DAKTRONICS INC /SD/
Form 10-K/A
June 17, 2010

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

FORM 10-K/A
(Amendment No. 1)

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

For the Fiscal Year Ended May 1, 2010
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITES EXCHANGE ACT OF 1934

For the Transition Period From ___ to ___.
Commission File Number: 0-23246
Daktronics, Inc.
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| South Dakota<br>(State or other jurisdiction of incorporation or organization) | 46-0306862<br>(I.R.S. Employer Identification No.) |
| 201 Daktronics Drive<br>Brookings SD<br>(Address of principal executive offices) | 57006<br>(Zip Code) |

(605) 692-0200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, No Par Value | NASDAQ Global Select Market |
| Preferred Stock Purchase Rights | NASDAQ Global Select Market |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) . Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company.) Smaller reporting company o

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

The aggregate market value of the common stock held by non-affiliates of the Registrant as of October 30, 2009 (which is the last business day at the Registrant's most recently completed second quarter), computed by reference to the closing sales price of the registrant's common stock on The NASDAQ Stock Market on such date, was approximately $307,352,793. For purposes of determining this number, individual stockholders holding more than 10% of the Registrant's outstanding Common Stock are considered affiliates. This number is provided only for the purpose of this Annual Report on Form 10-K and does not represent an admission by either the Registrant or any such person as to the status of such person.

The number of shares of the registrant's Common Stock outstanding as of June 14, 2010 was 41,214,131.

Documents Incorporated By Reference
None

## EXPLANATORY NOTE

This Amendment No. 1 amends the Annual Report on Form 10-K for the year ended May 1, 2010 of Daktronics, Inc., which was filed with the Securities and Exchange Commission on June 16, 2010 (the "Original Filing"). The Company is filing this Amendment No. 1 for the sole purpose of correcting the table heading in three tables included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," which were incorrectly denoted as "in millions" and should have been denoted as "in thousands".

Except as described above, this Amendment No. 1 does not amend any other information set forth in the Original Filing, and the Company has not updated disclosures included therein to reflect any events that may have occurred subsequent to June 16, 2010.

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

The following discussion highlights the principal factors affecting changes in our financial condition and results of operations. This discussion should be read in conjunction with the accompanying Consolidated Financial Statements and notes to Consolidated Financial Statements.

### OVERVIEW

We design, manufacture and sell a wide range of display systems to customers in a variety of markets throughout the world. We focus our sales and marketing efforts on markets, geographical regions and products. The primary five markets consist of Live Events, Commercial, Schools and Theatres, International and Transportation.

Our net sales and profitability historically have fluctuated due to the impact of large product orders, such as display systems for professional sport facilities and colleges and universities, as well as the seasonality of the sports market. Net sales and gross profit percentages also have fluctuated due to other seasonality factors, including the impact of holidays, which primarily affect our third quarter. Our gross margins on large product orders tend to fluctuate more than those for smaller standard orders. Large product orders that involve competitive bidding and substantial subcontract work for product installation generally have lower gross margins. Although we follow the percentage of completion method of recognizing revenues for large custom orders, we nevertheless have experienced fluctuations in operating results and expect that our future results of operations will be subject to similar fluctuations.

Orders are booked only upon receipt of a firm contract and after receipt of any required deposits. As a result, certain orders for which we have received binding letters of intent or contracts will not be booked until all required contractual documents and deposits are received. In addition, order bookings can vary significantly as a result of the timing of large orders.

We operate on a 52 to 53 week fiscal year, with our fiscal year ending on the Saturday closest to April 30 of each year. Within each fiscal year, each quarter is comprised of 13 week periods following the beginning of each fiscal year. In each 53 week year, each of the last three quarters is comprised of a 13 week period, and an additional week is added to the first quarter of that fiscal year. When April 30 falls on a Wednesday, the fiscal year ends on the preceding Saturday. The years ended May 1, 2010, May 2, 2009 and April 26, 2008 consisted of 52, 53 and 52 weeks, respectively.

For a summary of recently issued accounting pronouncements and the effects of those pronouncements on our financial results, refer to Note 1 of the notes to our Consolidated Financial Statements, which are included elsewhere in this report, and the section of this Item 7 entitled "Recent Accounting Pronouncements."

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The following discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate our estimates, including those related to estimated total costs on long-term construction-type contracts, estimated costs to be incurred for product warranties and extended maintenance contracts, bad debts, excess and obsolete inventory, income taxes, stock-based compensation and contingencies. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies require significant judgments and estimates in the preparation of our consolidated financial statements:

Revenue recognition on long-term construction-type contracts. Earnings on construction-type contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Indirect cost include charges for such items a facilities, engineering, and project management, Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are capable of being estimated. Generally, construction-type contracts we enter into have fixed prices established, and to the extent the actual costs to complete construction-type contracts are higher than the amounts estimated as of the date of the financial statements, the resulting gross margin would be negatively affected in future quarters when we revise our estimates. Our practice is to revise estimates as soon as such changes in estimates are known. We do not believe there is a reasonable likelihood that there will be a material change in future estimates or assumptions we use to determine these estimates. We combine contracts for accounting purposes when they are negotiated as a package with an overall profit margin objective, essentially represent an agreement to do a single project for a customer, involve interrelated construction activities, and are performed concurrently or sequentially. When a group of contracts is combined, revenue and profit are earned uniformly over the performance of the combined projects. We segment revenues in accordance with contract segmenting criteria in Accounting Standards Codification (“ASC”) 650-35, Construction-Type and Production-Type Contracts.

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Allowance for doubtful accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. To identify impairment in customers’ ability to pay, we review aging reports, contact customers in connection with collection efforts and review other available information. Although we consider our allowance for doubtful accounts adequate, if the financial condition of our customers were to deteriorate and impair their ability to make payments to us, additional allowances may be required in future periods. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to determine the allowance for doubtful accounts. As of May 1, 2010 and May 2, 2009, we had an allowance for doubtful accounts balance of approximately $2.6 million and $2.2 million, respectively.

Warranties. We have recognized a reserve for warranties on our products equal to our estimate of the actual costs to be incurred in connection with our performance under the warranties. Generally, estimates are based on historical experience taking into account known or expected changes. If we would become aware of an increase in our estimated warranty costs, additional reserves may become necessary, resulting in an increase in costs of goods sold. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to determine our reserve for warranties. As of May 1, 2010 and May 2, 2009, we had approximately $18.9 million and $19.8 million reserved for these costs, respectively.

Extended warranty and product maintenance. We recognize deferred revenue related to separately priced extended warranty and product maintenance agreements. The deferred revenue is recognized ratably over the contractual term. If we would become aware of an increase in our estimated costs under these agreements in excess of our deferred revenue, additional reserves may be necessary, resulting in an increase in costs of goods sold. In determining if additional reserves are necessary, we examine cost trends on the contracts and other information and compare that to the deferred revenue. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to determine estimated costs under these agreements. As of May 1, 2010 and May 2, 2009, we had $12.1 million and $9.5 million of deferred revenue related to separately priced extended warranty and product maintenance agreements, respectively.

Inventory. Inventories are stated at the lower of cost or market. Market refers to the current replacement cost, except that market may not exceed the net realizable value (that is, estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal), and market is not less than the net realizable value reduced by an allowance for normal profit margins. In valuing inventory, we estimate market value where it is believed to be the lower of cost or market, and any necessary changes are charged to costs of goods sold in the period in which they occur. In determining market value, we review various factors such as current inventory levels, forecasted demand and technological obsolescence. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate the estimated market value of inventory. However, if market conditions change, including changes in technology, product components used in our products or in expected sales, we may be exposed to unforeseen losses that could be material.

Income taxes. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating the actual current tax expense, as well as assessing temporary differences in the treatment of items for tax and financial reporting purposes. These timing differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income in each jurisdiction, and to the extent we believe that recovery is not likely, a valuation allowance must be established. We review deferred tax assets, including net operating losses, and for those not expecting to be realized, we have recognized a valuation allowance. If our estimates of future taxable income are not met, a valuation allowance for some of these deferred tax assets would be required. We believe that we will generate taxable income in future years which will allow for realization of deferred tax assets. Realization of the deferred tax assets would require approximately $25 million of taxable income, which we believe is achievable.

We operate within multiple taxing jurisdictions, both domestic and international, and are subject to audits in these jurisdictions. These audits can involve complex issues, including challenges regarding the timing and amount of deductions and the allocation of income amounts to various tax jurisdictions. At any one time, multiple tax years are subject to audit by various tax authorities.

