

LSI INDUSTRIES INC.
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS
CHARTER
As Revised August 11, 2004

I. PURPOSE

The Board of Directors has established this Audit Committee Charter to specify the functions and authority of the Audit Committee. The primary function of the Committee is to oversee the accounting and financial reporting process of the Company and the audit of its financial statements and perform those other functions outlined in this Charter.

The Audit Committee shall:

- Be directly responsible for the employment, compensation, retention and oversight of the independent certified public accountants engaged to prepare an audit report or to perform other audit, review or attestation services for the Company.
- Serve as an independent and objective party to monitor the Company's financial reporting process and internal control system.
- Review and appraise the audit efforts of the Company's independent certified public accountants and internal auditor.
- Provide an open avenue of communication among the independent certified public accountants, financial and senior management, internal auditor, and the Board of Directors.
- Engage on its own authority and at the expense of the Company, independent counsel and other advisors as deemed necessary by the Committee to assist it in satisfying the duties and responsibilities set forth in this Charter and incur, at the expense of the Company, ordinary administrative expenses that are necessary or appropriate in carrying out its duties.

II. COMPOSITION

The Audit Committee shall be comprised of three or more directors each of whom shall meet the independence and financial literacy requirements of The Nasdaq Stock Market and Section 10A of the Securities Exchange Act of 1934. At least one member shall be a financial expert as defined under the United States Securities and Exchange Commission rules.

The members of the Committee shall be elected by the Board at the annual organizational meeting of the Board and serve until their successors shall be duly elected and qualified. Unless a Chair is elected by the Board, the members of the Committee shall designate a Chair.

III. MEETINGS

The Committee shall meet at least four times annually, and more frequently as circumstances dictate. As part of its job to foster open communication, the Committee should meet at least annually with management, the internal auditor, the chief financial officer and the independent certified public accountants in separate executive sessions to discuss any matters that the Committee or any of these groups believe should be discussed independently. In addition, the Committee or at least its Chair should meet with the independent certified public accountants and management quarterly to review the Company's financial statements and disclosures prior to the quarterly reports being filed with the Securities and Exchange Commission. The Committee shall maintain minutes of its meetings and activities.

IV. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties the Audit Committee shall:

Documents/Reports Review

1. Review and update this Charter annually.
2. Review the Company's annual financial statements, press releases, and any reports or other financial information submitted to the Securities and Exchange Commission or to the public, including any certification, report, opinion, or review rendered by the independent certified public accountants. This information should be sent to the Committee at least 24 hours before release.

Independent Certified Public Accountants

3. Have a clear understanding with the Company's independent certified public accountants that they are ultimately accountable to the Committee, as representatives of this Company's shareholders. As such, the Committee has the ultimate authority to select, evaluate, compensate and, where appropriate, replace the independent certified public accountants.
4. On an annual basis, ensure the receipt from the independent certified public accountants of their formal written statement delineating all relationships between them and the Company. The Committee shall, as appropriate, also discuss with the independent certified public accountants any undisclosed relationships or non-accounting services rendered to the Company or any of its affiliates that could impact the objectivity and independence of the independent certified public accountants, and take, or recommend that the Board take, appropriate action to oversee the independence of the independent certified public accountants.
5. Review the most recent report of the Public Company Accounting Oversight Board of its examination of the Company's independent certified public accountants.

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6. Ensure that the lead audit partner of the Company's independent certified public accountants and the audit partner responsible for reviewing the audit are rotated at least every five years.
7. Pre-approve all audit and non-audit services and their accompanying fees to be performed by the Company's independent certified public accountants. The Committee may delegate this function to a Committee member between meetings with a reporting obligation to the full Committee.
8. Ensure disclosure in the Company's periodic reports filed with the SEC, of any non-audit services approved to be performed by the Company's independent certified public accountants.
9. Determine whether the provision of non-audit services by the Company's independent certified public accountants is compatible with maintaining their independence.
10. Periodically consult with the independent certified public accountants out of the presence of management about internal controls, the fullness and accuracy of the Company's financial statements, and the adequacy/capability of financial staff given the business and changes in operations.
11. Review with the independent certified public accountants and the internal auditor efforts related to the coordination of audit work to assure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.

