DAKTRONICS INC /SD/
Form 10-Q
March 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended January 27, 2018

or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES 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	46-0306862
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

201 Daktronics Drive	
Brookings, SD	57006
(Address of Principal Executive Offices)	(Zip Code)

(605) 692-0200
(Registrant's Telephone Number, Including Area Code)

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The number of shares of the registrant’s common stock outstanding as of February 26, 2018 was 44,474,202.

DAKTRONICS, INC. AND SUBSIDIARIES
FORM 10-Q
For the Quarter Ended January 27, 2018

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

DAKTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	January 27, 2018 (unaudited)	April 29, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 49,042	$ 32,623
Restricted cash	28	216
Marketable securities	23,937	32,713
Accounts receivable, net	76,104	78,846
Inventories, net	70,451	66,486
Costs and estimated earnings in excess of billings	32,449	36,403
Current maturities of long-term receivables	2,199	2,274
Prepaid expenses and other assets	7,333	7,553
Income tax receivables	2,726	611
Total current assets	264,269	257,725
Long-term receivables, less current maturities	1,948	2,616
Goodwill	8,469	7,812
Intangibles, net	4,174	4,705
Investment in affiliates and other assets	4,888	4,534
Deferred income taxes	7,983	11,292
	27,462	30,959
PROPERTY AND EQUIPMENT:		
Land	2,172	2,099
Buildings	67,340	65,935
Machinery and equipment	88,143	84,189
Office furniture and equipment	5,799	5,604
Computer software and hardware	51,980	51,523
Equipment held for rental	287	374
Demonstration equipment	7,044	7,109
Transportation equipment	7,647	7,108
Property and equipment, net	230,412	223,941
Less accumulated depreciation	166,117	157,192
	64,295	66,749
TOTAL ASSETS	$ 356,026	$ 355,433

See notes to consolidated financial statements.

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DAKTRONICS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(continued)
(in thousands, except share data)

	January 27, 2018 (unaudited)	April 29, 2017
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 40,309	$ 51,499
Accrued expenses	27,578	25,033
Warranty obligations	13,291	13,578
Billings in excess of costs and estimated earnings	14,424	10,897
Customer deposits (billed or collected)	10,288	14,498
Deferred revenue (billed or collected)	13,906	12,137
Current portion of other long-term obligations	1,000	1,409
Income taxes payable	532	1,544
Total current liabilities	121,328	130,595
Long-term warranty obligations	15,909	14,321
Long-term deferred revenue (billed or collected)	6,916	5,434
Other long-term obligations	2,795	2,848
Long-term income tax payable	3,679	3,113
Deferred income taxes	984	836
Total long-term liabilities	30,283	26,552
TOTAL LIABILITIES	151,611	157,147
SHAREHOLDERS' EQUITY:		
Common Stock, no par value, authorized 120,000,000 shares; 44,778,945 and 44,372,357 shares issued and outstanding at January 27, 2018 and April 29, 2017, respectively	54,725	52,530
Additional paid-in capital	39,671	38,004
Retained earnings	114,028	113,967
Treasury Stock, at cost, 303,957 shares at January 27, 2018 and April 29, 2017, respectively	(1,834)	(1,834)
Accumulated other comprehensive loss	(2,175)	(4,381)
TOTAL SHAREHOLDERS' EQUITY	204,415	198,286
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 356,026	$ 355,433

See notes to consolidated financial statements.

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DAKTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Net sales	$130,316	$115,719	$472,353	$442,857
Cost of goods sold	101,749	92,403	356,536	336,166
Gross profit	28,567	23,316	115,817	106,691
Operating expenses:				
Selling expense	15,271	14,678	45,560	45,828
General and administrative	8,335	8,599	26,138	26,007
Product design and development	8,299	6,973	26,294	21,142
	31,905	30,250	97,992	92,977
Operating (loss) income	(3,338)	(6,934)	17,825	13,714
Nonoperating income (expense):				
Interest income	158	183	520	559
Interest expense	(40)	(56)	(173)	(174)
Other (expense) income, net	(487)	(305)	(429)	(250)
(Loss) income before income taxes	(3,707)	(7,112)	17,743	13,849
Income tax expense (benefit)	2,482	(1,985)	8,371	4,416
Net (loss) income	$(6,189)	$(5,127)	$9,372	$9,433
Weighted average shares outstanding:				
Basic	44,518	44,102	44,403	44,071
Diluted	44,518	44,102	44,798	44,206
(Loss) earnings per share:				
Basic	$(0.14)	$(0.12)	$0.21	$0.21
Diluted	$(0.14)	$(0.12)	$0.21	$0.21
Cash dividends declared per share	$0.07	$0.07	$0.21	$0.24

See notes to consolidated financial statements.