We record our income tax provision based on our knowledge of all relevant facts and circumstances, including the existing tax laws, the status of current examinations and our understanding of how the tax authorities view certain relevant industry and commercial matters. In evaluating the exposures associated with our various tax filing positions, we record reserves for probable exposures, consistent with ASC 740, Income Taxes. A number of years may elapse before a particular matter for which we have established a reserve is audited and fully resolved or clarified. We adjust our income tax provision in the period in which actual results of a settlement with tax authorities differs from our established reserve, when the statute of limitations expires for the relevant taxing authority to examine the tax position, or when more information becomes available. Our tax contingencies reserve contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposure associated with our various filing positions. We believe that any potential tax assessments from various tax authorities that are not covered by our income tax provision will not have a material adverse impact on our consolidated financial position, results of operations or cash flow.



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We have not recorded U.S. deferred income taxes on certain of our non-U.S. subsidiaries' undistributed earnings, as such amounts are intended to be reinvested outside the United States indefinitely. However, should we change our business and tax strategies in the future and decide to repatriate a portion of these earnings to one of our U.S.

subsidiaries, including cash maintained by these non-U.S. subsidiaries, additional U.S. tax liabilities would be incurred. It is not practical to estimate the amount of additional U.S. tax liabilities we would incur.

Some of the countries in which we are located allow tax holidays or provide other tax incentives to attract and retain business. We have obtained holidays or other incentives where available and practicable. Our taxes could increase if certain tax holidays or incentives are retracted (which in some cases could occur if we fail to satisfy the conditions on which such holidays or incentives are based), they are not renewed upon expiration, or tax rates applicable to us in such jurisdictions are otherwise increased. It is anticipated that tax holidays and incentives with respect to our Chinese operations will expire within the next three years. However, due to the possibility of changes in existing tax law and our operations, we are unable to predict how these expirations will impact us in the future. In addition, any acquisitions may cause our effective tax rate to increase, depending on the jurisdictions in which the acquired operations are located.

Asset Impairment: Carrying values of goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment in accordance with ASC 350, Intangibles - Goodwill and Other. Our impairment review involves the estimation of the fair value of goodwill and indefinite-lived intangible assets using a combination of a market approach and an income (discounted cash flow) approach at the reporting unit level, that requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease an impairment charge. We use our judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as adverse business conditions, economic factors and technological change or competitive activities may signal that an asset has become impaired.

Carrying values for long-lived tangible assets and definite-lived intangible assets, excluding goodwill and indefinite-lived intangible assets, are reviewed for possible impairment as circumstances warrant in connection with ASC 360-10-05-4, Impairment or Disposal of Long-Lived Asset. Impairment reviews are conducted when we believe that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the forecast for a product, changes in technology or in the way an asset is being used, a history of negative operating cash flow, or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review. The Company’s initial impairment review to determine if a potential impairment charge is required is based on an undiscounted cash flow analysis at the lowest level for which identifiable cash flows exist. The analysis requires judgment with respect to changes in technology, the continued success of product lines, future volume, revenue and expense growth rates, and discount rates.

Stock-based compensation: We use the Black-Scholes standard option pricing model (“Black-Scholes model”) to determine the fair value of stock options and stock purchase rights. The determination of the fair value of the awards on the date of grant using the Black-Scholes model is affected by our stock price as well as by assumptions regarding other variables, including projected employee stock option exercise behaviors, risk-free interest rate, expected volatility of our stock price in future periods and expected dividend yield.

We analyze historical employee exercise and termination data to estimate the expected life assumption of a new employee option. We believe that historical data currently represents the best estimate of the expected life of a new employee option. The risk-free interest rate we use is based on the U.S. Treasury zero-coupon yield curve on the grant date for a maturity similar to the expected life of the options. We estimate the expected volatility of our stock price in future periods by using the implied volatility in market traded options. Our decision to use implied volatility was based on the availability of actively traded options for our common stock and our assessment that implied volatility is more representative of future stock price trends than the historical volatility of our common stock. We use an expected dividend yield consistent with our dividend yield over the period of time we have paid dividends in the

Black-Scholes option valuation model. The amount of stock-based compensation expense we recognize during a period is based on the portion of the awards that are ultimately expected to vest. We estimate pre-vesting option forfeitures at the time of grant by analyzing historical data, and we revise those estimates in subsequent periods if actual forfeitures differ from those estimates.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the expense in future periods may differ significantly from what we have recorded in the current period and could materially affect our net earnings and net earnings per share in a future period.



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Results of Operations

The following table sets forth the percentage of net sales represented by items included in our Consolidated Statements of Operations for the fiscal years ended May 1, 2010, May 2, 2009 and April 26, 2008:

| | Year Ended | | | | | |
|---|---|---|---|---|---|---|
| | May 1, 2010 | | May 2, 2009 | | April 26, 2008 | |
| Net sales | 100.0 | % | 100.0 | % | 100.0 | % |
| Cost of goods sold | 76.0 | % | 73.3 | % | 70.5 | % |
| Gross profit | 24.0 | % | 26.7 | % | 29.5 | % |
| Operating expenses | 25.7 | % | 19.4 | % | 21.9 | % |
| Operating income (loss) | (1.7 | %) | 7.3 | % | 7.6 | % |
| Interest income (expense), net | 0.3 | % | 0.3 | % | 0.1 | % |
| Other income (expense), net | (0.7 | %) | (0.5 | %) | 0.2 | % |
| Income (loss) before income taxes | (2.1 | %) | 7.1 | % | 7.9 | % |
| Income tax expense (benefit) | (0.3 | %) | 2.6 | % | 2.7 | % |
| Net income (loss) | (1.8 | %) | 4.5 | % | 5.2 | % |

Net Sales

The following table sets forth net sales and orders by business unit for fiscal years ended May 1, 2010, May 2, 2009 and April 26, 2008 (dollar amounts in thousands):

| | Year Ended | | | | |
|---|---|---|---|---|---|
| | May 1, 2010 | | May 2, 2009 | | April 26, 2008 |
| | Net Sales | Percent Change | Net Sales | Percent Change | Net Sales |
| Commercial | $ 91,860 | (41.1 )% | $ 155,851 | (13.9 )% | $ 180,938 |
| Live Events | 159,229 | (40.9 ) | 269,650 | 59.9 | 168,640 |
| Schools & Theatres | 62,878 | (5.4 ) | 66,444 | 9.1 | 60,919 |
| Transportation | 40,481 | 18.1 | 34,289 | (8.2 ) | 37,355 |
| International | 38,737 | (28.9 ) | 54,447 | 5.1 | 51,825 |
| | $ 393,185 | (32.3 ) % | $ 580,681 | 16.2 % | $ 499,677 |
| | | | | | |
| | | | | | |
| | Orders | Percent Change | Orders | Percent Change | Orders |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Commercial | $ | 93,833 | (30.7 ) % | $ | 135,316 | (26.3 ) % | $ | 183,555 |
| Live Events | | 155,509 | (37.1 ) | | 247,296 | 22.6 | | 201,775 |
| Schools & Theatres | | 62,493 | (1.1 ) | | 63,173 | (0.2 ) | | 63,286 |
| Transportation | | 45,968 | 2.8 | | 44,707 | 29.6 | | 34,500 |
| International | | 47,482 | 25.1 | | 37,960 | (40.0 ) | | 63,303 |
| | $ | 405,285 | (23.3 ) % | $ | 528,452 | (3.3 ) % | $ | 546,419 |

Fiscal Year 2010 as compared to Fiscal Year 2009

Commercial Business Unit. In the early part of the third quarter of fiscal 2009, we were notified that our largest customer in our outdoor advertising niche was decreasing its spending on digital billboards from approximately $100 million annually to approximately $15 million annually, effective for calendar year 2009. We were one of two primary vendors of digital billboards for this customer. This corresponded to a decline in orders overall in the outdoor advertising niche, which started to become evident late in the second quarter of fiscal 2009. It is our belief that the then current economic conditions and limited credit availability caused this decline. Although we believe that this niche still remains a long-term growth opportunity, we do not expect to see it rebound until sometime in calendar year 2011, based on industry reports. It is also important to note that the outdoor advertising business has a number of constraints in addition to the current economic conditions, primarily the challenges of achieving adequate returns on investments on digital displays, which limit locations suitable for digital displays, and regulatory constraints, which we expect to be a long-term factor that limits deployment of digital displays. The foregoing decline in digital billboards was the most significant factor in the decline in sales and orders in fiscal 2010 as compared to fiscal 2009. Net sales in this niche (digital billboards for outdoor advertisers) decreased by approximately $50 million or more than 70% as compared to fiscal 2009.



