) cancel or suspend an award, or determine whether an amount or payment of an award should be reduced or eliminated; (vii) determine administrative rules, guidelines, and practices governing the 2012 Plan; and (viii) interpret the provisions of and otherwise supervise the administration of the 2012 Plan.

### *Stock Options*

Stock options granted under the 2012 Plan must be in the form of either incentive stock options (“ISOs”), which meet the requirements of Section 422 of the Code, or nonqualified stock options (“NQSOs”), which do not meet those requirements. The term of a stock option is fixed by the Committee, but may not exceed ten years, and stock options are exercisable at such time or times as determined by the Committee. The exercise price of a stock option cannot be less than the fair market value of the shares on the date of grant, which generally means the last closing price of a share as reported on The Nasdaq Stock Market on the date of the grant. The grantee may pay the stock option exercise price either in cash or such other manner authorized in the 2012 Plan or the applicable award agreement, including the tender of shares. Shares tendered by participants as full or partial payment of the exercise price will not become available for issuance under the 2012 Plan. The 2012 Plan prohibits stock option re-pricing.

*Code Limitations on ISOs*

The Code currently places certain limitations on ISO awards. In addition to the other limitations described in the 2012 Plan, an ISO may only be granted to full or part-time employees (including officers and Directors who are also employees) of the Company. The total fair market value of shares subject to ISOs which are exercisable for the first time by any participant in any given calendar year cannot exceed \$100,000 (valued as of the date of grant). No ISO may be exercisable more than three months following termination of employment for any reason other than death or disability, nor more than one year with respect to disability terminations, or such stock option will no longer qualify as an ISO and shall be treated as an NQSO. ISOs will also be non-transferable in accordance with the provisions of the Code. Additional restrictions apply to the grant of ISOs to holders of in excess of 10% of the Company’s outstanding Common Stock.

### ***Stock Appreciation Rights***

The Committee may grant stock appreciation rights (“SAR”) separately or in connection with a stock option granted under the 2012 Plan. If a grantee exercises a SAR, the grantee will receive an amount equal to the excess of the then-fair market value of the shares with respect to which the SAR is being exercised over the stock option exercise price of the shares, in the case of a SAR in connection with a stock option, or the exercise price of the SAR, in the case of an independent SAR. The SAR exercise price must be at least 100% of the fair market value of the underlying shares on the date of grant, and the term of such SAR may not exceed ten years. Payment may be made in cash, in shares, or in a combination of cash and shares, as the Committee determines. If a SAR granted in connection with a stock option is exercised in whole or in part, the right under the related stock option to purchase shares with respect to which the SAR has been exercised will terminate to the same extent. If a stock option is exercised, any SAR related to the shares purchased upon exercise of the stock option will terminate. To the extent that the number of shares reserved for issuance upon the grant of a SAR exceeds the number actually issued upon exercise of a SAR, such shares will not become available for issuance under the 2012 Plan. The 2012 Plan prohibits SAR repricing.

### ***Restricted Shares and RSUs***

The Committee may grant restricted share awards which consist of shares issued by the Company to a participant for no consideration, or for a purchase price which may be below their fair market value, and are subject to forfeiture in the event of termination of the participant’s employment prior to vesting and subject to restrictions on sale or other transfer by the participant. Unless otherwise determined by the Committee, participants who hold restricted shares have voting rights with respect to the shares and have the right to receive dividend distributions, in cash or shares, payable to the extent the restrictions on the applicable restricted shares lapse. The Committee may also grant restricted share unit awards which are substantially similar to restricted share awards but which generally do not give the participant-holder the rights of a shareholder prior to lapse of the restrictions and, upon such lapse, may be settled in cash, shares, or a combination of both. The Committee may provide for the payment in cash or shares equal to the amount of dividends paid from time to time on the number of shares that would become payable upon vesting of the restricted share unit award. The Committee may provide that restrictions lapse after the passage of time (time-vested), upon certain events (such as death, disability, or retirement) or upon the attainment of specified performance objectives (performance-vested). The Committee may waive any restrictions or accelerate the date or dates on which restrictions lapse except no waiver may apply to a term that is not within the Committee’s discretion to waive under the 2012 Plan.

### ***Performance Based Exception***

The Committee may grant awards in a manner that is intended to qualify for the performance based exception to the deductibility limitations of Section 162(m) and conditioned upon the achievement of performance goals as the Committee shall determine, in its sole discretion. The performance goals shall be based on one or more performance

measures, and the Committee shall specify the time period or periods during which the performance goals must be met. The performance measure(s) may be described in terms of objectives that are related to the individual participant, the Company, or a subsidiary, division, department, region, function, or business unit of the Company, and shall consist of one or more or any combination of the following criteria: cash flow, profit, revenue, stock price, market share, sales, net income, operating income, return ratios, earnings per share, earnings (which may include an add back for taxes, interest, and/or depreciation and amortization), operating earnings, profit margins, earnings per Common Share, favorable comparison to established budgets, return on shareholders' equity, return on assets, attainment of strategic and operational initiatives, comparisons with various stock market indices, reduction in costs or a combination of such factors, personal performance measures, working capital, total assets, net assets, return on sales, return on invested capital, gross margin, costs, shareholders' equity, shareholder return and/or productivity or productivity improvement. Performance goals may be expressed in absolute terms or relative to the performance of other entities or the prior performance of LSI. The Committee may adjust or modify the performance objectives or periods, provided that any such modifications meet the requirements of Section 162(m), to the extent applicable unless the Committee determines that such requirements should not be satisfied. Awards intended to qualify for the performance based exception shall not vest or be paid until the Committee certifies that the performance goals have been achieved.

In accordance with Code Section 162(m) and the regulations under that Section, we are requesting shareholders to reapprove the material terms of the performance measures set forth in the 2012 Plan. Specifically, we are seeking approval of the material terms of the performance measures under the 2012 Plan because under Section 162(m) of the Code, where the Committee has the authority to establish performance goals, shareholder approval of the performance measures is required once every five years. The Board believes that re-approval of the 2012 Plan's performance measures is desirable and necessary to meet the Company's objectives of attracting, motivating and retaining employees, directors and consultants. The performance measures were approved by our shareholders when the Plan was originally adopted in 2012 and have not been changed since then.

