LSI INDUSTRIES INC
Form DEF 14A
September 29, 2017

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:

(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined)

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.
Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of this filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Notice of Annual Meeting of Shareholders

and Proxy Statement

September 29, 2017

Dear Shareholder:

We invite you to attend our Annual Meeting of Shareholders on Thursday, November 16, 2017, at 11:00 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 16, 2017

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS OF

LSI INDUSTRIES INC.

Time:

11:00 a.m., Eastern Standard Time

Date:

Thursday, November 16, 2017

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 2018
- Conduct an advisory vote on executive compensation
- Conduct an advisory vote on the frequency of future advisory votes on executive compensation

• Conduct other business if properly raised

Only shareholders of record on September 18, 2017 may vote at the meeting. The approximate mailing date of the Proxy Statement and accompanying proxy card is September 29, 2017.

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

/s/ Howard E. Japlon

Howard E Japlon

Executive Vice President, Human Resources and General Counsel; Secretary

September 29, 2017

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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) 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, 2017, 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.

Howard E. Japlon

Secretary

Executive Vice President, Human Resources and General Counsel

10000 Alliance Road

Cincinnati, Ohio 45242

LSI INDUSTRIES INC.

10000 Alliance Road

Cincinnati, Ohio 45242

(513) 793-3200

P R O X Y S T A T E M E N T

Annual Meeting of Shareholders

November 16, 2017

INTRODUCTION

The Board of Directors of LSI Industries Inc. is requesting your proxy for the Annual Meeting of Shareholders on November 16, 2017, and at any postponement or adjournment of such meeting. This Proxy Statement and the accompanying proxy card were first mailed on September 29, 2017 to shareholders of record as of September 18, 2017.

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 Howard E. Japlon) 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 (Approval, on a non-binding advisory basis, of the executive compensation program), and "FOR" Proposal 4 (Approval, on a non-binding advisory basis, of a one year frequency for future advisory votes on executive compensation).

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 will be adopted only if it receives approval by a majority of the Common Shares voting at the Annual Meeting. Since Proposals 3 and 4 on executive compensation and the frequency of future votes on executive compensation are each advisory votes, the Board of Directors will give due consideration to the outcomes of each vote; however, these votes will 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, as 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 you as 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 18, 2017, the record date for determining shareholders entitled to notice of and to vote at the Annual Meeting, LSI had 25,535,362 Common Shares outstanding. Each share is entitled to one vote. Only shareholders of record at the close of business on September 18, 2017, 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.

<u>Principal Shareholders</u>

As of September 15, 2017, 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
Royce & Associates LLC 1414 Avenue of the Americas, 9th Floor New York, NY 10019-2578	2,027,469	7.62%
Dimensional Fund Advisors LP Palisades West, Building One 6300 Bee Cave Road Austin, TX 78746	1,827,862	6.87%
Chartwell Investment Partners, LLC 1235 Westlakes Drive – 400 Berwyn, PA 19312	1,561,283	5.87%
Blackrock Fund Advisors 400 Howard Street	1,533,084	5.76%

San Francisco, CA 94105

Shareholder Proposals

Shareholders who desire to have proposals included in the Notice for the 2018 Annual Meeting of Shareholders must submit their proposals to the Company at its offices on or before June 1, 2018.

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 2018 Annual Shareholders' Meeting, it must be received prior to August 15, 2018. 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 SEC filings.

Proposal 1. Election of Directors

In accordance with the Company's Regulations each Director is elected for a one-year term. The terms of the Company's Directors expire at the 2017 Annual Meeting of Shareholders.

The Nominating and Corporate Governance Committee of the Board has nominated for reelection seven Directors: Robert P. Beech, Gary P. Kreider, John K. Morgan, Wilfred T. O'Gara, James P. Sferra, Robert A. Steele 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. If any of the nominees become unable to serve, proxies will be voted for any substitute nominee designated by the Board.

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 2018. 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 2018.

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, 2016 and 2017 were as follows:

	2016	2017
Audit fees	$629,400	$879,500
Audit-related fees	24,200	101,225
Tax fees	64,150	61,050
All other fees	4,900	4,900
Total fees	$722,650	$1,046,675

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 represent fees for 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 on 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. Advisory Vote on Executive Compensation

The Dodd-Frank Wall Street Reform and Consumer Protection 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 program, commonly known as "Say-on-Pay," as described in the "Executive Compensation" section beginning on page . Since 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 with 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. This program reflects 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 program does 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 3. The Board of Directors will give due consideration to the outcome of this non-binding advisory vote.