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The reseller and national account portion of the commercial business unit, which includes primarily our Galaxy® displays and large custom contracts for commercial facilities, decreased approximately $14.4 million or 17% in fiscal 2010 as compared to fiscal 2009. The decline in the reseller niche for fiscal 2010 was due to a lower level of sales of standard Galaxy® displays as well as a decline in sales of large video display systems. We attribute the decline in sales of Galaxy® displays to the weaker economic conditions in fiscal 2010 as compared to the same period of fiscal 2009. The level of large custom contract sales in this niche is subject to volatility as described elsewhere and therefore it is difficult to project; however, we are seeing a growing number of opportunities. Finally, the decrease in net sales in the national account portion was due to declines by our larger accounts due to a slow-down in their deployment and decreases in new stores. Orders and sales are being impacted by aggressive competition, causing customers to hesitate and evaluate opportunities more carefully. Although it appears as though sales may be rebounding, we cannot be certain that this trend will continue, given the volatile nature of the current economic conditions and competitive forces. For the long-term, we believe that this market will be a growth area for the company.

During the fourth quarter of fiscal 2010, there were an increasing number of press and industry reports concerning increasing deployment of digital billboards by the major outdoor advertising companies. While we believe that an increase in opportunities in this niche is likely, we believe that we will still have to compete for and win orders in order to participate in this growth. We also believe that as a result of declining selling prices for digital billboards, the ultimate level of net sales, if we retain the same market share as the first half of fiscal 2009 and fiscal 2008, will be less than in prior years, although net sales would still grow significantly on a percentage basis.

As a result of the declining opportunities for orders, which is resulting from the economic and credit environments, the competitive pressures in this business unit have increased as competitors go after fewer opportunities. This has put considerable pricing pressure on all aspects of this business unit and is expected to continue into fiscal 2011. This has had an adverse impact on gross margins and net sales.

Subject to the foregoing, our Commercial business unit generally benefits from increasing product acceptance, lower cost of displays, our distribution network and a better understanding by our customers of the product as a revenue generation tool.

In the past, the seasonality of the outdoor advertising niche has been a factor in the fluctuation of our net sales over the course of a fiscal year because the deployment of displays slows in the winter months in the colder climate regions of the United States. Generally, seasonality is not a material factor in the rest of the Commercial business. Our estimates for net sales and orders in the Commercial business unit could vary significantly depending on economic and credit factors and our ability to capture business in our national account niche.

Order bookings were also down as indicated above for the same reasons as net sales.

Live Events Business Unit. The decrease in net sales for fiscal 2010 as compared to fiscal 2009 was the result of a decline in revenues from large new construction contracts exceeding $5 million as explained in prior filings, which led to the significant growth during fiscal 2009. These large contracts contributed approximately $37.3 million in net sales during fiscal 2010 compared to approximately $116.8 million during fiscal 2009. In addition, orders and net sales were less than expected as a result of orders being delayed and not moving forward. We believe this was due to economic concerns and various other factors causing customers to put off large expenditures. Overall, we believe that these orders are not lost but only delayed until the period preceding the next applicable sports season. For example, orders for major league baseball facilities did not materialize in the third quarter of fiscal 2010. We believe that these orders are possible for fiscal year 2011. This dynamic is making it more difficult to estimate what orders and net sales will be for the fall sports season. During the first quarter of fiscal 2011, we would expect to understand better how our customer base will respond in this portion of our business.

During the fourth quarter of fiscal 2009, we began to see more significant competitive pressure, primarily aggressive pricing by multiple competitors in the Live Events marketplace, that we believe is not sustainable for the long-term. Although, it appears that these pressures may be declining somewhat, it is generally too early to assume that to be the case. In addition, over the next 24 months, most professional sport leagues are expected to be renegotiating labor contracts with players. This could negatively impact orders during this period. Until these pressures are reduced or eliminated, they are likely to adversely affect our ability to book orders and our gross profit margin. As a result of these competitive factors and general economic conditions, it is difficult to forecast net sales into fiscal 2011. In addition, although our Live Events business is typically resistant to economic conditions, the severity of the current economic environment may continue to impact this business. There have been transactions which have been delayed due to economic conditions, as previously described, which have had a significant negative impact on our business. However, over the long term, we expect to see growth, assuming that the economy improves and we are successful at counteracting competitive pressures.

The decrease in orders is due to the decrease in large orders and competitive pressures, which we believe have caused us to lose orders we otherwise would have earned, and various other factors, all as explained above.



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Our expectations regarding growth over the long term in large sports venues is due to a number of factors, including facilities trending to spend more on larger display systems; our product and services offerings, which remain the most integrated and comprehensive offerings in the industry; and our field sales and service network, which is important to support our customers. In addition, we benefit from the competitive nature of sports teams, which strive to out-perform their competitors with display systems. This impact has and is expected to continue to be a driving force in increasing transaction sizes in new construction and major renovations. Growth in the large sports venues is also driven by the desire for high-definition video displays, which typically drives larger displays or higher resolution displays, both of which increase the average transaction size. We believe that the effects of the economy are generally less likely to have a significant adverse impact on the sports market as compared to our other markets because our products are generally revenue-generation tools (through advertising) for facilities, and the sports business is generally considered to be less sensitive to economic cycles, although the severity of the current economic conditions have caused a significant impact.

Schools and Theatres Business Unit. Net sales in this business unit declined as a result of decreases in orders in the sports portion of this business unit which were partially offset by increasing net sales and orders in the hoist portion of the business. We believe that the decline in the sports portion of the business unit is due to reasons similar to Live Events. In addition, we believe that although much of the spending on small sports systems derives from advertising revenues, the impact of declining school budgets is having a direct and indirect adverse impact on this business unit, which seems to have gotten worse in the fourth quarter of fiscal 2010 and appears to be continuing into the first quarter of fiscal 2011. Although it is difficult to project, we believe that the first half of fiscal 2011 could continue to be a challenge for this business unit. Because that period is the key selling time, it is likely that orders and net sales could decline for fiscal 2011 as compared to fiscal 2010.

Transportation Business Unit. The increase in net sales was due to the larger backlog of orders at the beginning of fiscal 2010 as compared to the beginning of fiscal 2009. The increases in orders in this business unit are due, in part, to a large order for the New Jersey Transit Authority of approximately $8 million which is the guaranteed portion of a procurement contract of up to $25 million over a five-year period. We believe that overall growth in this business unit is the result of federal government stimulus money and prior federal legislation that provided for increased spending on transportation projects, including large increases associated with intelligent transportation systems, and to us gaining market share. We expect that net sales and orders in the Transportation business unit could grow in fiscal 2011.

Similar to other business units, it appears that the competitive environment become more intense as a limited number of competitors have become more aggressive in pricing. Although we expect that this pricing pressure is not sustainable, it is likely to have an adverse impact on our net sales and gross profit margins in future quarters.

International Business Unit. The decrease in net sales was attributable, in part, to large orders booked in the fourth quarter of fiscal 2008 for a rail station in Beijing and a network of displays in the U.K. that converted to net sales in the first quarter of fiscal 2009. Due to the focus on large contracts in this business unit and the small number of contracts actually booked, volatility is not unusual. Overall, we have made considerable investments in growing our business internationally, where we do not have the same market share as we do domestically. As stated in prior filings, in the second half of fiscal 2009, we began to see more competitive pressures in this area similar to the competitive pressures described above in the Live Events market because the competitors tend to overlap. We believe that this had an adverse impact on our order bookings in fiscal 2010. In spite of the foregoing, it appears that this market may be seeing some strengthening, as our opportunities seem to be increasing late in fiscal 2010, as we booked a number of large orders that resulted in orders growing for fiscal 2010. The result of this is a much higher backlog at the end of fiscal 2010 as compared to the end of fiscal 2009, which should drive sales higher in fiscal 2011 if bookings can remain constant. As a result of the competitive pressures, we expect to continue to see more challenges to gross profit to win orders.

Advertising Revenues. We occasionally sell products in exchange for the advertising revenues generated from the use of our display products. These sales represented less than 1% of net sales for fiscal 2010 and 2009. The gross profit percent on these transactions has typically been higher than the gross profit percent on other transactions of similar size, although the selling expenses associated with these transactions are typically higher.

Fiscal Year 2009 as compared to Fiscal Year 2008

Commercial Business Unit. As a result of the declines in orders midway through fiscal 2009 in the outdoor advertising niche as described above, net sales in that niche decreased by approximately $15.9 million or 19% as compared to fiscal 2008. Net sales in our reseller niche, which includes primarily our Galaxy® displays and large custom contracts for commercial facilities, decreased approximately $9.4 million or 14%.

The decline in the reseller niche was due to a lower level of large contract business and sales of Galaxy® displays. We attribute the decline in both areas to the worsening economic conditions and to internal execution issues related to meeting delivery commitments in the first half of fiscal 2009. We experienced sales decline sequentially for each quarter during fiscal 2009.

The decline in orders was caused by declines in both the reseller and outdoor advertising niches for the same reasons as described above.



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Live Events Business Unit. The increase in orders reflects a $45 million contract related to the New Meadowlands Stadium in New Jersey. We also booked two other large contracts for major league baseball facilities totaling approximately $16 million during the third quarter of fiscal 2009. This compares to a number of transactions booked in the third quarter of fiscal 2008, each of which exceeded $10 million, primarily in professional baseball facilities.