### ***Unrestricted Share Awards***

The Committee may grant unrestricted shares on a bonus or other basis for no cash consideration.

### ***Transferability of Awards***

No award is transferable other than by will or the laws of descent and distribution, except the Committee may, in its discretion, provide that an award (other than an ISO) is transferable without consideration to a participant's family member (as defined in the 2012 Plan), subject to such terms and conditions as the Committee may impose. All awards shall be exercisable, during the participant's lifetime, only by the participant or a permitted transferee.

### ***Termination of Employment***

Generally, awards are forfeited upon a participant's termination of employment; however, the 2012 Plan provides that the Committee: (i) may allow a participant to exercise vested stock options or SARs for a period of time after termination, if not terminated for cause; and (ii) has discretion to provide the extent to which, if any, the vesting of any award is accelerated or forfeited due to a participant's death, disability, or retirement, provided that, for awards intended to be performance-based compensation within the meaning of Section 162(m), no vesting may occur or no distribution may be made prior to the attainment of the performance goals, unless otherwise provided by Section 162(m).

### ***Change in Control***

Except as otherwise provided in an award agreement, upon a “change in control” as defined in the 2012 Plan: (i) all outstanding stock options and SARs automatically become fully exercisable; and (ii) all restricted share and restricted share unit awards automatically become fully vested.

***Recoupment Policy***

Awards are subject to forfeiture or repayment pursuant to the terms of any applicable compensation recoupment or recovery policy adopted by the Company, Committee, or Board, including any policy adopted to comply with the rules of any stock exchange on which the shares are traded or the SEC.

***Amendment of 2012 Plan***

The Board may amend, alter, or discontinue the 2012 Plan at any time, provided that any such amendment, alteration, or discontinuance has been approved by the Company’s shareholders, if shareholder approval is required under applicable laws, regulations, or exchange requirements (including for the purpose of qualification under Section 162(m) as “performance-based compensation”), and does not materially and adversely impair the rights of any grantee, without his or her consent, under any award previously granted. The 2012 Plan could be amended without shareholder approval in certain nonmaterial ways that could result in an increased cost to the Company. No Awards shall be made under the 2012 Plan after the tenth anniversary of the effective date.

***Plan Benefits***

The following table discloses the benefits received by the following persons or groups in fiscal 2015. These awards are not necessarily representative of future awards that may be made under the 2012 Plan.

<b>Name and Principal Position</b>	<b>Number of Shares</b>
	<b>Underlying Awards</b>
Dennis W. Wells President and Chief Executive Officer	214,923
Ronald S. Stowell Vice President, Chief Financial Officer and Treasurer	40,000
Shawn M. Toney President of LSI Lighting Solutions	30,000
David W. McCauley President of LSI Graphic Solutions	30,000
Andrew J. Foerster Executive Vice President and Chief Technology Officer	50,000
Named Executive Officers as a Group	364,923
Non-employee Directors as a Group	--
Non-NEO Employees as a Group	364,923

**2. Certain Federal Tax Consequences with Respect to Awards**

The following information is not intended to be a complete discussion of the U.S. federal income tax consequences of participation in the 2012 Plan and is qualified in its entirety by references to the Code and the regulations adopted under the Code. The provisions of the Code described in this section include current tax law only and do not reflect any proposals to revise current tax law. The federal income tax consequences applicable to officers, directors, and other persons who are subject to potential liability under Section 16(b) of the Exchange Act may be different than the federal income tax consequences applicable to persons who are not subject to Section 16(b). The federal income tax consequences applicable to all persons, whether or not subject to Section 16(b), are described below.

***Incentive Stock Options***

Generally, under the Code, an optionee will not realize taxable income by reason of the grant or exercise of an ISO granted pursuant to the 2012 Plan (see, however, discussion of alternative minimum tax below). If an optionee exercises an ISO and does not dispose of the shares until the later of (i) two years from the date the option was granted and (ii) one year from the date of exercise, the entire gain, if any, realized upon disposition of such shares will be taxable to the optionee as long-term capital gain, and LSI will not be entitled to any deduction. If an optionee disposes of the shares within the period of two years from the date of grant or one year from the date of exercise (a “disqualifying disposition”), the optionee generally will realize ordinary income in the year of disposition and LSI will receive a corresponding deduction in an amount equal to the excess of (i) the lesser of (a) the amount, if any, realized on the disposition and (b) the fair market value of the shares on the date the option was exercised over (ii) the option price. Any additional gain realized on the disposition will be short-term or long-term capital gain and any loss will be long-term or short-term capital loss. The optionee will be considered to have disposed of a share if he or she sells, exchanges, makes a gift of or transfers legal title to the share (except transfers, among others, by pledge, on death or to a spouse). If the disposition is by sale or exchange, the optionee’s tax basis will equal the amount paid for the shares plus any ordinary income realized as a result of the disqualifying disposition.

The exercise of an ISO may subject the optionee to the so-called “alternative minimum tax” (“AMT”). The amount by which the fair market value of the shares purchased at the time of the exercise exceeds the option exercise price is an adjustment for purposes of computing the AMT. In the event of a disqualifying disposition of the shares in the same taxable year as exercise of the ISO, no adjustment is then required for purposes of the AMT, but regular income tax, as described above, may result from such disqualifying disposition.

An optionee who surrenders shares as payment of the exercise price of his or her ISO generally will not recognize gain or loss on his or her surrender of such shares. The surrender of shares previously acquired upon exercise of an ISO in payment of the exercise price of another Incentive Stock Option, is, however, a “disposition” of such stock. If the ISO holding period requirements described above have not been satisfied with respect to such stock, such disposition will be a disqualifying disposition that may cause the optionee to recognize ordinary income as discussed above.