Proposal 4. Advisory Vote on Frequency of Future Advisory Votes on Executive Compensation

The Dodd-Frank Act also provides LSI Industries' shareholders the opportunity at the Annual Meeting to cast a non-binding advisory vote on the frequency of future "Say-on-Pay" votes, such as Proposal 3, indicating a preference for such votes either to be held every one, two or three years. Since your vote is advisory, it will not be binding upon the Board; however, the Compensation Committee or the Board of Directors will take the outcome of the vote into account when determining the frequency of future Say-on-Pay votes.

After discussion, the Board has concluded that an advisory vote every year on executive compensation would be the most suitable for LSI based on a number of considerations, including:

- Our compensation program is designed in part, to induce and reward performance over a short-term period, and the Board believes that a shareholder vote on executive compensation should occur over a similar time frame.
- The Board and the Compensation Committee believe that an annual vote allows shareholders to engage with the Company in an on-going dialogue surrounding executive compensation matters.

For these reasons, we believe that the analysis and recommendations from our shareholders and their proxy advisors will be more effective and valuable if the vote is held every year. However, shareholders should note that the Board of Directors and the Compensation Committee must have sufficient time to implement any changes to our executive compensation policies and procedures in response to the shareholder advisory votes and that, following any such changes, investors will require a period of time to evaluate the effectiveness of our compensation programs and the related business results.

This vote is advisory and not binding on the Company or our Board in any way. The Board and the Compensation Committee will carefully review the voting results and take such results into account in determining the frequency of future advisory votes on executive compensation. Notwithstanding the Board's recommendation and the outcome of the shareholder vote, the Board may in the future decide to conduct advisory votes on a more or less frequent basis and may vary its practice based on factors such as discussions with shareholders and the adoption of material changes to compensation programs.

Shareholders may cast a vote on the preferred voting frequency by selecting the option of every one year, two years, or three years (or abstain) when voting in response to this Proposal 4.

Recommendation of the Board of Directors

The Board of Directors recommends a vote on Proposal 4 for a ONE YEAR frequency for future advisory votes on executive compensation. The advisory vote on the frequency of future advisory votes on executive compensation (every one, two, or three years) is a plurality vote, and we will consider shareholders to have expressed a non-binding preference for the frequency option that receives the most favorable votes. Abstentions will have the same effect as not expressing a preference.

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 entitled to vote at the meeting.

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 (56) (a)	Chief Executive Officer and President; Director	322,128	(e)	1.21	%
James E. Galeese (60)	Executive Vice President and Chief Financial Officer	35,049		*	
Ronald S. Stowell (67)	Chief Financial Officer Emeritus and Treasurer	365,945	(e)	1.38	%
Shawn M. Toney (49)	President of the LSI Lighting Segment	158,351	(e)(f)	*	
Jeff A. Croskey (45)	President of the LSI Graphics Segment	56,942	(e)	*	
Andrew J. Foerster (58)	Executive Vice President and Chief Technology Officer	111,413	(e)	*	
Paul T. Foster (65)	Executive Vice President – Specialty Operations	96,057	(e)	*	
Jeffery S. Bastian (57)	Vice President and Chief Accounting Officer	74,704	(e)	*	
Howard E. Japlon (65)	Executive Vice President - Human Resources and General Counsel; Secretary	18,500		*	
James P. Sferra (78)	Director	311,697	(e)	1.17	%
Gary P. Kreider (79) (a)	Chairman, Director	50,309	(e)	*	
Wilfred T. O'Gara (60) (a)(b)(c)(d)	Director	54,287	(e)	*	
John K. Morgan (63) (b)	Director	10,221		*	
Robert P. Beech (64) (b)(c)(d)	Director	23,432		*	

Robert A. Steele (62) (c)(d)	Director	6,193	*
All Directors and Executive Officers as a Group (Fifteen Persons)		1,695,228 (e)	6.37 %

Information as of September 18, 2017

(a) Executive Committee Member
(b) Compensation Committee Member

(c) Audit Committee Member
(d) Nominating and Corporate Governance Committee Member
(e) Includes options exercisable within 60 days of September 15, 2017 as follows: Mr. Wells of 204,662 shares; Mr. Stowell of 255,000 shares; Mr. Toney of 130,689 shares; Mr. Croskey of 42,500 shares; Mr. Foerster of 80,833 shares; Mr. Foster of 63,333 shares; Mr. Bastian of 64,153 shares; Mr. O'Gara of 20,000 shares; and Mr. Kreider of 20,000 shares.
(f) Mr. Toney's employment with the Company terminated on August 15, 2017.
* Less than 1%

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. Mr. Wells was appointed to the LSI Board in August 2015. 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 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 at Acuity Brands Lighting, Inc. and Schneider Electric.