As we began fiscal 2009, we had expected to see significant order growth in the Live Events business unit as a result of the number of large projects in our pipeline and taking into account our market share. Through the year, we achieved our share of these projects which, along with growth in the number of smaller projects, allowed us to achieve higher than expected net sales growth, partially offsetting the decline in Commercial business unit sales. As described above, we began to see more significant competitive pressure, primarily aggressive pricing by multiple competitors in the Live Events marketplace, during the fourth quarter of fiscal 2009. Net sales in our sports marketing and mobile and modular portion of this business unit were less than 2% of total net sales and thus were not significant in fiscal 2009 and fiscal 2008.

Schools and Theatres Business Unit. Underlying the lack of order growth overall was an increase of approximately 5% in orders of display systems to smaller colleges and K-12 facilities and a decline of approximately 33% in orders of hoist systems. We had expected orders to increase by more than 15% for the entire fiscal year for this business unit, but achievement of this growth was adversely affected by shipping delays earlier in fiscal 2009. Economic conditions also impacted this business unit during this time.

Transportation Business Unit. The decline in net sales and the increase in orders were due to the timing of deliveries according to customer schedules. We believe that the increases in orders in this business unit are due, in part, to federal government stimulus money and prior federal legislation that provided for increased spending on transportation projects, including large increases associated with intelligent transportation systems, and to us gaining market share.

International Business Unit. The increase in net sales was attributable, in part, to large orders booked in the fourth quarter of fiscal 2008 for a rail station in Beijing and a network of displays in the U.K. that converted to net sales in the first quarter of fiscal 2009, as previously discussed. We also believe that the second half of fiscal 2009 was adversely impacted by competitive pressures similar to the competitive pressures described above in the Live Events business unit because the competitors tend to overlap.

Backlog

Our backlog at the end of fiscal 2010 was $127 million as compared to $120 million at the end of fiscal 2009. Overall, the increase in backlog is the result of the increase in orders in the International and Transportation business units in fiscal 2010 as compared to net sales. Orders in the Transportation business unit outpaced sales by more than $5 million, while orders in the International business unit outpaced net sales by almost $9 million. These increases were partially offset by declines in backlog in the Live Events business unit. Backlog varies significantly quarter to quarter due to the effects of large orders, and significant variations can be expected, as explained previously. In addition, our backlog is not necessarily indicative of future sales or net income, also as explained previously.

Gross Profit

| | Year Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (dollar amounts in thousands) | May 1, 2010 | | | May 2, 2009 | | | April 26, 2008 | |
| | Gross Profit | Percent Change | As a Percent of Net Sales | Gross Profit | Percent Change | As a Percent of Net Sales | Gross Profit | As a Percent of Net Sales |
| Commercial | $ 18,741 | (52.4 ) % | 20.4 % | $ 39,332 | (32.4 ) % | 25.2 % | $ 58,175 | 32.2 % |
| Live Events | 33,702 | (58.0 ) | 21.2 | 80,300 | 88.0 | 29.8 | 42,722 | 25.3 |
| Schools & Theatre | 16,480 | 1.0 | 26.2 | 16,312 | (15.1 ) | 24.5 | 19,215 | 31.5 |
| Transportation | 12,815 | 61.2 | 31.7 | 7,948 | (28.7 ) | 23.2 | 11,149 | 29.8 |
| International | 12,818 | 11.8 | 33.1 | 11,466 | (29.8 ) | 21.1 | 16,329 | 31.5 |
| | $ 94,556 | (39.1 ) % | 24.0 % | $ 155,358 | 5.3 % | 26.8 % | $ 147,590 | 29.5 % |

Fiscal Year 2010 as compared to Fiscal Year 2009

The decrease in gross profit in fiscal 2010 as compared to fiscal 2009 was due to lower net sales. Gross margin percents on large contracts decreased during fiscal 2010 by approximately 1.2 percentage points over fiscal 2009 as a result of competitive factors. The largest impact in terms of declines in percentage points was in the Live Events Business unit, where gross profits declined on large contracts by 1.9 percentage points. Gross profit percents were flat year over year for standard orders. In fiscal 2010, large contracts comprised approximately 61% of net sales, while standard orders comprised approximately 29%. Overall contracts and standard orders gross profit percent declined by approximately one percentage point. Warranty costs declined as a percentage of net sales to 3.5% in fiscal 2010 as opposed to 4.2% in the prior fiscal year. The costs of excess capacity caused a 1.2 percentage point decline in gross profit. Other items such as inventory writedowns and other variances comprised the difference.



Included in warranty costs in fiscal 2009 were a number of significant and isolated warranty costs that did not recur in fiscal 2010 that were explained in prior filings. We continue to be challenged with higher than expected warranty costs, although for fiscal 2010 they declined as a percentage of sales. During fiscal 2009, we began expending significant effort on developing, and have now brought to market, our new DVX technology. We believe that this common module platform will help reduce warranty costs as well as increase gross profit percents.

One of the more significant impacts that we are experiencing is the level of fixed costs as a percentage of sales within manufacturing. Since we believe that in the future our business will rebound and sales will grow, we should gain leverage in gross profit percentage. As a result, we have not decreased some of the fixed cost infrastructure, as that would significantly impair our ability to respond to rising sales in the future.

Within the Commercial business unit, gross profit percent decreased approximately five percentage points in fiscal 2010 as compared to fiscal 2009 as a result of a decline in margin in all niches. The majority of the decline was in the billboard niche as a result of competitive factors, higher warranty costs and greater excess capacity in fiscal 2010 as compared to fiscal 2009.

Gross profit percents declined in the Live Events business unit, primarily as a result of the competitive factors and the lower level of sales during the year as described above, which resulted in higher costs of excess capacity.

Gross profit percents in Schools and Theaters increased as a result of improved performance in our hoist business offset partially by a decline in gross profit in our small sports facilities business, which resulted primarily as a result of higher variances.

Gross profit in our Transportation business unit increased as a result of better margin achievement on orders in spite of the competitive factors.

Within the International business unit, gross profit increased as a result of lower warranty costs as a percentage of sales.

It is difficult to project gross profit levels for fiscal 2011 as a result of the uncertainty on the level of sales. If sales were to remain flat in 2011 as compared to 2010, we believe that gross profits would rise as a result of new product introductions, primarily the DVX technology, and lower warranty costs and inventory write-downs. If sales were to decline, it may be difficult to prevent gross profit margin percents from declining, depending on the magnitude of the decline in net sales.

Fiscal Year 2009 as compared to Fiscal Year 2008

The increase in gross margin dollars in fiscal 2009 as compared to fiscal 2008 was due to higher net sales. Gross margin percents on large contracts increased during fiscal 2009 by approximately two percentage points over fiscal 2008 as a result of better margins on PS-X display technology orders, primarily on the large new construction projects. This increase was more than offset by the costs of excess capacity in the second half of fiscal 2009, higher warranty costs and inventory write-downs, and the reorganization of our field services infrastructure (which offsets an equal decline in selling expense). These decreases were partially offset by a gain of approximately $1 million on the sale of our building in Tampa, Florida in the first quarter of fiscal 2009.

Warranty costs caused gross profit percentages to decline by more than two percentage points in fiscal 2009 as compared to fiscal 2008. This decline was due primarily to issues with new product designs and quality. Increased inventory write-downs resulted from write-downs in Canada related to the plant closure and the write-off of excess inventory. We also incurred costs during the second quarter of fiscal 2009 to close down our manufacturing operation in Canada. The reorganization of our field services department adversely impacted gross profit percentages by approximately 0.6 points. Finally, the higher costs of excess manufacturing capacity resulted from the sharp decline in net sales in the second half of fiscal 2009, making it difficult to adjust costs adequately. The higher costs of manufacturing infrastructure include additional personnel in quality, manufacturing engineering and inventory management. These factors, excluding warranty costs, impacted all business units.

Within the Commercial business unit, gross profit percent decreased approximately seven percentage points in fiscal 2009 as compared to fiscal 2008 as a result of a decline in margin in all niches. The decline resulted from greater costs of excess capacity and lower margins in our Galaxy® display business, which was impacted by the economic conditions and delivery execution, increased competition in the outdoor advertising niche and the factors described above.

The increase in gross profit for our Live Event business unit was primarily the result of higher margins on product sales as mentioned above and was partially offset by higher than expected warranty costs.

The decline in gross profit percentages in our Schools and Theatres business unit resulted from greater variances in manufacturing, the reclassification of our field services infrastructure to cost of goods sold, and lower overall margins on standard products.

The decrease in gross profit percentages in our Transportation business unit was the result of the lower sales level in the last half of the fiscal year, which adversely impacted utilization.

Gross profit in our International business unit declined primarily due to the impact of higher warranty costs.