Under the Code, all of the shares received by an optionee upon exercise of an ISO by surrendering shares will be subject to the Incentive Stock Option holding period requirements. Of those shares, a number of shares (the “Exchange Shares”) equal to the number of shares surrendered by the optionee will have the same tax basis for capital gains purposes (increased by any ordinary income recognized as a result of a disqualifying disposition of the surrendered shares if they were ISO shares) and the same capital gains holding period as the shares surrendered. For purposes of determining ordinary income upon a subsequent disqualifying disposition of the Exchange Shares, the amount paid for such shares will be deemed to be the fair market value of the shares surrendered. The balance of the shares received by the optionee will have a tax basis (and a deemed purchase price) of zero and a capital gains holding period beginning on the date of exercise. The ISO holding period for all shares will be the same as if the option had been exercised for cash.



### ***Non-Qualified Stock Options***

Generally, there will be no federal income tax consequences to either the optionee or LSI on the grant of NQSO pursuant to the 2012 Plan. On the exercise of a NQSO, the optionee has taxable ordinary income equal to the excess of the fair market value of the shares acquired on the exercise date over the option price of the shares. LSI will be entitled to a federal income tax deduction (subject to the limitations contained in Section 162(m)) in an amount equal to such excess, provided that LSI complies with applicable reporting rules.

Upon the sale of stock acquired by exercise of a NQSO, optionees will realize long-term or short-term capital gain or loss depending upon their holding period for such stock. For individuals, capital losses are deductible only to the extent of capital gains for the year plus \$3,000. An optionee who surrenders shares in payment of the exercise price of a NQSO will not recognize gain or loss with respect to the shares so delivered unless such shares were acquired pursuant to the exercise of an Incentive Stock Option and the delivery of such shares is a disqualifying disposition. See "Incentive Stock Options" above. The optionee will recognize ordinary income on the exercise of the NQSO as described above. Of the shares received in such an exchange, that number of shares equal to the number of shares surrendered have the same tax basis and capital gains holding period as the shares surrendered. The balance of shares received will have a tax basis equal to their fair market value on the date of exercise and the capital gains holding period will begin on the date of exercise.

### ***Stock Appreciation Rights***

A participant who is awarded a SAR will not have taxable income upon the grant of such SAR and LSI will not be entitled to a tax deduction by reason of such grant. Upon the exercise of a SAR, a participant will recognize taxable ordinary income equal to the amount of cash and the fair market value of any shares of common stock received. LSI may generally claim a deduction at that time equal to the amount recognized as ordinary income by the participant.

### ***Restricted Shares and RSUs***

The taxability of a restricted share and restricted share unit awards to a participant is dependent upon the extent to which the award is restricted on the date of grant. If the award is either transferable or not subject to a substantial risk of forfeiture, a participant will recognize taxable ordinary income on the date of grant. If the award is both non-transferable and subject to a substantial risk of forfeiture on the date of grant, then unless an election is made as described below, a participant will not recognize taxable ordinary income on the date of grant, but will at such time or times as an award becomes either transferable or not subject to a substantial risk of forfeiture in an amount equal to the fair market value of such shares at that time. Within thirty days of receipt of an award that is not transferable and subject to a substantial risk of forfeiture, a participant may file an election with the Internal Revenue Service to

include as taxable ordinary income in the year of receipt an amount equal to the fair market value of the shares subject to the award at the time of receipt. In such event, any subsequent appreciation in the value of such shares will not be taxable as compensation to a participant upon the vesting of shares subject to the award. However, if shares subject to the award are forfeited subsequent to such election, a participant will not be entitled to a tax deduction. For purposes of determining the amount of taxable gain or loss upon a subsequent disposition of shares issued pursuant to such an award, the amount of ordinary income to a participant will be treated as the cost basis for such shares. Shares which are held for more than one year after vesting (or in the event of an election as described above, the date of receipt) generally will qualify for long-term capital gain treatment. LSI will be entitled to a deduction in such amount and at such time as ordinary income becomes taxable to the participant.

### ***Application of Section 409A to Deferred Compensation Arrangements***

The 2012 Plan provides that the Committee may permit recipients of Awards to defer the distribution of all or part of any Award in accordance with such terms and conditions as the Committee shall establish. To the extent that a participant makes such a deferral election, Section 409A of the Code, which was enacted as part of the American Jobs Creation Act of 2004, subjects the deferral arrangement to certain substantive requirements including (among other items) deferral election and payment timing requirements. In the event that a deferral arrangement fails to comply with Code Section 409A in form or operation, a participant may become subject to: (i) the imposition of Federal income tax on all amounts deferred in the tax year in which the amounts are deferred (or, if later, in the tax year when the receipt of the benefits are no longer subject to a substantial risk of forfeiture); (ii) a penalty tax of 20 percent of the includable amount (in addition to the regular income tax at ordinary income rates); and (iii) interest at the underpayment rate plus 1 percent from the time the amount was first deferred (or, if later, the tax year when the benefits are no longer subject to a substantial risk of forfeiture) until the time the amount is included in income.

### ***Withholding of Tax; Company Deduction***

Generally, whenever a participant realizes ordinary income under the 2012 Plan, a corresponding deduction is available to LSI provided LSI complies with certain reporting requirements. Under Section 162(m), however, LSI will be denied a deduction for certain compensation exceeding \$1,000,000 paid to its “covered employees,” who generally are the Chief Executive Officer and the three other highest-paid executives (excluding the CEO and CFO), excluding (among other things) certain performance-based compensation.

LSI is entitled to withhold, or secure payment from a participant in lieu of withholding, the amount of any tax required by law to be withheld or paid by LSI with respect to any amount payable or shares issuable under a participant’s award.

### ***Conclusion***

The foregoing summarizes the U.S. federal income tax consequences, and does not include a discussion of state and local income tax or foreign tax consequences of participation in the 2012 Plan. Participants are encouraged to consult their own tax advisors regarding the federal, state and local tax consequences in their particular circumstances and with respect to their particular awards.

### **Recommendation of the Board of Directors**

The Board of Directors recommends a vote “FOR” Proposal 3. The affirmative vote of a majority of Common Shares voting at the Annual Meeting is required for approval of this proposal.