James E. Galeese was appointed Executive Vice President and Chief Financial Officer of the Company effective June 12, 2017. Mr. Galeese, from 2014 to June 2017, served as Vice President, Chief Financial Officer, and a Director of privately held Universal Trailer Holding Corporation (manufacturer of trailers for the hauling requirements of businesses and individuals). He was with Philips Electronics NV from 1998 to 2014 as Senior Vice President and Chief Financial Officer for its North American Lighting business and its Electronics business. Prior to that Mr. Galeese served in the financial Controllership organization of Square D Company / Schneider Electric. He graduated from Miami University with a degree in Business Administration and obtained an MBA from Xavier University.

Ronald S. Stowell has served as Chief Financial Officer from December 1992 to June 2017, at which time he was appointed Chief Financial Officer Emeritus. He was appointed Treasurer in November 1993 and Vice President in November 1997. From 1985 to November 1992, Mr. Stowell served as Corporate Controller of Essef Corporation (a NASDAQ listed company), headquartered in Chardon, Ohio, a manufacturer of high performance composite and engineered plastics products.

Shawn M. Toney served as President of the LSI Lighting Segment from August 2014 to August 2017 and as Senior Vice President of LSI Lighting Sales since June 2009. Mr. Toney is the nephew of Ronald S. Stowell. Mr. Toney's employment with the Company terminated on August 15, 2017.

Jeff A. Croskey has served as President of the LSI Graphics Segment since October 2015 when he joined the Company. Prior to that, he was Vice President and General Manager of Creative Sign Designs of Tampa, Florida from

February 2010 to October 2015. Previous employers include Image International Corp., McNicholas Company, and The Goodyear Tire & Rubber Company.

Andrew J. Foerster 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.

Howard E. Japlon was appointed Executive Vice President, Human Resources and General Counsel effective March 13, 2017. He was also appointed Secretary of the Company effective April 26, 2017. Prior to joining LSI, Mr. Japlon served as Vice President, General Counsel & Secretary of ACE Hardware Corporation from May 2013 to March 2017. Prior thereto he served as Vice President & General Counsel of RG Steel, LLC from April 2011 to December 2012 and as Sr. Vice President and General Counsel of Schneider Electric Americas. Mr. Japlon received his undergraduate degree from Fordham University, New York City and a J.D. from the University of Illinois College of Law, Champaign - Urbana.

Jeffery S. Bastian was appointed Vice President and Chief Accounting Officer effective June 13, 2017. He had been Vice President and Corporate Controller since 2004. During Mr. Bastian’s 28-year tenure with the Company, he has assumed increasing levels of responsibility in the Accounting and Controllership functional areas. Mr. Bastian is a Certified Public Accountant and started his career with Touche Ross & Company.

Paul T. Foster joined LSI on February 9, 2015 as Executive Vice President of LSI Business System and served as Secretary of LSI Industries from March 2015 to April 2017. Mr. Foster was previously responsible for the Company's Lean Integration activities and for its Human Resources Department. He is currently responsible for the Company's foreign sourcing activities and distribution strategy. Prior to joining the Company, Mr. Foster served as Vice President Product Development and Vice President Supply Chain for Fulham Company, Inc. from 2010 to 2015. Prior to Fulham, Mr. Foster held the position of Vice President Sourcing for Acuity Brands Lighting from 1998 to 2008.

Robert P. Beech has been a Director since July 2013. Mr. Beech is currently the Executive Chairman of Eccrine Systems, Inc., a privately held, Cincinnati-based biotechnology company that he co-founded in 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 Digineer, 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 had been a senior partner in the Cincinnati law firm of Keating Muething & Klekamp PLL, the Company's outside counsel. He is now retired from Keating Muething & Klekamp PLL. His primary practice areas were securities law, mergers and acquisitions, and general corporate law, and he had been with Keating Muething & Klekamp since 1963. Effective October 1, 2005 Mr. Kreider no longer had a vote or partnership interest in the firm's earnings although his affiliation with the firm continues. Mr. Kreider's present activities consist of personal investing, serving as trustee of various trusts and as a director of LSI. He has also served as an adjunct professor of law in securities regulations at the University of Cincinnati, College of Law 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 serve on the Board, which must deal with the myriad issues presented by virtue of the Company being publicly-traded.