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Operating Expenses

| (dollar amounts in thousands) | Year Ended May 1, 2010 | | | May 2, 2009 | | | April 26, 2008 | |
|---|---|---|---|---|---|---|---|---|
| | Operating Expense | Percent Change | As a Percent of Sales | Operating Expense | Percent Change | As a Percent of Sales | Operating Expense | As a Percent of Sales |
| Selling | $ 54,253 | (13.0 ) % | 13.8 % | $ 62,335 | (0.2 ) % | 10.7 % | $ 62,479 | 12.5 % |
| General and administrative | 25,199 | (12.5 ) | 6.4 | 28,787 | 10.5 | 5.0 | 26,040 | 5.2 |
| Product design and development | 21,920 | 1.4 | 5.6 | 21,619 | 3.8 | 3.7 | 20,828 | 4.2 |
| Gain on insurance proceeds | (1,496 ) | 100.0 | (0.4 ) | - | - | - | - | - |
| Goodwill impairment | 1,410 | 100.0 | 0.4 | - | - | - | - | - |
| | $ 101,286 | (10.2 ) % | 25.8 % | $ 112,741 | 3.1 % | 19.4 % | $ 109,347 | 21.9 % |

Fiscal Year 2010 as compared to Fiscal Year 2009

Operating expenses are comprised of selling, general and administrative expenses and product design and development costs. The changes in the various components of operating expenses are explained below. As a result of the downturn in orders and net sales that started during the second quarter of fiscal 2009, we began to decrease all types of operating expenses to partially keep pace with the declining net sales. Although we will continue efforts to reduce costs the ultimate level of decreased spending is difficult to estimate, as it involves continuous and evolving efforts. Our most significant cost factor within operating expense is personnel related costs, and, to date, our approach has been focused on allowing attrition and limited reductions in workforce, coupled with a general hiring freeze, to drive a significant portion of the decrease in personnel costs. In addition, we implemented wage freezes for salaried employees in fiscal 2010 and various other cost reduction initiatives. Since the first quarter of fiscal 2009, we have reduced operating expenses by over 17%. During the fourth quarter of fiscal 2010, we reduced the number of our full-time employees by approximately 7%, which provides annual savings in excess of $5 million. Those cost savings are spread among all areas of the company but will impact operating expenses beginning in the first quarter of fiscal 2011. However, at the current level of sales, we believe that we need to reduce costs further, and we will generally rely on attrition for the first two quarters to reduce personnel costs further. The first two quarters of the fiscal year are our key selling periods, and, as such, we believe that some stability in the business is important during this time. If sales do not develop according to plans, we may take further action to reduce costs as we near the third quarter of fiscal 2011.

All areas of operating expenses on a year-to-date basis were impacted because the first quarter of fiscal 2009 included 14 weeks as opposed to the more common 13 weeks of the first quarter of fiscal 2010.

Fiscal Year 2009 as compared to Fiscal Year 2008
The changes in the various components of operating expenses are explained below.

Selling expenses consist primarily of salaries, other employee-related costs, travel and entertainment expenses, facilities-related costs for sales and service offices, and expenditures for marketing efforts, including the costs of collateral materials, conventions and trade shows, product demos and supplies.

Fiscal Year 2010 as compared to Fiscal Year 2009
Selling expense decreased in fiscal 2010 as compared to fiscal 2009 as a result of a decrease in personnel costs, including taxes and benefits, of approximately $4.4 million, a decrease of $1.6 million in travel and entertainment costs, a $0.7 million decrease in costs of conventions, a $0.7 million decrease in depreciation, and a $0.7 million decrease in bad debt expense. The decrease in personnel costs is the result of the lower number of employees caused by the reduction efforts explained above. The decrease in travel and entertainment costs is a reflection of the lower number of employees and the lower level of sales opportunities. The decrease in costs of conventions is a result of lower number of trade shows attended and decreased costs of those where attendance was appropriate. Depreciation costs declined as a result of a lower level of demonstration equipment. The decline in bad debt expense is due to a lower level of credit losses occurring in fiscal 2010 which is difficult to attribute to specific factors.

We are continuing to focus on decreasing our infrastructure costs in light of the level of sales in fiscal 2010. We are also continuing to focus on other areas of reduction within selling expense and expect that it will decline in fiscal 2011 on a sequential basis. This expectation is subject to our ability to contain costs, such as bad debt expense and travel and entertainment costs, and achieving additional employee attrition.



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Fiscal Year 2009 as compared to Fiscal Year 2008
As described in previous filings, we reorganized our field services organization at the beginning of fiscal 2009 and, as a result, approximately $2.5 million of expenses, primarily personnel costs, incurred in fiscal 2008 that were classified as selling expense were classified in cost of goods sold in fiscal 2009. Had this change not been made, selling expense as a percentage of net sales would have still declined. Selling expenses for fiscal 2009 were lower than selling expenses in fiscal 2008 principally because of a decrease in personnel costs, including taxes and benefits of approximately $0.2 million, and a decline of $1.7 million in travel and entertainment costs. Offsetting these decreases were increases in bad debt expense, which increased approximately $1.9 million; an increase in commissions to third parties, which increased by approximately $0.4 million; and an increase in credit card fees of approximately $0.5 million. The increase in bad debt expense was the result of a number of isolated product issues and customer issues, although a small portion of the increase could have resulted from the adverse economic conditions. The increase in commissions is due to the nature of the specific underlying transactions. Typically, commissions are not a significant factor in our business.

General and administrative expenses consist primarily of salaries, other employee-related costs, professional fees, shareholder relations costs, facilities and equipment related costs for administrative departments, training costs, amortization of intangibles and the costs of supplies.

Fiscal Year 2010 as compared to Fiscal Year 2009
The decrease in general and administrative costs was the result of a decrease of approximately $1.1 million in personnel costs, including benefits and taxes; lower costs related to the hardware and software infrastructure, including depreciation, which decreased $0.3 million; lower professional fees, which decreased by approximately $1.0 million; and lower costs relating to recruiting and other expenses. The lower level of personnel costs is the result of the reductions in employees described above. The lower level of professional fees is due to the higher level of

litigation and contract negotiation fees in fiscal 2009 representing isolated items. The lower recruiting fees result from the elimination of new full-time hires in fiscal 2010 as compared to fiscal 2009. We expect that general and administrative expenses will decrease in fiscal 2011.

Fiscal Year 2009 as compared to Fiscal Year 2008
The increase in general and administrative costs in fiscal 2009 as compared to fiscal 2008 was the result of an increase of approximately $2.0 million in personnel costs, including benefits and taxes to support our planned international and other growth; higher costs related to the hardware and software infrastructure, including depreciation, which increased $1.2 million; and higher professional fees, which consisted primarily of higher legal fees resulting from the higher costs of contract negotiations and litigation, which increased by approximately $0.3 million. These increases were offset by declines in recruiting costs and other expenses.

Product design and development expenses consist primarily of salaries, other employee-related costs and facilities and equipment-related costs and supplies.

Fiscal Year 2010 as compared to Fiscal Year 2009
Investments in our DVX technology and various other initiatives to standardize display components and in other display technologies and related items, including control systems for both single site displays and networked displays, continued to drive increases in product design and development expenses in fiscal 2010 as compared to fiscal 2009. We also invested in other product lines, including our Galaxy® display technology. Additionally, in fiscal 2010 we invested heavily in initiatives designed to improve manufacturing processes and decrease the cost of our products. We expect that product development will decrease in dollars in fiscal 2011 but will likely exceed our long-term target of approximately 4% of net sales.

Fiscal Year 2009 as compared to Fiscal Year 2008
Investments in our common module platforms and various other initiatives to standardize display components in our line of PS-X, HD-X and PST® video displays and in other display technologies and related items drove increases in product development in fiscal 2009 as compared to fiscal 2008. We also invested in other product lines in fiscal 2009, including our Galaxy® display technology, Sportsound® systems and control systems. We developed new products and enhanced existing products, including our Valo™ digital billboards and a wider range of PST® products with more pixel density options. We also invested heavily in initiatives designed to improve manufacturing processes and decrease the cost of our products.

Gain on insurance proceeds: During the third quarter of fiscal 2010, we recorded a gain on insurance proceeds of $1.5 million related to the fire at our Star Circuits manufacturing facility as described in Note 14 to the consolidated financial statements. The proceeds from the insurance company were used to purchase replacement equipment, inventory and supplies, offset the extra expense of outsourcing this manufacturing, and build out the facility to house the operations.

Goodwill Impairment: During the third quarter of fiscal 2010, we recorded a non-cash impairment charge of $1.4 million related to our Schools and Theaters and International business units. The charge was approximately $0.7 million for each business unit. There was no similar impairment expense in prior fiscal years. The impairment resulted from our analysis of goodwill which factored in the unexpected decline in forecasted discounted cash flows. We attributed the decline to the weaker economic conditions and the continued decline in our stock price. See Note 4 of the consolidated financial statements for additional information, including estimates and assumptions we used to determine this charge.