**Proposal 4. Advisory Vote on Executive Compensation**

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd Act”), enacted in July 2010, provides LSI Industries’ shareholders the opportunity at the Annual Meeting to vote on an advisory resolution on our executive compensation package, commonly known as “Say-on-Pay,” to approve, on a non-binding, advisory basis, the compensation of the Company’s named executive officers, as described in the “Executive Compensation” section beginning on page 14. Because your vote is advisory, it will not be binding upon the Compensation Committee or the Board of Directors; however, the Compensation Committee and the Board will take the outcome of the vote into account when considering future executive compensation arrangements.

Our Compensation Committee is committed to creating an executive compensation program that enables us to attract and retain a superior management team that has targeted incentives to build long-term value for our shareholders. The Company’s compensation package utilizes a mixture of cash and equity awards to align executive compensation with our annual and long-term performance. These programs reflect the Committee’s philosophy that executive compensation should provide greater rewards for superior performance, as well as accountability for underperformance. At the same time, we believe our programs do not encourage excessive risk-taking by management. The Board believes that our philosophy and practices have resulted in executive compensation decisions that are appropriate and that have benefited the Company over time.

For these reasons, the Board requests our shareholders approve the compensation of the Company’s named executive officers as described in this Proxy Statement pursuant to SEC disclosure rules, including the Compensation Discussion and Analysis, the executive compensation tables and the related footnotes and narrative accompanying the tables.

**Recommendation of the Board of Directors**

The Board of Directors recommends a vote FOR Proposal 4. The Board of Directors will give due consideration to the outcome of this non-binding, advisory vote.

**Other Matters**

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

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**MANAGEMENT****Directors and Executive Officers**

Directors and executive officers of LSI Industries are:

Name and Age	Position	Common Shares			
		Beneficially Owned Amount		Percentage	
Dennis W. Wells (54)	Chief Executive Officer and President; Director	52,396	(e)	*	
Ronald S. Stowell (65)	Vice President, Chief Financial Officer and Treasurer	291,012	(e)	1.15	%
Shawn M. Toney (47)	President of the LSI Lighting Segment	56,101	(e)	*	
David W. McCauley (66)	President of the LSI Graphics Segment and President of Grady McCauley Inc.	194,739	(e)	*	
Andrew J. Foerster (56)	Executive Vice President and Chief Technology Officer	1,676		*	
Paul T. Foster (63)	Executive Vice President - LSI Business System; Secretary	7,801		*	
James P. Sferra (76) (a)	Director	578,383	(e)	2.28	%
Gary P. Kreider (77) (a)	Chairman	53,481	(e)	*	
Wilfred T. O'Gara (58) (a)(b)(c)(d)	Director	51,300	(e)	*	
Mark A. Serrienne (68) (b)(c)(d)	Director	49,773	(e)	*	
Dennis B. Meyer (81) (b)(c)(d)	Director	49,362	(e)	*	
Robert P. Beech (62) (b)(c)(d)	Director	13,945		*	
All Directors and Executive Officers as a Group (Twelve Persons)		1,399,969	(e)	5.53	%

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Information as of September 15, 2015

- (a) Executive Committee Member
- (b) Compensation Committee Member
- (c) Audit Committee Member
- (d) Nominating and Corporate Governance Committee Member

Includes options exercisable within 60 days as follows: Mr. Wells of 43,750 shares; Mr. Stowell of 207,000 (e) shares; Mr. Toney of 43,189 shares; Mr. McCauley of 155,000 shares; Mr. O’Gara of 26,500 shares; Mr. Kreider of 26,500 shares; Mr. Meyer of 26,500 shares; and Mr. Serrienne of 26,500 shares.

\* Less than 1%

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Dennis W. Wells is Chief Executive Officer and President. He was appointed Chief Operating Officer on October 1, 2014 and promoted to CEO on October 22, 2014. He was appointed President on October 29, 2014. Prior to his service with LSI, Mr. Wells served as the Chief Operating Officer of Glantz Dynamic Solutions, a privately-owned supplier of digital signage supplies and a division of N. Glantz & Son LLC, since 2013. Prior to that, Mr. Wells served as Chief Operating Officer of Fulham, Inc., a privately-owned global manufacturer and supplier of lighting solutions, from 2010 to 2013. Prior to that, Mr. Wells served as a Vice President and General Manager at Acuity Brands Lighting, Inc.

James P. Sferra shared in the formation of the Company and has been a Director since 1976. Mr. Sferra has served as Corporate Vice President of Manufacturing from November 1989 to November 1992, and as Executive Vice President-Manufacturing from November 1992 to March 2015. Prior to that, he served as Vice President-Manufacturing of LSI Lighting Systems, a division of the Company. In 1996 he was appointed Secretary of the Company and served in that capacity until March 2015. The Board believes that Mr. Sferra is uniquely qualified to sit on the Board given his long-standing tenure with the Company and his familiarity with the integral manufacturing component of its operations.

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), headquartered in Chardon, Ohio, a manufacturer of high performance composite and engineered plastics products.

Shawn M. Toney has served as President of the LSI Lighting Segment since August 2014 and as Senior Vice President of LSI Lighting Sales since joining LSI in June 2009. Prior to that, some of the positions held by Mr. Toney were as Vice President of Sales at Cooper Lighting from 2006 to 2009, Business Unit Manager at Siemens from 2001 to 2006 and as Market Development Manager at General Electric Lighting from 1998 to 2001. Mr. Toney is the nephew of Ronald S. Stowell.

David W. McCauley, who notified the Company of his retirement effective in October 2015, has served as President of the LSI Graphics Segment 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.

Andrew J. Foerster is the Company's Chief Technology Officer. He was appointed Executive Vice President and Chief Technology Officer effective March 2, 2015. From 2010 to 2015, Mr. Foerster served as Residential and Wiring Devices Division Engineering Director at Eaton Corporation. Before his service with Eaton, Mr. Foerster held various positions with Creative Energy Control LLC, Masco Technical Innovations, Piller Inc., Schneider Electric (Square D Company) and General Electric. Mr. Foerster began his career as a nuclear submarine officer in the U.S. Navy.



Paul T. Foster joined LSI on February 9, 2015 as Executive Vice President of LSI Business System and was appointed Secretary of LSI Industries in March 2015. Mr. Foster is responsible for the Lean Integration and Human Resources Department. Prior to joining the Company, Mr. Foster served as Vice President Product Development and Vice President Supply Chain for Fulham Company, Inc. from 2010-2015. Prior to Fulham, Mr. Foster held the position of Vice President Sourcing for Acuity Brands Lighting from 1998-2008.