John K. Morgan has been a Director of the Company since April 20, 2016. Mr. Morgan served as the Chairman, President and Chief Executive Officer of Zep Inc., a specialty chemicals company, from October 2007 until his retirement in June 2015. From July 2007 to October 2007, he served as Executive Vice President of Acuity Brands and President and Chief Executive Officer of Acuity Specialty Products, just prior to its spin-off from Acuity Brands, Inc. From 2005 to July 2007, he served as President and Chief Executive Officer of Acuity Brands Lighting. He also served Acuity Brands as President and Chief Development Officer from 2004 to 2005, as Senior Executive Vice President and Chief Operating Officer from 2002 to 2004, and as Executive Vice President from 2001 to 2002. Mr. Morgan has served on the Board of Directors of Wesco International, a provider of electrical, industrial, and communications MRO and OEM products, construction materials, and advanced supply chain management and logistics services, since 2008 and is currently the Chairman of Wesco's Compensation Committee. The Board believes that Mr. Morgan's insight and experience with corporate governance, executive compensation, business and operating management issues, gained through experience at various levels of corporate management and on boards, and his status as an independent director, qualify him to serve on the Board, as well as the Compensation Committee.

Wilfred T. O'Gara has been a Director since January 1999. Mr. O'Gara has been Chief Executive Officer of Isoclima SpA, a company that makes transparent armor and other specialized glass and polycarbonate products, since 2017. Mr. O'Gara was the President and Chief Executive Officer of The O'Gara Group, Inc., a security and defense related firm, from 2003 to 2017. 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.

James P. Sferra shared in the formation of the Company and has been a Director since 1976. Mr. Sferra 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 serve on the Board given his long-standing tenure with the Company and his familiarity with the integral manufacturing component of its operations.

Robert A. Steele has been a Director since July 18, 2016. Mr. Steele retired from Procter & Gamble in 2011 as the company's Vice Chairman Health Care. During his 35-year tenure with Procter & Gamble, he served in a variety of executive leadership positions, including Vice Chairman Global Health and Well-being, Group President Global Household Care, and Group President of North American Operations. Mr. Steele has served on the board of Berry Plastics Group since 2014, where he is a member of its Nominating & Corporate Governance Committee. Mr. Steele was previously a member of the Board of Directors of Beam Inc., Keurig Green Mountain and Kellogg Company. The Board believes that Mr. Steele's insight and experience with corporate governance, leadership and operating experience in a public company, and his status as an independent director qualify him to serve on the 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 Form 5 was required for those persons, the Company believes that during fiscal 2017 all filing requirements were met except that a Form 4 was filed late by three business days by Robert Steele with respect to the acquisition of 920 shares.

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 18 (collectively, the "named executive officers" or "NEOs"). It also discusses the principles underlying our policies and decisions.

Executive Summary

In spite of difficult market conditions and inflationary pressures, fiscal 2017 represented a year of significant progress for LSI. We continued to invest in our LED Lighting portfolio and Digital Signage business with positive results. Our lean efforts are providing meaningful savings, although masked by a soft market and significant inflation. We completed the highly- strategic acquisition of Atlas Lighting Products, broadening our scope into the stock and flow portion of the market. Our targeted internal investments are also generating sales growth in important, fast growing segments.

Key performance highlights for fiscal 2017:

- Net sales in fiscal 2017 were $331,392,000, an increase of 3% as compared to last year's net sales of $322,196,000.
- Fiscal 2017 net income of $3,000,000, or $0.12 per share, decreased 68% from fiscal 2016 net income of $9,482,000, or $0.37 per share. Earnings per share represents diluted earnings per share.

As a result of challenging financial performance results for fiscal 2017, and to demonstrate our commitment to pay-for-performance alignment, our CEO’s annual cash incentive was down 76% from last fiscal year. Our other NEOs saw decreases to their annual cash incentive payouts of between 54% and 69%. In addition, the performance-based stock options issued in fiscal 2017 were forfeited due to the Company’s failure to achieve the minimum performance goals. To continue to show alignment with shareholders, there were no base salary increases for fiscal year 2018 due to fiscal year 2017 performance.