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Contribution Margin by Segment

The following table sets forth contribution margin (in thousands), defined as gross profit less selling expenses, by segment:

| | Year Ended | | |
|---|---|---|---|
| | May 1, 2010 | May 2, 2009 | April 26, 2008 |
| Contribution Margin | | | |
| Commercial | $ 5,175 | $ 22,380 | $ 42,084 |
| Live Events | 18,320 | 63,323 | 23,860 |
| Schools & Theatres | 4,423 | 2,059 | 4,648 |
| Transportation | 9,490 | 3,630 | 6,929 |
| International | 2,895 | 1,631 | 7,594 |
| Segment Contribution Margin | $ 40,303 | $ 93,023 | $ 85,115 |

Contribution margin by segment is based on gross profit and selling costs, which includes allocations of various expenses on a discretionary basis that may not be indicative of the segment's performance on a stand-alone basis. Certain items are allocated based on management's judgment as to the best methods to achieve company-wide goals. Therefore, we caution making conclusions as to performance based on these disclosures, which are required under generally accepted accounting principles.

Fiscal Year 2010 as compared to Fiscal Year 2009

Within the Commercial business unit and Live Events business unit, contribution margins decreased in fiscal 2010 as compared to fiscal 2009 as a result of lower gross profit percentages on lower sales, as explained above, partially offset by decreased selling expenses as we continued to reduce the infrastructure of the business units in line with the decline in sales. Selling expenses decreased by approximately 20% in the Commercial business unit and approximately 9% in the Live Events business unit.

Contribution margin increased in the Schools and Theaters business unit in fiscal 2010 as compared to fiscal 2009 as a result of increased gross profit percents offsetting the decrease in net sales, as explained above, combined with a 15% decrease in selling expenses.

The contribution margin in the Transportation business unit increased in fiscal 2010 as compared to fiscal 2009 as a result of increased sales and gross profit percentages as explained above, combined with a 23% decrease in selling expenses.

The increase in contribution margin for the International business unit was a result of increased gross profit percentages on lower sales, which caused an increase in gross profit dollars slightly, which was offset by higher selling costs.

Fiscal Year 2009 as compared to Fiscal Year 2008

Within the Commercial business unit, the contribution margin decreased in fiscal 2009 as compared to fiscal 2008 as a result of lower gross profit margins caused by the excess capacity in the second half of fiscal 2009 and an increase in selling expense.

The contribution margin increased in the Live Events business unit in fiscal 2009 as compared to fiscal 2008 as a result of the increase in net sales described above and the increase in gross profit margins of four percentage points described above. In addition, selling expenses decreased by approximately $1.9 million in fiscal 2009 as compared to fiscal 2008 in part due to a reassignment of costs to the Schools and Theaters business unit relating to sports marketing activities to reflect the greater emphasis being placed on sports marketing in high schools.

The contribution margin in the Schools and Theatres business unit decreased in fiscal 2009 as compared to fiscal 2008 as a result of lower gross profit margins caused by higher costs of manufacturing variances offset by lower selling costs as we reallocated personnel at the beginning of fiscal 2009 into costs of goods sold, as described above.

Within the Transportation business unit, contribution margin decreased in fiscal 2009 as compared to fiscal 2008 as a result of a decrease in net sales and a decline in gross profit percentages due to lower contract margins and higher manufacturing variances.

Contribution margin for the International business unit decreased as a result of increased warranty costs and increased selling expenses in an effort to expand the International business unit.

Interest Income and Expense

We occasionally generate interest income through product sales on an installment basis, under lease arrangements or in exchange for the rights to sell and retain advertising revenues from displays, which result in long-term receivables. We also invest excess cash in short-term temporary cash investments and marketable securities that generate interest income. Interest expense is comprised primarily of interest on our notes payable and long-term debt.



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Fiscal Year 2010 as compared to Fiscal Year 2009
Interest income decreased 28.6% to $1.5 million for fiscal 2010 as compared to $2.1 million for fiscal 2009. The decrease was the result of lower interest rates partially offset by higher levels of temporary cash investments. We expect that the amount of interest income will decrease in fiscal 2011 over fiscal 2010 due to the lower levels of interest-bearing receivables, but that the decrease will be partially offset by the interest income on higher levels of temporary cash investments; however, our business is characterized by a great deal of volatility of working capital components, and therefore cash balances could be lower than expected, leading to lower interest income.

Interest expense remained level at $0.2 million in fiscal 2010 and fiscal 2009. We do not expect our levels of debt to change materially in fiscal 2011 from fiscal 2010; therefore, interest expense is expected to continue to be insignificant in fiscal 2011.

Fiscal Year 2009 as compared to Fiscal Year 2008
Interest income increased 16.7% to $2.1 million for fiscal 2009 as compared to $1.8 million for fiscal 2008. The increase was the result of higher levels of temporary cash investments.

Interest expense decreased 85.7% to $0.2 million in fiscal 2009 as compared $1.4 million for fiscal 2008. The decrease is due to lower average borrowings outstanding during fiscal 2009 as compared to fiscal 2008.

Income Taxes

Fiscal Year 2010 as compared to Fiscal Year 2009
Income taxes decreased to ($1.2) million in fiscal 2010 as compared to $15.1 million in fiscal 2009. The decrease was attributable primarily to the decrease in income before income taxes and a decrease in the effective tax rate. The effective tax rate decreased to approximately 14.2% in fiscal 2010 from 36.4% in fiscal 2009. The decrease in the effective tax rate is attributable to the impact of various items on a pre-tax loss position in fiscal 2010 compared to a pre-tax income position in fiscal 2009. Items such as stock compensation, for example, impacted the effective rate by almost 14% in fiscal 2010 as compared to 2% in fiscal 2009. These adjustments to pre-tax income were comparable in both years in the dollar amount of the adjustment, except for research and development tax credits, which decreased by approximately $0.6 million; goodwill impairment, which increased by $0.3 million; and the elimination of the

domestic production activities deduction. The decrease in the research and development tax credit resulted from the elimination of the credit effective January 1, 2010. Currently, there are efforts underway in Congress to reinstate the credit effective on January 1, 2010. If that were to occur, we would recognize the benefits of the reinstatement at the time it becomes law. The goodwill impairment occurred during fiscal 2010, and a portion of the impairment related to non-deductible goodwill. The elimination of the domestic production activities deduction was the result of the loss during fiscal 2010, as the deduction applies only in cases of current taxable income.

Fiscal Year 2009 as compared to Fiscal Year 2008

Income taxes increased 12.7% to $15.1 million in fiscal 2009 as compared to $13.4 million in fiscal 2008. The increase was attributable primarily to the increase in income before income taxes and an increase in the effective tax rate. The effective tax rate increased to 36.4% in fiscal 2009 from 33.8% in fiscal 2008. The increase in the effective tax rate is attributable to a higher state income tax rate in fiscal 2009 as a result of our business in high tax-rate states, a decline in research and development tax credits as a percentage of net income in fiscal 2009, the benefit of favorable adjustments in our current liabilities in fiscal 2008, and the lower level of income earned in foreign jurisdictions in fiscal 2009 where effective rates are lower than the United States. During the second quarter of fiscal 2009, Congress passed and the President signed into law a bill that reinstated the research and development tax credit, which had expired as of December 31, 2007. The reinstatement caused a decline in our domestic effective tax rate.

Fiscal Year 2010 Fourth Quarter Summary

During the fourth quarter of fiscal 2010, net sales decreased 24.0% to $92.0 million as compared to $121.1 million in the fourth quarter of fiscal 2009. The decrease was primarily due to decreased net sales in the International and Commercial business units, as explained previously.

Gross margin percentage declined to 21.9% in the fourth quarter of fiscal 2010 from 22.8% in the fourth quarter of fiscal 2009. The decline in gross profit levels was primarily due to the impact of variances in manufacturing which were not materially different in dollar amounts from the fourth quarter of fiscal 2010 to the fourth quarter of fiscal 2009, but as a percent of sales, had an impact on the percentage. This was partially offset by lower warranty costs as a percent of sales in fiscal 2010 as compared to fiscal 2009.

Selling and general and administrative costs declined by 8.7% in the fourth quarter of fiscal 2010 to $20.0 million as compared to $21.9 million in the fourth quarter of fiscal 2009. The decline in general and administrative expenses resulted from lower payroll and benefits costs and lower professional fees, as previously explained. The lower level of selling expenses results from lower payroll and benefits, depreciation, and various marketing costs, as previously described, partially offset by higher commission expense.



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Product development costs increased by 17.4% in the fourth quarter of fiscal 2010 to $5.4 million as compared to $4.6 million in the fourth quarter of fiscal 2009. The increase was the result of an adjustment to professional fees in the fourth quarter of fiscal 2009 which decreased costs, and the mix of where engineers were spending time – customer contracts as opposed to product development.