Robert P. Beech has been a Director since July 2013. Mr. Beech has been engaged as Entrepreneur-in-Residence for biosciences at CincyTechUSA since 2013. From 2004 through 2012 he was a senior executive at Intrexon Corporation, when it was a privately held biotechnology company based in Maryland. Prior to 2003, he was CEO of Diginer, Inc., an international healthcare IT software and services company he founded in 1986 and led until 2002. The Board believes that Mr. Beech's substantial experience leading high-technology ventures as a CEO or senior corporate executive qualify him to serve on the Board, as well as the Audit, Compensation, and Nominating and Corporate Governance Committees.

Gary P. Kreider has been a Director since April 2002 and was elected Chairman in November 2014. For over five years Mr. Kreider has been a senior partner in the Cincinnati law firm of Keating Muething & Klekamp PLL, 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. Effective October 1, 2005 Mr. Kreider no longer has a vote or partnership interest in the firm's earnings although his affiliation with the firm continues. Mr. Kreider has been an Adjunct Professor of Law in securities regulation at the University of Cincinnati College of Law since 1977 and is a past Chairman of the Ohio State Bar Association Corporation Law Committee. The Board believes that Mr. Kreider's legal experience as a prominent corporate and securities practitioner and his corporate and public-company board experience make him well qualified to sit on the Board, which must deal with the myriad issues presented by virtue of the Company being publicly-traded.

Dennis B. Meyer has been a Director since August 2001. Mr. Meyer retired from the Board and Executive Committee of Midmark Corporation in January 2005. 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. The Board believes that Mr. Meyer's breadth of knowledge and experience in the areas of business development and corporate strategy, as well as his status as an independent director, make his service on the Board, as well as the Audit, Compensation, and Nominating and Corporate Governance Committees, extremely beneficial to the Company.

Wilfred T. O'Gara has been a Director since January 1999. Mr. O'Gara has been the President and Chief Executive Officer of The O'Gara Group, Inc., a security and defense related firm, since 2003. Mr. O'Gara has been identified as an "audit committee financial expert" under SEC guidelines given his understanding of accounting and financial reporting, disclosures and controls. The Board believes that Mr. O'Gara's independence from management, experience as a successful principal executive and his designation as an audit committee financial expert make his service integral to the Board as well as to the Audit, Compensation, and Nominating and Corporate Governance Committees given the frequency with which these bodies must deal with complex matters.

Mark A. Serrienne has been a Director since August 2004. Mr. Serrienne retired as Chairman of Northlich, Inc. September 30, 2008 and was principal owner and Chief Executive Officer of Northlich from 1998 to January, 2008. Northlich is a privately held brand strategy, 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. The Board believes that Mr. Serrienne's insight into the high-level corporate governance, executive compensation and business management issues, gained through experience at various levels of corporate management, and his status as an independent director, qualify him to serve on the Board, as well as the Audit, Compensation, and Nominating and Corporate Governance Committees. Mr. Serrienne is also the Lead Director of the Company's Board of Directors.

### **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 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 2014 all filing requirements were met except as follows: Shawn Toney filed a report on September 2, 2014 for one transaction that occurred on August 22, 2014 and one transaction that occurred on August 25, 2014 and Robert Ready filed a report on February 13, 2015 for one transaction that occurred on February 4, 2015.

### **EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

This section discusses and analyzes the compensation awarded to, earned by, or paid to the executive officers set forth in the Summary Compensation Table on page 21 (collectively, the “named executive officers” or “NEOs”). It also discusses the principles underlying our policies and decisions.

*Who oversees the Company’s compensation program?*

Our Board of Directors has appointed a Compensation Committee comprised of independent Directors to oversee our compensation policies and programs. The Committee’s functions and members are described beginning on page 33. One important purpose of the Committee is to review and approve the compensation of our NEOs.

Our CEO provides recommendations to the Committee with respect to various components of compensation for the named executive officers. After careful review, our CEO provided to the Compensation Committee a recommendation to increase the base salaries of the NEOs, depending on the particular NEO, in the range of 0% to 6%. Our CEO did not provide any recommendation to the Committee with respect to his salary level.

Our CEO also makes recommendations to the Committee with respect to the bonus payments to be made pursuant to the Company's Incentive Compensation Plan. A description of this Incentive Plan and a discussion of the Committee's process for determining payments pursuant to the Incentive Plan are discussed below. Our CEO also makes recommendations for all NEOs, including himself, to the Committee with respect to the amount of stock option awards to be made. Our CEO makes these recommendations based on his consideration of the compensation expense to the Company, the fair value of the equity awards and the performance of LSI and individual NEO contributions toward such performance. Our CEO also makes recommendations on bonus amounts for all NEOs and himself based on the specific base guidelines set forth in the Incentive Plan.

The Committee seriously considers the input of our CEO in connection with its compensation processes and decisions. Although the Committee is not obligated to follow all of the CEO's recommendations, the Committee views the input of the CEO as meaningful, particularly with respect to the compensation to be paid to other NEOs as such other NEOs report directly to the CEO. The Committee believes that the CEO is in the best position to provide input relating to the performance and compensation issues it considers with respect to NEO compensation. NEOs other than our CEO do not provide recommendations to the Committee with respect to compensation matters.

*What are the objectives of the Company's compensation program?*

In setting our compensation program, the Committee strives to enhance the Company's overall fundamental objective of providing long-term value for our shareholders and employees. The Committee also places major emphasis on retaining current management and incentivizing key managers to align their interests to make them consistent with the Company's growth. The Committee believes that the interests of management and shareholders can be more closely aligned by providing executives with competitive levels of compensation that will enable us to attract and retain key executives by rewarding exceptional individual performance, and by tying executive pay to overall corporate performance.