Overview of the Company's Executive Compensation Philosophy and Design

Our pay-for-performance philosophy is designed to compensate executives for their contributions toward achieving the Company's operating and business goals. Through the use of base salary, annual cash incentives, and long-term equity incentives (in the form of stock options and restricted stock units) we seek to attract and retain skilled and experienced senior executives. Our compensation program is intended to align the economic interests of our executive officers with those of our shareholders.

Who oversees the Company's compensation program?

The Compensation Committee oversees our total compensation philosophy, compensation programs, equity incentive plan, and is responsible for reviewing and approving, or recommending that the Board approve, all components of our executive compensation program. New executive compensation plans and programs must be approved by the full Board based on recommendations made by the Compensation Committee. The Compensation Committee reviews and recommends the compensation of our Chief Executive Officer, and our independent directors, acting as a group, approve the amounts to be awarded to him. After considering the assessment and recommendation of the Chief Executive Officer, the Compensation Committee determines and approves the compensation of all other named executive officers.

Our Chief Executive Officer annually reviews the performance of the other named executive officers, after which the Chief Executive Officer presents his conclusions and recommendations to the Compensation Committee for approval. The Compensation Committee has absolute discretion as to whether it approves the recommendations of the Chief Executive Officer or makes adjustments, as it deems appropriate. The Chief Executive Officer may also work with the Compensation Committee to gather and compile data needed for benchmarking purposes or for other analysis conducted by the Compensation Committee's independent consultants and advisors.

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 establishing the fiscal year 2017 compensation program. 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 metrics of the fiscal 2017 STIP (short term incentive plan – cash bonus) and the fiscal 2017 LTIP (long-term incentive plan – stock compensation) for the Company's NEOs.

In March 2017, the Compensation Committee retained Frederic W. Cook & Co., Inc. ("FW Cook"), an independent compensation consulting firm, to provide advice on executive compensation matters, including the types and levels of executive compensation and the competitiveness of our compensation programs as compared to our competitors for executive talent. FW Cook reports directly to the Compensation Committee and interacts with management at the Compensation Committee's direction. The Compensation Committee and its chairperson have regular opportunities to meet with FW Cook in executive sessions without management present. The Compensation Committee considered the independence of FW Cook in light of current SEC rules and NASDAQ listing standards and concluded that no conflict of interest exists that would prevent FW Cook from independently advising the Compensation Committee.

What are the results of last year's say-on-pay vote?

At our 2016 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 supported the compensation of our named executive officers, with over 96% of votes cast in favor of our 2016 say-on-pay resolution. Our Compensation Committee considered this high level of stockholder support when determining the compensation for fiscal 2017, and decided not to make any significant changes to the structure of our compensation program. The Committee concluded that the Company's compensation program should continue to emphasize the performance, alignment and retention objectives of the Company.

How does the Compensation Committee evaluate and update LSI's executive compensation philosophy and structure?

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 emphasis on retaining current management and incentivizing key managers to align their interests to make them consistent with the Company's strategies. 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.

The Compensation Committee reviews competitive data for comparable executive positions in the market. External market data is used by the Compensation Committee as a point of reference in its executive pay decisions in conjunction with financial and individual performance data. In considering the competitive environment, the Committee reviews compensation information disclosed by a peer group of comparatively sized companies with which we compete for business and executive talent and information derived from published survey data that compares the elements of each executive officer's target total direct compensation to the market information for executives with similar roles. The Committee's independent compensation consultant compiles this information for the Committee and size-adjusts the published survey data to reflect our revenue size in relation to the survey participants to more accurately reflect the scope of responsibility for each executive officer.

The Compensation Committee's prior compensation consultant, Pay Governance, worked with the Committee to develop a peer group of public companies of similar size and in the same or a similar industry for purposes of executive compensation pay benchmarking. The peer group companies, which operate in similar or related industries, or which serve similar primary markets or which are comparable in size to LSI, consisted of the following companies:

AAON Inc.

Ameresco, Inc.

AZZ Inc.

Communications Systems Inc.

Continental Materials Corp.

Daktronics Inc.

Lighting Science Group Corp.

Littelfuse Inc.

Maxwell Technologies, Inc.