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DAKTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)
(unaudited)

	Three Months Ended		Nine Months Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Net (loss) income	$ (6,189)	$ (5,127)	$ 9,372	$ 9,433
Other comprehensive income (loss):				
Cumulative translation adjustments	1,228	(47)	2,289	(1,487)
Unrealized loss on available-for-sale securities, net of tax	(50)	(29)	(83)	(33)
Total other comprehensive income (loss), net of tax	1,178	(76)	2,206	(1,520)
Comprehensive (loss) income	$ (5,011)	$ (5,203)	$ 11,578	$ 7,913

See notes to consolidated financial statements.

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DAKTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended	
	January 27, 2018	January 28, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$9,372	$ 9,433
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,335	13,941
Impairment of intangible assets	—	830
(Gain) loss on sale of property, equipment and other assets	(1,211)	23
Share-based compensation	1,978	2,204
Equity in loss of affiliate	401	78
Provision for doubtful accounts	(55)	898
Deferred income taxes, net	3,429	(286)
Change in operating assets and liabilities	(296)	18,266
Net cash provided by operating activities	26,953	45,387
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(10,865)	(6,709)
Proceeds from sale of property, equipment and other assets	2,107	166
Purchases of marketable securities	(5,211)	(18,098)
Proceeds from sales or maturities of marketable securities	13,751	14,594
Purchases of equity investment	(1,027)	(1,374)
Net cash used in investing activities	(1,245)	(11,421)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	—	(8)
Proceeds from exercise of stock options	514	343
Principal payments on long-term obligations	(1,036)	(912)
Dividends paid	(9,311)	(10,566)
Payments for common shares repurchased	—	(1,825)
Tax payments related to RSU issuances	(311)	(261)
Net cash used in financing activities	(10,144)	(13,229)
EFFECT OF EXCHANGE RATE CHANGES	667	(680)
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	16,231	20,057
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
Beginning of period	32,839	28,526
End of period	$49,070	$ 48,583
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest	$161	$ 171

Income taxes, net of refunds	7,449	114
Supplemental schedule of non-cash investing and financing activities:		
Demonstration equipment transferred to inventory	72	218
Purchase of property and equipment included in accounts payable	1,163	397
Contributions of common stock under the ESPP	1,681	840

See notes to consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)
(unaudited)

Note 1. Basis of Presentation and Summary of Critical Accounting Policies

Daktronics, Inc. and subsidiaries (the “Company”, “Daktronics”, “we”, “our”, or “us”) is the world's industry leader in designin and manufacturing electronic scoreboards, programmable display systems and large screen video displays for sporting, commercial and transportation applications.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to fairly present our financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires management to make estimates and assumptions affecting the reported amounts therein. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from those estimates.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The balance sheet at April 29, 2017 has been derived from the audited financial statements at that date, but it does not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with our financial statements and notes thereto for the year ended April 29, 2017, which are contained in our Annual Report on Form 10-K previously filed with the Securities and Exchange Commission. The results of operations for the interim periods presented are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year.

Daktronics, Inc. operates on a 52- to 53-week fiscal year, with our fiscal year ending on the Saturday closest to April 30 of each year. When April 30 falls on a Wednesday, the fiscal year ends on the preceding Saturday. Within each fiscal year, each quarter is comprised of 13-week periods following the beginning of each fiscal year. In each 53-week year, an additional week is added to the first quarter, and each of the last three quarters is comprised of a 13-week period. The nine months ended January 27, 2018 and January 28, 2017 contained operating results for 39 weeks.

Investments in affiliates over which we have significant influence are accounted for under the equity method of accounting. Investments in affiliates over which we do not have the ability to exert significant influence over the affiliate's operating and financing activities are accounted for under the cost method of accounting. We have evaluated our relationships with our affiliates and have determined that these entities are not variable interest entities.

The aggregate amount of investments accounted for under the equity method was $3,303 and $2,678 at January 27, 2018 and April 29, 2017, respectively. The equity method requires us to report our share of losses up to our equity investment amount. Cash paid for investments in affiliates is included in the Purchases of equity investment line item in our consolidated statements of cash flows. Our proportional share of the respective affiliate’s earnings or losses is included in the Other (expense) income, net line item in our consolidated statements of operations. For the nine months ended January 27, 2018, our share of the losses of our affiliates was $401.

The aggregate amount of investments accounted for under the cost method was $42 at January 27, 2018 and April 29, 2017, respectively. There have not been any identified events or changes in circumstances that may have a significant adverse effect on their fair value, and it is not practical to estimate their fair value.