At our 2014 Annual Shareholders' Meeting, LSI held an advisory vote on the compensation of its NEOs, commonly referred to as a say-on-pay vote. Our shareholders overwhelmingly approved the compensation of our named executive officers, with over 95% of votes cast in favor of our 2014 say-on-pay resolution. Based on the results of the 2014 say-on-pay vote, the Compensation Committee concluded that the compensation paid to the named executive officers and LSI's overall pay practices received strong shareholder support and do not require substantial revision to address shareholder concerns.

*What is the compensation program designed to reward?*

Our compensation program is designed to reward both Company and individual performance, measured by overall Company results and the attainment of individual's goals and productivity. Each year our Compensation Committee decides whether or not to grant annual cash incentives to our corporate officers, including the NEOs. While the Committee retains significant discretion with respect to awarding annual cash incentives, these annual cash incentives are designed to reward the attainment throughout the year of certain personal goals, as well as the Company's overall profitability which can be based on results achieved by the business as a whole and/or the extent to which performance targets are achieved for each of the Company's business locations and segments. Factors evaluated when analyzing the attainment of personal goals include the officer's attitude, performance, and contribution to the Company's profitability and success. With respect to the Company's overall profitability, the primary measures considered by the Committee for fiscal 2015 performance included the results of the Company's business as a whole, especially the further reduction in costs and expenses, including its business locations and segments.

*What are the elements of compensation?*

The table below summarizes the elements of our compensation program for our named executive officers.

<b>Element</b>	<b>Form of Compensation</b>	<b>Purpose</b>	<b>Risk Profile</b>
<b>Base Salaries</b>	Cash	Provide competitive, fixed compensation to attract and retain exceptional executive talent	Low to Moderate
<b>Annual Cash Incentives</b>	Cash	Provides a direct financial incentive to achieve corporate and individual operating goals	Moderate to High
<b>Long-Term Equity Incentives</b>	Incentive Stock Options, nonqualified stock options, restricted stock and stock appreciation rights	Encourages executive officers to build and maintain a long-term equity ownership position in LSI so that their interests are aligned with our shareholders	High
<b>Health, Retirement and Other Benefits</b>	Eligibility to participate in benefit plans generally available to our employees, including Retirement Plan contributions, premiums paid on long-term disability and life insurance policies; nonqualified deferred compensation plan; and certain perquisites	Benefit plans are part of a broad-based employee benefits program; the nonqualified deferred compensation plan and perquisites provide competitive benefits to our executive officers	Low

Each of these elements of pay is described below in further detail.

The Committee has reviewed the risk profile of the pay elements of the Company's executive compensation program, including the performance drivers used in connection with incentive awards, and has considered the risks an NEO might be incentivized to take with respect to such elements. When establishing the mix among these elements, the Committee is careful not to encourage excessive risk taking. Specifically, the performance drivers contained in the Company's executive compensation programs have been balanced between annual and long-term incentive compensation to ensure that both components are aligned and consistent with our long-term business plan and that our overall mix of equity-based awards has been allocated to promote an appropriate combination of incentive and retention objectives.

The Committee believes that the Company's executive compensation program does not incentivize the NEOs to engage in business activities or other behavior that would threaten the value of the Company or the investments of its shareholders.

The Committee continues to monitor and evaluate on an on-going basis the mix of compensation, especially equity compensation, awarded to the named executive officers, and the extent to which such compensation aligns the interests of the NEOs with those of our shareholders. In connection with this practice, the Committee has, from time

to time, reconsidered the structure of the Company's executive compensation program and the relative weighting of various elements of pay. Please refer to our discussion under "Pay Mix" beginning on page 20.

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### Role of the Compensation Consultant

Under its charter, the Compensation Committee is authorized to engage outside advisors at the Company's expense. In fiscal 2015, the Compensation Committee engaged the compensation consulting firm of Pay Governance LLC ("Pay Governance") to act as the Committee's independent compensation consultant to assist the Committee with ensuring that the designs of the Company's executive compensation programs are strongly aligned with Company performance. The Committee assessed the independence of Pay Governance and concluded that no conflict of interest existed that would prevent Pay Governance from providing independent advice to the Committee regarding executive compensation matters. Pay Governance delivered to the Committee and the Chief Executive Officer of the Company advisory reports that benchmarked the annual base salaries and other elements of total compensation of the Company's NEOs. Additionally, Pay Governance provided advice to the Committee and the Chief Executive Officer of the Company as to the structure, content and performance goals of both the fiscal 2015 and fiscal 2016 STIP (short term incentive plan – cash bonus) and the fiscal 2016 LTIP (long-term incentive plan – stock compensation) for the Company's NEOs.

### Base Salaries

The Compensation Committee annually reviews the base salaries of our named executive officers and each such officer's level of responsibility and potential, as well as salary levels offered by competitors and the overall marketplace competition. Each executive's particular division is reviewed, and its contribution to the overall results of the Company is assessed.

The Committee applies a collective, subjective evaluation of the above factors to determine the annual base compensation level of its named executive officers in light of the Company's performance and, in certain cases, the performance of various divisions. The Committee does not utilize a particular objective formula as a means of establishing annual base salary levels.

After considering industry-wide and company-specific economic conditions, the Committee attempts to assess whether recommendations with respect to salary levels for NEOs are subjectively fair and in amounts high enough to retain such NEOs.

At its meeting on August 19, 2015, the Compensation Committee increased the annual base salaries of the NEOs in a range of 0% to 7%, effective September 1, 2015, which is in line with the wage and salary increases approved for substantially all LSI employees effective September 7, 2014.



Annual Cash Incentives

The Compensation Committee strongly believes that annual cash incentives provide a direct financial incentive to achieve corporate and individual operating goals.

At a meeting on December 5, 2014 the Compensation Committee approved the Fiscal 2015 Incentive Compensation Plan for Named Executive Officers (the “2015 Incentive Plan”). The 2015 Incentive Plan provides for cash bonus awards to the Company’s named executive officers that are driven by the achievement of defined key performance indicators which reflect LSI’s operating results. A graduated scale of bonus potential stated as a percentage of base salary is identified at indicated levels of achievement of key performance indicators. The primary performance indicator is the Company’s operating income. Ten percent of the bonus potential for a named executive officer is discretionary and to be determined by subjective measures. The 2015 Incentive Plan does not apply to Dennis W. Wells, LSI’s Chief Executive Officer and President.