Orion Energy Systems, Inc.

Planar Systems Inc.

Power Integrations Inc.

Powell Industries, Inc.

PowerSecure International

Pulse Electronics Corp.

Revolution Lighting Technologies

Universal Display Corp.

Vicor Corp.

The Compensation Committee, with input from its current independent compensation consultant FW Cook selected a new peer group for fiscal 2018. The peer companies were selected primarily based upon the following criteria: (i) similar business operations/industry/competitors for investor capital, (ii) sales and market capitalization between approximately 1/3 and 3 times our sales and market capitalization, and (iii) competitors for executive talent. For fiscal 2018 compensation purposes, our peer group consisted of the following 18 companies:

AAON Inc.
Ameresco, Inc.
Broadwind Energy Inc.
CECO Environmental Corp.
Continental Materials Corp.
CPI Aerostructures, Inc.
CTS Corporation
Daktronics, Inc.
Eastern Company
Encore Wire Corporation
Gorman-Rupp Company
Handy & Harman Ltd.
Key Tronic Corporation
Napco Security Technologies, Inc.
PGI Innovations, Inc.
Powell Industries, Inc.
Revolution Lighting Technologies, Inc.
Trex Company Inc.

Today, the compensation program consists of four elements: a competitive salary benchmarked against a peer group as well as industry reference companies; a short-term incentive plan tied to the Company's annual financial performance results and the employee's personal performance; a long-term incentive plan utilizing equity in various forms; and customary benefits. The overall program is designed to reward executives with above-market pay for results which exceed established goals and objectives. The annual short-term incentive plan rewards the achievement of corporate and business segment results with metrics that include revenue and profitability. The long-term equity plan consists of a blend of service-based equity (stock options and restricted stock units), as well as performance-based equity (stock options for which the vesting is contingent on meeting pre-established performance goals). Equity compensation is designed to reward performance and encourage stock ownership by management. The company does not offer any meaningful executive perquisites or benefits, other than customary benefits provided to all employees. There are no tax gross-up provisions as part of the compensation structure.

Adjustments to base salaries are generally made as appropriate after a review of competitive benchmarks and based on Company and individual performance. The short-term incentive plan is designed to reward performance while mitigating compensation associated risks.

What are some of the practices we have implemented to serve our shareholders' long-term interests?

Below we summarize certain executive compensation program and governance practices – both the practices we have implemented to drive performance and the practices we avoid because we do not believe they would serve our shareholders' long-term interests.

What LSI Does

Pays for performance. A significant portion of executive pay is not guaranteed, but rather is at-risk and tied to the achievement of various performance metrics that are disclosed to shareholders.

Sets NEO salary guidelines on an annual basis. The Company generally considers NEO salaries as part of its annual performance review process in an effort to be responsive to industry trends

Balances short-term and long-term incentives. The incentive programs provide an appropriate balance of annual and longer-term incentives, with long term incentive compensation comprising a substantial percentage of target total compensation.

Uses multiple performance metrics. These mitigate the risk of the undue influence of a single metric by utilizing multiple performance measures for annual incentive awards and multi-year vesting for long-term incentive awards.

Caps award payouts. Cash incentive payouts under the short-term incentive plan are capped at 200% of target.

Uses market-based approach for determining NEO target pay. Target compensation for NEOs is set after consideration of market data at peer companies and other market references

Maintains stock ownership and retention guidelines for all NEOs. Beginning with fiscal 2017 grants, LSI's equity grants, including both stock options and restricted stock awards, are subject to a one year holding period upon exercise. LSI also maintains stock ownership guidelines for its directors and NEOs.

Conducts a risk assessment. The Committee annually conducts a compensation risk assessment to determine whether the compensation policies and practices, or components thereof, create risks that are reasonably likely to have a material adverse effect on the Company.

Acts through an independent Compensation Committee. The Committee consists entirely of independent directors and retains an independent compensation advisor.

What LSI Does Not Do

No excise tax gross-up payments. The Company will not enter into any new contractual agreements that include excise tax gross-up payments.

No repriced options. The Company has never repriced or otherwise reduced the per-share exercise price of any outstanding stock options. Repricing of stock options is not permitted under the 2012 Stock Incentive Plan without first obtaining approval from the stockholders of the Company. The Company and the Committee will not reprice underwater options without the consent of the Company's stockholders.