Net interest income decreased to $0.4 million in the fourth quarter of fiscal 2010 from $0.5 million in the fourth quarter of fiscal 2009.

The effective tax rate for the fourth quarter of fiscal 2010 decreased to 19.0% from 67.6% in the fourth quarter of fiscal 2009. The decrease was due to the higher losses in foreign jurisdictions in the fourth quarter of fiscal 2009. The rate in fiscal 2009 was unusually high due to the adjustment of the estimated annual rate in the fourth quarter of fiscal 2009 as compared to the estimated effective tax rate used in the third quarter of fiscal 2009.

Liquidity and Capital Resources

Working capital was $115.6 million at May 1, 2010 compared to $107.4 million at May 2, 2009. We have historically financed working capital needs through a combination of cash flow from operations and borrowings under bank credit agreements.

Cash provided by operations for fiscal 2010 was $43.8 million. The net loss of $7.0 million plus $21.2 million in changes in net operating assets and liabilities, adjusted by depreciation and amortization of $22.3 million, the add back of $2.5 million equity in net losses of equity investments, $3.8 million of stock-based compensation, $1.4 million of goodwill impairment, $0.4 million of increased bad debt reserves and various other items offset by the $1.0 million gain on sale of property and equipment, generated the cash provided by operations.

The most significant drivers of the change in net operating assets were the decreases in inventories, accounts receivable, long-term receivables and costs and estimated earnings in excess of billings. These changes were offset by decreases in income taxes payable, accounts payable, and other accrued expenses and liabilities. The decrease in inventories and accounts receivables was the result of the lower level of net sales. Days sales outstanding increased to 48 days as of the end of fiscal 2010 from 38 days as of the end of fiscal 2009. Days inventory outstanding remained at approximately 43 days at the end of both fiscal years. Other changes in net operating assets were not significant and generally related to the change in overall business during the year. Overall, changes in operating assets and liabilities can be impacted by the timing of cash flows on large orders, as described above, that can cause significant fluctuations in the short term. As a result of various initiatives underway, including changes in manufacturing, purchasing, collections and payment processes, we expect to continue improving our cash flow relative to sales and costs of goods sold from operating activities.

Cash used by investing activities of $13.1 million in fiscal 2010 included $16.1 million used to purchase property and equipment, $0.4 million of purchased receivables, net, from an affiliate, $0.4 million for a loan to an equity investee and a $0.1 million investment, which was offset by $3.2 million of proceeds from insurance for assets destroyed in a fire, $0.5 million from sale of Ledtronics, our Malaysian affiliate, and $0.2 million proceeds from the sale of property and equipment. During fiscal 2010, we invested approximately $4.4 million in facilities; approximately $4.9 million in manufacturing equipment; approximately $2.1 million in information systems hardware and software; approximately $2.6 million in demonstration equipment; and approximately $2.1 million in rental equipment. These investments were made to support sales, in the case of demo and rental equipment, and other areas, primarily for maintaining existing infrastructure rather than for growth needs. The investment in facilities related to the closing of a transaction we committed to in fiscal 2007 to purchase a building in Brookings, South Dakota. For fiscal 2010, capital expenditures were 4.1% of net sales. The purchase of receivables from an affiliate consists of our purchase of receivables from Outcast Media International, Inc. ("Outcast") to facilitate cash flow from operations of its business. We intend to continue to limit capital expenditures to primarily maintenance activities in fiscal 2011.

Cash used in financing activities was approximately $3.5 million in fiscal 2010, which included $3.9 million paid to shareholders in the form of a dividend, offset by $0.4 million received for option exercises and $0.1 million in tax benefits from stock-based compensation.

Included in receivables as of May 1, 2010 was approximately $5.0 million of retainage on construction-type contracts, all of which is expected to be collected within one year.

We have used and expect to continue to use cash reserves and, to a lesser extent, bank borrowings to meet our short-term working capital requirements. On large product orders, the time between order acceptance and project completion may extend up to and exceed 24 months depending on the amount of custom work and the customer's delivery needs. We often receive down payments or progress payments on these product orders. To the extent that these payments are not sufficient to fund the costs and other expenses associated with these orders, we use working capital and bank borrowings to finance these cash requirements.



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Our product development activities include the enhancement of existing products and the development of new products from existing technologies. Product development expenses for fiscal years 2010, 2009 and 2008 were $21.9 million, $21.6 million and $20.8 million, respectively. We intend to incur expenditures at a rate higher than our long-term targeted level of 4% of net sales in fiscal 2011, although dollars spent may decrease, to develop new display products and solutions using various technologies to offer higher resolution and more cost-effective and energy-efficient displays, as well as to complement the services and solutions that are provided with the displays. We also intend to continue developing software applications related to our display systems to enable these products to continue to meet the needs and expectations of the marketplace.

We have a credit agreement with a bank that was amended on November 12, 2009, which provides for a $35.0 million line of credit and includes up to $15.0 million for standby letters of credit. The line of credit is due on November 15, 2010. The interest rate ranges from LIBOR plus 125 basis points to LIBOR plus 175 basis points depending on the ratio of interest-bearing debt to EBITDA, as defined. EBITDA is defined as net income before income taxes, interest expense, depreciation and amortization. The effective interest rate was 1.7% at May 1, 2010. We are assessed a loan fee equal to 0.125% per annum of any non-used portion of the loan. As of May 1, 2010, there were no advances under the line of credit.

The credit agreement is unsecured. In addition to provisions that limit dividends to the current year net profits after tax, the credit agreement also requires us to be in compliance with the following financial ratios:

- A minimum fixed charge coverage ratio of 2 to 1 at the end of any fiscal year. The ratio is equal to (a) EBITDA less dividends, a capital expenditure reserve of $6 million, and income tax expense, over (b) all principal and interest payments with respect to debt, excluding debt outstanding on the line of credit, and
- A ratio of interest-bearing debt, excluding any marketing obligations, to EBITDA of less than 1 to 1 at the end of any fiscal quarter.

We were in compliance with all applicable covenants as of May 1, 2010. The minimum fixed charge coverage ratio was 5.3 to 1, and the ratio of interest-bearing debt to EBITDA was approximately 0.1 to 1, as of May 1, 2010.

We are sometimes required to obtain performance bonds for display installations. We currently have a bonding line available through a surety company that provides for an aggregate of $100 million in bonded work outstanding. At May 1, 2010, we had approximately $42.3 million of bonded work outstanding against this line.

We believe that if our growth extends beyond current expectations or if we make any strategic investments, we may need to increase the amount of our credit facility or seek other means of financing our growth. We anticipate that we will be able to obtain any needed funds under commercially reasonable terms from our current lender or other sources. We believe that our working capital available from all sources will be adequate to meet the cash requirements of our operations in the foreseeable future.

Off-Balance-Sheet Arrangements and Contractual Obligations

We enter into various debt, lease, purchase and marketing obligations that require payments in future periods. Debt obligations represent primarily bank loans. Operating lease obligations relate primarily to leased office space and furniture. Long-term marketing obligations relate to amounts due in future periods for payments on net sales where we sold and installed our equipment in exchange for future advertising revenue. When certain advertising revenue thresholds are met, all or a portion of excess cash is owed back to the customer. Unconditional purchase obligations represent future payments for inventory and advertising rights purchase commitments.

Guarantees include a transaction in connection with the sale of equipment to a financial institution. Under this transaction, we entered into a contractual arrangement whereby we agreed to repurchase equipment at the end of the lease term at a fixed price of approximately $1.1 million. We have recognized a guarantee in the amount of $0.2 million under the provisions of ASC 460, Guarantees. Revenue related to this transaction of $4.8 million was recognized during fiscal 2007.

In connection with our investment in Outcast, we had previously guaranteed its outstanding debt of approximately $3.7 million. This debt would have matured at various times through calendar year 2012 at which time our guarantee would have expired. Our obligation was generally limited to 50% of the amounts outstanding, and we had recourse back to Outcast under a reimbursement agreement. The guarantee was undertaken to support Outcast's rollout of LCD displays in connection with its core business. The total amount accrued relating to the guarantee liability under the provisions of ASC 460 was less than $0.1 million as of May 1, 2010. In addition to the foregoing, Outcast was obligated to pay us on approximately $1.6 million of loans that matured during the third quarter of fiscal 2010.

During the fourth quarter of fiscal 2010, we entered into a binding arrangement which requires us at closing, which occurred in May 2010, to loan our share of the guaranteed amount of the debt of approximately $1.9 million to an investment fund managed by the Chairman of Outcast in exchange for a note. The proceeds of the note were used to purchase the rights in the debt from the lender. As further explained in Note 17 to the consolidated financial statements, we also exchanged our secured note for a new note from the investment fund and transferred our equity and convertible debt interests in Outcast into the investment fund. The senior note and the note resulting from the guarantee mature on the earlier of the receipt of proceeds from other portfolio investments held by the investment fund or December 31, 2010.