At its meeting on August 19, 2015 the Compensation Committee awarded cash bonuses to the NEOs for fiscal year 2015 as set forth in the Bonus column in the Summary Compensation Table on page 21. The bonuses to all NEOs other than Mr. Wells were made in accordance with Mr. Wells’ recommendations under the 2015 Incentive Plan. Mr. Wells’ bonus for fiscal year 2015 was granted in accordance with the terms of his employment agreement.

Effective July 1, 2015, the Compensation Committee adopted the Fiscal 2016 Short Term Incentive Plan (the “2016 STIP”). The 2016 STIP provides for cash bonus awards to the Company’s named executive officers that are keyed to the attainment of the Company’s 2016 Business Plan goals for sales and operating income.

For the NEOs, the bonus consists of two performance indicators for fiscal year 2016. The first, weighted at 30%, is based on attainment of a company-wide sales target. The second, weighted at 70%, is based on attainment of a company-wide operating income target.

A graduated scale of bonus potential stated as a percentage of base salary is identified below at indicated levels of achievement of key performance indicators:

90% Target Achievement- 17%

100% Target Achievement- 25%

110% Target Achievement- 35%

120% Target Achievement- 45%

150% Target Achievement- 65%

#### Long-Term Equity Incentives

Long-term equity incentive compensation is comprised of nonqualified stock options, restricted stock, and stock appreciation rights. These awards are made under the 2012 Stock Incentive Plan. The purpose of such awards is to encourage executive officers to build and maintain a long-term equity ownership position in the Company so that their interests are aligned with those of our shareholders.

The 2012 Stock Incentive Plan was adopted by our shareholders for the purpose of allowing LSI to compete successfully in retaining and attracting key employees and Directors of outstanding ability, to stimulate the efforts of such persons toward the Company's objectives and to encourage the identification of their interests with those of the Company's shareholders. Under the 2012 Stock Incentive Plan, the Committee has authority in its discretion to determine, after considering the recommendations or advice of any officer or employee of the Company or attorneys, consultants, accountants or other advisors as it may select, to whom, and the time or times at which, awards may be granted, the number of shares, units or other rights subject to each award, the exercise, base or purchase price of an award (if any), the time or times at which an award will become vested, exercisable or payable, the performance goals and other conditions of an award, the duration of the award, and all other terms of the award. In other words, the Committee has the discretion to determine the recipients and terms and conditions of all awards granted under the 2012 Stock Incentive Plan. This broad amount of discretion that the 2012 Stock Incentive Plan provides to the Committee allows the Committee to consider the Company's results and the role of management in enabling the Company to achieve such results. We incorporate this flexibility into our compensation programs and in the assessment process to respond to and adjust for the evolving business environment.

In connection with the stock options granted to the NEOs, the Committee exercised its discretion after it reviewed information relating to historical grants of stock options by the Company. In recognition of the Company's performance under the leadership of the NEOs as described above, the Committee sought to reward the NEOs by

awarding them stock options in an amount that would be significant in relation to the other annual compensation paid to these individuals, and in the Committee's judgment, reasonable and appropriate after considering the NEO's total compensation in relation to that of the most senior executives of companies in similar industries identified in reports prepared for the Committee. Although the Committee considers the compensation of such peer group companies' senior executives, they do not benchmark a particular percentile for the total compensation of our NEOs or for any component thereof. The size of the award was not determined by application of any formula, but rather reflected the Committee's desire to encourage and reward high levels of performance.

The Committee is responsible for administration of the 2012 Stock Incentive Plan, both with respect to executive officers, including the NEOs, the Directors and all other employees. To that end, based on the CEO's recommendation, the Committee determines which employees and Directors receive options, the time of grant, and the number of shares subject to the option. All option exercise prices are set at the last closing sale price for the Company's Common Shares on the effective date of grant. The Committee bases its individual stock options awards upon LSI performance, the past contributions of the particular employee and the capability of the employee to impact positively our future success and profitability. Although LSI does not have a written policy regarding the timing or practices related to granting equity awards, neither LSI nor the Committee engages in spring-loading, back-dating or bullet-dodging practices.

Effective July 1, 2015, the Compensation Committee adopted the Fiscal 2016 Long Term Incentive Plan for Named Executive Officers (the "2016 LTIP"). The 2016 LTIP provides for the issuance of share based awards to named executive officers of the Company pursuant to the 2012 Stock Incentive Plan. Pursuant to the 2016 LTIP effective July 1, 2015 the Committee awarded to executive officers service-based stock options, service-based restricted stock units and performance-based stock options as follows:

<b><u>Executive</u></b>	<b><u>Type of Award</u></b>	<b><u>Number of Shares Underlying Award</u></b>
Dennis W. Wells	Service-Based Stock Options	45,000
Dennis W. Wells	RSUs Performance-Based	10,000
Dennis W. Wells	Stock Options	90,000
Ronald S. Stowell	Service-Based Stock Options	40,000
Ronald S. Stowell	RSUs Performance-Based	5,000
Ronald S. Stowell	Stock Options	60,000
David W. McCauley	Service-Based Stock Options	30,000
David W. McCauley	RSUs Performance-Based	5,000
David W. McCauley	Stock Options	10,000
Shawn M. Toney	Service-Based Stock Options	30,000
Shawn M. Toney	RSUs Performance-Based	5,000
Shawn M. Toney	Stock Options	60,000
Andrew J. Foerster	Service-Based Stock Options	30,000
Andrew J. Foerster	RSUs Performance-Based	5,000
Andrew J. Foerster	Stock Options	50,000

The service-based stock options and RSUs vest ratably over a four year time period. The performance-based stock options vest based upon the attainment of the Company's adjusted operating income goals established for the 2016 fiscal year in 33.33% increments. Assuming the Company's adjusted operating income goal for that year is achieved, the first 33.33% will vest after the end of the 2016 fiscal year; the second 33.33% will vest after the end of the 2017 fiscal year; and the third 33.33% will vest after the end of the 2018 fiscal year. The service-based stock options and performance-based stock options each have a ten year exercise term.