No pledging or hedging of shares. The Company's insider trading policy places restrictions on the Company's directors and executive officers regarding entering into hedging transactions with respect to the Company's securities and from holding the Company's securities in margin accounts or otherwise pledging such securities as collateral for loans. Pledging or hedging transactions are permitted only in very limited circumstances. No directors or executive officers have in place any pledges or hedging transactions.

No special perquisites to executives. The Company does not provide executives with programs that are not made available to all Company employees, except in extremely limited circumstances.

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 goals. Each year our Compensation Committee decides whether or not to grant annual cash incentives to our corporate officers, including the NEOs. The Committee retains significant discretion with respect to awarding annual cash incentives. However, these annual cash incentives are designed to reward the attainment throughout the year of certain personal goals, as well as the Company's financial goals. These goals can be based on results achieved by the Company as a whole and/or results achieved by each of the Company's business segments.

What are the elements of compensation?

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

Element	Form of Compensation	Purpose
Base Salaries	Cash	Provide competitive, fixed compensation to attract and retain exceptional executive talent.
Annual Cash Incentives	Cash	Provides a direct financial incentive to achieve corporate and individual operating goals.
Long-Term Equity	Stock Options (both time-vested options and performance-based options), and Restricted Stock	Encourages executive officers to build and maintain a long-term equity ownership position

Incentives	Units	in LSI so that their interests are aligned with our shareholders. A portion of the awards are only earned if certain performance conditions are achieved.
Health, Retirement and Other Benefits	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

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

The Committee reviews 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 considers 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 program 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 might threaten the value of the Company or the investments of its shareholders.

The Committee continues to monitor and evaluate on a regular basis the mix of compensation, especially equity compensation, awarded to the NEOs, 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" on page 17.

<u>Base Salary</u>

The Compensation Committee reviews the base salary of the NEOs and each such officer's level of responsibility and potential, as well as base salary levels offered by competitors and the overall marketplace. Each executive officer's particular business segment is reviewed (if applicable), 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 salary level of its NEOs in light of the Company's performance and, in certain cases, the performance of its business segments. The Committee does not utilize a particular objective formula as a means of establishing annual base salary levels.

For fiscal 2017, the Compensation Committee increased the annual base salaries of the NEOs in a range of 2% to 6.5%, which was in line with increases approved for substantially all LSI non-union employees.

The Compensation Committee did not increase the base salaries of the NEOs for fiscal 2018, electing to maintain the NEO base salaries at the levels that were in effect during fiscal 2017 in light of actual fiscal 2017 results.

Annual Cash Incentive (STIP)

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

Effective July 1, 2016, the Compensation Committee approved the Fiscal 2017 Short Term Incentive Plan for NEOs (the “2017 STIP”). The 2017 STIP provides for cash bonus awards to the Company’s NEOs that are driven by the achievement of defined key performance indicators which reflect LSI’s operating results. The performance indicators for the 2017 STIP are the Company’s operating income (70% weighting) and the Company’s net sales (30% weighting). A graduated scale of bonus potential stated as a percentage of base salary is identified at indicated levels of achievement of key performance indicators.

Target	NEOs	CEO
75% Target Achievement	14 %	25 %
100% Target Achievement	30 %	95 %
130% Target Achievement	60 %	190 %

The target performance goal for the operating income component was $19.7 million. The company delivered operating income of $3.6 million which was below the 75% threshold level of performance needed to earn any incentive. No bonuses were paid for this component.

The target performance goal for the net sales component was $341.0 million. The company delivered adjusted net sales of $313.6 million which was below target but above the 75% threshold level of performance. Corporate participants earned a payout reflective of 92% achievement of this component of the 2017 STIP.

Based on the financial performance of the Company, the Compensation Committee approved cash bonuses to the NEOs for fiscal year 2017 as set forth in the Bonus column in the Summary Compensation Table on page 18.

The Compensation Committee adopted the Fiscal Year 2018 Short Term Incentive Plan for NEOs (the “2018 STIP”). The 2018 STIP provides for cash bonus awards to the Company’s NEOs that are keyed to the attainment of the Company’s 2018 Business Plan goals. For the NEOs, the bonus consists of two performance indicators for fiscal year 2018, the Company’s net sales and the Company’s operating income, each weighted for fiscal year 2018 at 50%. This represents a change from fiscal year 2017 to place greater emphasis on the sales growth component (i.e., weight is increased from 30% to 50% of total incentive opportunity).