Internal Audit

12. Review and approve internal audit's charter, budget and staffing plans.
13. Review internal audit's annual risk assessment and audit plans, including significant changes in plan scope and internal audit coverage.
14. Receive and discuss periodic reports of significant internal audit findings and follow-up actions.
15. Periodically assess the effectiveness of the Company's internal audit function and its compliance with the Institute of Internal Audit (II) Standards for the Practice of Internal Auditing.
16. Periodically review the internal audit function and recommend any changes in the internal audit position.

Financial Reporting Processes

17. Meet with the independent certified public accountants and the appropriate Company financial staff to approve the plan and the scope of each audit prior to commencement of each audit process.

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18. In consultation with the independent certified public accountants and the internal auditors review the integrity of the Company's financial reporting processes, both internal and external.
19. Consider the independent certified public accountants' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.
20. Advise financial management and the independent certified public accountants that they are expected to provide a timely analysis of significant current financial reporting issues and practices. Consider and approve, if appropriate, major changes to the Company's auditing and accounting principles and practices as suggested by the independent certified public accountants, management, or internal auditor.
21. Continue the process of reporting to the Committee by each of management and the independent certified public accountants regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.
22. Review, at least annually, a report from the independent certified public accountants regarding any material risk areas, critical accounting policies and practices, alternative treatments with financial information within GAAP discussed with management, ramifications of the use of alternative disclosures, the treatment preferred by the independent certified public accountants in each instance, management letters and other communications.

Process Improvement

23. Following completion of the annual audit, review separately with each of management and the independent certified public accountants any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
24. Resolve any disagreement among management and the independent certified public accountants in connection with the preparation of the financial statements.
25. Consider and review with the independent certified public accountants and the internal auditor:
 - a) The adequacy of the Company's internal controls including computerized information system controls and security.
 - b) Related findings and recommendations of the independent certified public accountants and the coordinator of any internal audit efforts together with management's responses.
26. Review with the independent certified public accountants, the internal auditor and management the extent to which changes or improvements in financial or accounting

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practices, as approved by the Committee, have been implemented. This review should be conducted at an appropriate time after implementation of changes or improvements, as decided by the Committee. Review specifically all repeat audit points and recommendations not implemented from prior audits.

Employee Concern Procedures

27. Establish and maintain procedures for the receipt, retention and treatment of concerns received by the Company from employees or others regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or internal control matters.

Related-Party Transactions

28. Review and approve, if appropriate, all related-party transactions. A related party transaction is one which the Company would be required to disclose in its annual Proxy Statement pursuant to SEC Regulation S-K, Item 404.

Ethical and Legal Compliance

29. Keep current the Company's Code of Ethics and Conduct and work to ensure that management has established a system to enforce this Code.
30. Review management's monitoring of the Company's compliance with its Code of Ethics and Conduct and insure that management has the proper review system in place to insure that the Company's financial statements, reports and other financial information disseminated to governmental organizations, and the public satisfy legal requirements.
31. Review with the Company's counsel, legal compliance matters including, without limitation, corporate securities trading.
32. Review with the Company's counsel, any legal or regulatory matter that could have a significant impact on the Company's financial statements.
33. Perform any other activities consistent with this Charter, the Company's Code of Regulations and governing law, as the Committee or the Board deems necessary or appropriate.
34. Recommend to the Company whether the audited financial statements should be included in the annual Form 10-K report for submission to the Securities and Exchange Commission.
35. Prepare a report of the Audit Committee for transmission to shareholders through the annual Proxy Statement.
36. Review the processes utilized by management in presenting certifications concerning the financial statements to the Securities and Exchange Commission.

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37. Review policies and procedures with respect to officers' expense accounts and perquisites, including their use of corporate assets and requests from the independent accountants as to all loans or extensions of credit by the Company to its officers.

Nasdaq Stock Market Certification

Review and approve the Company's required Nasdaq Stock Market certification related to the Audit Committee

V. EFFECTIVE DATE

The effective date of this Audit Committee Charter is _____, 2004. This charter may be amended from time to time by the LSI Industries Inc. Board of Directors.

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