#### Recovery of Prior Awards

Except as provided by applicable laws and regulations, we do not have a policy with respect to adjustment or recovery of awards or payments if relevant company performance measures upon which previous awards were based are restated or otherwise adjusted in a manner that would reduce the size of such award or payment. Under those

circumstances, we expect that the Compensation Committee and the Board would evaluate whether compensation adjustments were appropriate based upon the facts and circumstances surrounding the applicable restatement or adjustment.

### Health, Retirement and Other Benefits

The Company's benefits program includes retirement plans and group insurance plans. The objective of our group insurance plans is to provide our executive officers with reasonable and competitive levels of protection which could interrupt the officer's employment and/or income received as an active employee.

The objective of the retirement plans is to provide a competitive level of retirement income to executive officers and to reward them for continued service with the Company. The retirement plans offered to named executive officers include the Nonqualified Deferred Compensation Plan and the Retirement Plan. The Retirement Plan is a designated money purchase pension plan with a 401(k) component and a profit sharing component, and is generally available to all of our non-union employees with at least six consecutive months of employment. The Nonqualified Deferred Compensation Plan is discussed in more detail on page 25.

Executive perquisites are kept by the Committee to a minimal level and do not play a significant role in executive compensation. These benefits, and their incremental cost to the Company, are described in the All Other Compensation Table and its footnotes. The Committee believes these perquisites to be reasonable, comparable with peer companies, and consistent with the Company's overall compensation practices.

On January 25, 2005, the Company entered into amended agreements with the Company founders, Robert J. Ready and James P. Sferra. These agreements govern the respective executive's transition from full-time employment at such time as the executive notifies the Company that the transition shall commence. Mr. Ready's 18 month transition began October 22, 2014 and was in effect until his death in March 2015. Mr. Sferra's 36 month transition began March 2, 2015. The agreements provide, among other things, that as compensation for their continued employment during an 18 to 36 month transitional period, those executives shall be paid for their respective services in each year at annual rates of 60%, 50% and 40%, respectively, of the average of their respective last five full fiscal years' compensation. Mr. Sferra's agreement is described further on page 28.

### Pay Mix

We believe that each element of our compensation program plays a substantial role in maximizing long-term value for our shareholders and employees because of the significant emphasis on pay-for-performance principles. As a result, a portion of an NEO's total 2015 compensation was dependent upon achieving business and financial goals, and realizing other performance objectives identified in the Incentive Plan. As such, through this mix of pay, non-performance has a significant affect on the amount of compensation realized by executive officers.

While we did not engage in any such analysis in fiscal 2015, from time to time we have considered competitive market compensation paid by other companies, such as greater-Cincinnati based companies and companies that we consider to be peers or competitors, but we do not attempt to maintain a certain target percentile within these groups or otherwise rely on those data to determine executive compensation. Rather, we review benchmark studies from time to time and incorporate flexibility into our compensation programs and in the assessment process to respond to and adjust for the evolving business environment. We strive to achieve an appropriate mix between equity incentive awards and cash payment in order to meet our objective. Other than as set forth in our Incentive Compensation Plan, any apportionment goal is not applied rigidly and does not control our compensation decisions. We use it as another tool to assess an executive's total pay opportunities and whether we have provided the appropriate incentives to accomplish our compensation objectives. Our mix of compensation elements is designed to reward recent results and motivate long-term performance through a combination of cash and equity incentive awards. We also seek to balance compensation elements that are based on financial, operational and strategic metrics with others that are based on the performance of LSI shares. We believe the most important indicator of whether our compensation objectives are being met is our ability to motivate our named executive officers to deliver superior performance and retain them to continue their careers with LSI on a cost-effective basis.

### Termination or Change-in-Control Agreements

Effective October 3, 2011, our Board of Directors approved and adopted the LSI Industries Inc. Change in Control Policy (the "CIC Policy"), applicable to all of the NEOs, and the purpose of which is to help diminish any potential distraction and encourage the NEOs to act in the best interests of LSI's shareholders in the event of a change in control transaction. LSI also has an agreement with Mr. Sferra. For a further discussion on this topic, please see the section titled "Potential Payments Upon Termination or Change in Control" beginning on page 26.

### Internal Pay Equity

Although the Committee does not review tally sheets, it does consider information prepared internally with respect to an analysis of internal pay equity for the salaries of the named executive officers with respect to each other.

Tax Treatments

Section 162(m) of the Internal Revenue Code places a limit of \$1,000,000 on the amount of compensation we may deduct in any one year with respect to certain executive officers. There is an exception to the \$1,000,000 limitation for performance-based compensation meeting certain requirements. The Committee believes that all compensation paid to such executive officers is properly deductible under Section 162(m), but no assurance can be made in this regard.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on these reviews and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Proxy Statement on Schedule 14A.

Members of the Compensation Committee: Dennis B. Meyer (Chairman)  
Robert P. Beech  
Wilfred T. O'Gara  
Mark A. Serrienne

The following tables set forth information regarding annual, long-term, and other compensation paid by the Company to its Chief Executive Officer, Chief Financial Officer and each of the other four named executive officers at June 30, 2015 for services rendered to the Company and its subsidiaries.

### Compensation Tables and Other Information

The following table provides information regarding the compensation earned by our Chief Executive Officer, Chief Financial Officer and our three other most highly compensated executive officers during fiscal years 2013 to 2015.

#### SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Salary (\$) (1) (5)	Bonus (\$) (2)	Stock Awards (\$)	Option Awards (\$) (3)	Non-Equity Incentive and Plan Compensation (\$)	Change in Pension Value	All Other Compensation (\$) (4)	Total (\$)
							Deferred Compensation Earnings (\$)		
Dennis W. Wells Chief Executive Officer and President	2015	\$362,500	\$552,500	\$ --	\$607,063	\$ --	\$ --	\$ 13,355	\$1,535,418
	2014	--	--	--	--	--	--	--	--
	2013	--	--	--	--	--	--	--	--
Ronald S. Stowell Vice President, Chief Financial	2015	\$352,000	\$77,581	\$ --	\$137,928	\$ --	\$ --	\$ 79,742	\$647,251
	2014	349,408	--	--	--	--	--	--	--