A revised fiscal year 2018 graduated scale of bonus potential stated as a percentage of base salary is identified below at indicated levels of achievement of key performance indicators:

	Threshold 75% Plan Achievement	Target 100% Plan Achievement	Maximum 130% Plan Achievement
CEO	50.0 %	100.0 %	200.0 %
Other NEOs	20.0 %	40.0 %	80.0 %

The new bonus potentials for fiscal year 2018 reflect increases to the target payout at 100% of plan achievement as well as an increase to the CEO of 50% of target payout for threshold performance achievement (the prior fiscal year

2017 plan paid out at 25% of target for threshold performance). The maximum incentive payouts remain unchanged from fiscal 2017 at 200% of target for all NEOs.

Long-Term Equity Incentive (LTIP)

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 the 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.

In connection with the equity awards granted to the NEOs, the Committee exercised its discretion after it reviewed information relating to historical grants of equity awards 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 equity awards 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. 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, the Committee determines which employees and Directors receive equity awards, the date of grant, the vesting and/or performance conditions of the grant, and the number of shares awarded. All option exercise prices are set at the last closing sale price for the Company's Common Shares on the effective date of the 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 re-pricing, spring-loading, back-dating or bullet-dodging practices.

Effective July 1, 2016, the Compensation Committee adopted the Fiscal 2017 Long Term Incentive Plan for Named Executive Officers (the "2017 LTIP").

The 2017 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 2017 LTIP the Committee awarded to executive officers service-based stock options, service-based restricted stock units and performance-based stock options as follows:

Fiscal 2017 Stock Compensation

Executive	**Type of Award**	**Number of Shares Underlying Award**
Dennis W. Wells	Service-Based Stock Options	125,963
Dennis W. Wells	RSUs	36,210
Dennis W. Wells	Performance-Based Stock Options	60,000
Ronald S. Stowell	Service-Based Stock Options	40,000
Ronald S. Stowell	RSUs	6,000
Ronald S. Stowell	Performance-Based Stock Options	50,000
Jeff A. Croskey	Service-Based Stock Options	30,000
Jeff A. Croskey	RSUs	6,000
Jeff A. Croskey	Performance-Based Stock Options	50,000
Shawn M. Toney	Service-Based Stock Options	30,000
Shawn M. Toney	RSUs	6,000
Shawn M. Toney	Performance-Based Stock Options	50,000
Andrew J. Foerster	Service-Based Stock Options	30,000
Andrew J. Foerster	RSUs	5,500
Andrew J. Foerster	Performance-Based Stock Options	40,000
James E. Galeese	Service-Based Stock Options	60,000

Mr. Galeese joined the company on June 12, 2017 and was issued 60,000 service-based stock options at the time of hire. He did not receive any additional equity awards for fiscal 2017.

The service-based stock options and RSUs vest ratably over a four year time period. The performance criteria for the fiscal 2017 performance-based stock options are based upon the fiscal 2017 financial plan approved by the Board of Directors. The fiscal 2017 performance goal was the achievement of operating income as a percentage of net sales of 5.8%. The performance-based stock options are earned in accordance with the following goal attainment schedule:

95-100% attainment	100% earned
90-94% attainment	90% earned
85-89% attainment	80% earned

The performance-based stock options that are earned vest over a three year period in 33.33% increments. Assuming the Company's operating income goal for that year is achieved, the first 33.33% will vest after the end of fiscal year 2017; the second 33.33% will vest after the end of fiscal year 2018; and the third 33.33% will vest after the end of fiscal year 2019. All stock options granted have a ten year exercise term.

Operating income, which excludes the positive and negative effects of extraordinary developments such as acquisitions, is a non-GAAP financial measure and a key measure of performance for our performance-based stock options. We believe that this measure is useful as a supplemental measure in assessing the operating performance of our business. This measure is used by our management to evaluate business results. We exclude such developments because they are not representative of the ongoing results of operations of our business.

The performance goal for the performance-based stock options was not achieved in fiscal 2017. Consequently, all performance-based stock options granted were forfeited. Included in the equity awards listed in the preceding table are additional equity awards granted to the CEO to reflect his contributions to the Company and overall performance. On February 24, 2017, Mr. Wells was granted 65,963 service-based stock options and 24,510 RSUs. The service-based stock options vest on the third anniversary of their grant date. The RSUs vest ratably over a four-year time period.

Effective