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The ability of the investment fund to pay these notes is contingent on the sale of some or all of its interests in portfolio companies, including Outcast. Based on our analysis of the investment fund and Outcast, we have not reserved any amounts against the new notes.

As of May 1, 2010, our debt, lease and purchase obligations were as follows (in thousands):

| Contractual Obligations | Total | Less than 1 year | 1-3 Years | 4-5 Years | After 5 Years |
|---|---|---|---|---|---|
| Cash commitments: | | | | | |
| Long-term marketing obligations | | | | | |
| and accrued interest | $891 | $290 | $594 | $7 | $- |
| Operating leases | 9,562 | 3,141 | 4,559 | 788 | 1,074 |
| Unconditional purchase obligations | 17,246 | 14,307 | 2,939 | - | - |
| Conditional purchase obligations | 1,000 | - | - | - | 1,000 |
| Total | $28,699 | $17,738 | $8,092 | $795 | $2,074 |
| | | | | | |
| Other commercial commitments: | | | | | |
| Standby letters of credit | $2,264 | $2,198 | $66 | $- | $- |
| Guarantees | $4,919 | $3,819 | $- | $- | $1,100 |

Inflation

We believe that inflation has not had a material effect on our operations or our financial condition, although it could in the future.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (codified as "ASC 105"). ASC 105 establishes the Accounting Standards Codification ("ASC") as the source of authoritative accounting literature recognized by the FASB to be applied by nongovernmental entities in addition to rules and interpretive releases of the Securities and Exchange Commission ("SEC"), which are sources of authoritative generally accepted accounting principles ("GAAP") for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. ASC 105 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of the financial statements. Following this statement, the FASB will issue new standards in the form of Accounting Standards Updates ("ASU"). This standard became effective for financial statements for interim and annual reporting periods ending after September 15, 2009. We began to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the second quarter of fiscal 2010. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on our consolidated financial statements.

In September 2006, the FASB issued ASC 820, Fair Value Measurements and Disclosures. ASC 820 establishes a framework for measuring fair value, clarifies the definition of fair value, and requires additional disclosures about fair value measurements that are already required or permitted by other accounting standards (except for measurements of share-based payments) and is expected to increase the consistency of those measurements. ASC 820, as issued, is effective for fiscal years beginning after November 15, 2007. In February 2008, the effective date of ASC 820 was deferred for one year for certain nonfinancial assets and nonfinancial liabilities. Accordingly, we adopted certain parts of ASC 820 at the beginning of fiscal 2009, and we adopted the remaining parts of ASC 820 at the beginning of fiscal 2010. The implementation of ASC 820 did not have a material impact on our consolidated financial statements at either date.

In December 2007, the FASB issued ASC 805, Business Combinations. ASC 805 provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. Some of the revised guidance of ASC 805 includes initial capitalization of acquired in-process research and development, expensing transaction and acquired restructuring costs and recording contingent consideration payments at fair value, with subsequent adjustments recorded to net earnings. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. We adopted ASC 805 on May 3, 2009, and any acquisitions we make in future periods will be subject to this new accounting guidance.



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In December 2007, the FASB issued ASC 810, Noncontrolling Interests in Consolidated Financial Statements. ASC 810 establishes new standards that will govern the accounting for and reporting of noncontrolling interests in partially owned subsidiaries. ASC 810 is effective for fiscal years beginning on or after December 15, 2008 and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements must be applied prospectively. We adopted ASC 810 on May 3, 2009. As of that date, we did not have any partially owned consolidated subsidiaries and, therefore, the adoption of this accounting standard had no effect on our consolidated financial statements.

In March 2008, the FASB issued ASC 815, Disclosures aboutDerivative Instruments and Hedging Activities, which changes the disclosure requirements for derivative instruments and hedging activities. ASC 815 requires companies to provide enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair values and amounts of gains and losses on derivative instruments, and disclosures about contingent features related to credit risk in derivative agreements. We adopted ASC 815 on May 3, 2009. The adoption of ASC 815 had no effect on our consolidated financial statements.

In April 2008, the FASB issued ASC 350, Intangibles – Goodwill and Other. ASC 350 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. ASC 350 is effective for fiscal years beginning after December 15, 2008. We adopted ASC 350 on May 3, 2009. The adoption of ASC 350 had no effect on our consolidated financial statements.

In June 2008, the FASB issued ASC Subtopic 260-10-45, Earnings Per Share – Other Presentation Matters. ASC 260-10-45 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share ("EPS") pursuant to the two-class method. ASC 260-10-45 is effective for fiscal years beginning after December 15, 2008. Upon adoption, all prior-period EPS data is required to be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform to the provisions of ASC 260-10-45. We adopted ASC 260-10-45 on May 3, 2009. Because we do not have any share-based payments that would be considered to be participating securities under these provisions, the implementation will not have any impact on our computation of EPS unless we issue such securities in the future.

In November 2008, the FASB ratified ASC Subtopic 323-10-65-1, Equity Method Investment Accounting Considerations. ASC 323-10-65-1 applies to all investments accounted for under the equity method and clarifies the accounting for certain transactions and impairment considerations involving equity method investments. We adopted ASC 323-10-65-1 on May 3, 2009. The adoption of ASC 323-10-65-1 did not have a material impact on our consolidated financial statements.

In November 2008, the FASB ratified ASC Subtopic 350-30-35-5A, Accounting for Defensive Intangible Assets. ASC 350-30-35-5A applies to defensive intangible assets, which are acquired intangible assets that an entity does not intend to actively use but does intend to prevent others from obtaining access to the asset. ASC 350-30-35-5A requires an entity to account for defensive intangible assets as a separate unit of accounting. Defensive intangible assets should not be included as part of the cost of an entity's existing intangible assets because the defensive intangible assets are separately identifiable. Defensive intangible assets must be recognized at fair value in accordance with ASC 805 and ASC 820. ASC 350-30-35-5A is effective for intangible assets acquired for fiscal years beginning after December 15, 2008. We adopted ASC 350-30-35-5A on May 3, 2009, and any intangible asset acquired after that date will be subject to this new accounting guidance.

In May 2008, the FASB issued ASC 470-20, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). ASC 470-20 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by ASC 420-20-25-12, Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants. Additionally, ASC 420-20 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. ASC 420-20 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. We adopted ASC 470-20 on May 3, 2009. The adoption of ASC 470-20 did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued three ASC Topics intended to provide additional application guidance and enhanced disclosures regarding fair value measurements and impairments of securities. ASC Subtopic 820-10-65-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides additional guidelines for estimating fair value in accordance with ASC Subtopic 820-10-50, Fair Value Measurements. ASC 320, Debt and Equity Securities, provides additional guidance related to the disclosure of impairment losses on securities and the accounting for impairment losses on debt securities. ASC 320 does not amend existing guidance related to other-than-temporary impairments of equity securities. ASC 825 and 270, Interim Disclosures about Fair Value of Financial Instruments, increases the frequency of fair value disclosures. These ASC topics and subtopics are effective for fiscal years and interim periods ending after June 15, 2009. We adopted these ASC topics and subtopics on May 3, 2009. The adoption of these ASC topics and subtopics did not have a material impact on our consolidated financial statements.



In May 2009, the FASB issued ASC 855, Subsequent Events. ASC 855 is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, ASC 855 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC 855 is effective for fiscal years and interim periods ending after June 15, 2009. We adopted ASC 855 on May 3, 2009. The adoption of ASC 855 did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued ASC Subtopic 605-25, Revenue Recognition-Multiple-Element Arrangements. ASC Subtopic 605-25 provides principles for allocation of consideration among its multiple elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. ASC Subtopic 605-25 introduces an estimated selling price method for allocating revenue to the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are currently assessing the impact of ASC 605-25 on our consolidated financial statements.

In August 2009, the FASB issued ASU 2009-05, Measuring Liabilities at Fair Value, which amends ASC 820, Fair Value Measurements and Disclosures. ASU 2009-05 provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASU 2009-05 also clarifies that when estimating fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance. We adopted ASU 2009-05 on August 30, 2009. The adoption of ASU 2009-05 did not have a material impact on our consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements, which amends ASC 820. ASU 2010-06 adds new requirements for disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in level 3 fair value measurements, and (4) the transfers between levels 1, 2, and 3 fair value measurements. ASU 2010-06 was effective as of January 30, 2010 for our reporting, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years, which we adopted on May 2, 2010. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. However, those disclosures are required for periods ending after initial adoption. The adoption of ASU-2010-06 did not have a material impact on our consolidated financial statements.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

DAKTRONICS, INC.

By: /s/ William R. Retterath
William R. Retterath, Chief Financial Officer

Date: June 17, 2010