Recent Accounting Pronouncements

Accounting Standards Adopted

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments, which reduces the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. We early adopted ASU 2016-15 during the second quarter of fiscal 2018. Adoption of ASU 2016-15 did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash, which requires that the statements of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. Accordingly, restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on the statements of cash flows. We early adopted ASU 2016-18 during the second quarter of fiscal 2018 and applied its provisions retrospectively. Other than the change in presentation within the statements of cash flows, the adoption of ASU 2016-18 did not have an impact on our consolidated financial statements.

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Accounting Standards Not Yet Adopted

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate under the U.S. Tax Cuts and Jobs Act. ASU 2018-02 is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect that adopting ASU 2018-02 will have on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350), which simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. A goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for interim and annual periods beginning after December 15, 2019, and will require adoption on a prospective basis. We are currently evaluating the effect that adopting ASU 2017-04 will have on our consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) Intra-Entity Transfers of Assets Other than Inventory, which is intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party, which is an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP. This update eliminates the exception by requiring entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for us on April 29, 2018. We are currently evaluating the effect that adopting ASU 2016-16 will have on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, which provides guidance regarding the measurement and recognition of credit impairment for certain financial assets. ASU 2016-13 is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the effect that adopting ASU 2016-13 will have on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (that is, lessees and lessors). ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of their classification. ASU 2016-02 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect that adopting ASU 2016-02 will have on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is a comprehensive revenue recognition model that requires a company to recognize revenue from the transfer of goods or services to customers in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. The FASB has also issued ASUs 2016-08, 2016-10, 2016-12, and 2016-20 to clarify guidance with respect to principal versus agent considerations and the identification of performance obligations and licensing, to issue guidance on certain narrow areas, and to add practical expedients. We will adopt ASU 2014-09 and related guidance under the modified retrospective method during the first quarter of fiscal 2019. The implementation team has completed its evaluation of the revenue arrangements, analyzed contracts to identify key provisions impacted by Accounting Standards Codification ("ASC") 606, assessed the applicable accounting, and reviewed existing accounting policies and internal controls. We are in the process of implementing appropriate changes to our business processes, systems and controls to support recognition and disclosure under ASC 606. As a result of the evaluation performed to date, we do not anticipate that the adoption will significantly change the timing or amount of revenue recognized, based upon our current assessment of "point in time" and "over time" revenue recognition. Therefore, we do not anticipate that the adoption of ASU 2014-09 will materially impact our consolidated results of operations and financial statements, other than the additional disclosure requirements.

Note 2. Earnings Per Share ("EPS")

Basic EPS is computed by dividing income attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution which may occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock which share in our earnings.

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The following is a reconciliation of the net income and common share amounts used in the calculation of basic and diluted EPS for the three and nine months ended January 27, 2018 and January 28, 2017:

	Net (loss) income	Shares	Per share (loss) income
For the three months ended January 27, 2018			
Basic (loss) earnings per share	$(6,189)	44,518	$(0.14)
Dilution associated with stock compensation plans	—	—	—
Diluted (loss) earnings per share	$(6,189)	44,518	$(0.14)
For the three months ended January 28, 2017			
Basic (loss) earnings per share	$(5,127)	44,102	$(0.12)
Dilution associated with stock compensation plans	—	—	—
Diluted (loss) earnings per share	$(5,127)	44,102	$(0.12)
For the nine months ended January 27, 2018			
Basic earnings per share	$9,372	44,403	$0.21
Dilution associated with stock compensation plans	—	395	—
Diluted earnings per share	$9,372	44,798	$0.21
For the nine months ended January 28, 2017			
Basic earnings per share	$9,433	44,071	$0.21
Dilution associated with stock compensation plans	—	135	—
Diluted earnings per share	$9,433	44,206	$0.21

Options outstanding to purchase 1,203 shares of common stock with a weighted average exercise price of $11.45 for the three months ended January 27, 2018 and 1,354 shares of common stock with a weighted average exercise price of $13.86 for the three months ended January 28, 2017 were not included in the computation of diluted (loss) earnings per share because the effects would be anti-dilutive.

Options outstanding to purchase 1,281 shares of common stock with a weighted average exercise price of $12.55 for the nine months ended January 27, 2018 and 2,380 shares of common stock with a weighted average exercise price of $13.27 for the nine months ended January 28, 2017 were not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

Note 3. Share Repurchase Program

On June 17, 2016, our Board of Directors approved a stock repurchase program under which Daktronics, Inc. may purchase up to $40,000 of its outstanding shares of common stock. Under this program, we may repurchase shares from time to time in open market transactions and in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The repurchase program does not require the repurchase of a specific number of shares and may be terminated at any time. During the first, second and third quarter of fiscal 2018, we had no repurchases of shares of our outstanding common stock. During the first quarter of fiscal 2017, we repurchased 284 shares of common stock at a total cost of $1,825, and there were no other purchases during fiscal 2017. As of January 27, 2018, we had $38,175 of remaining capacity under our current share repurchase program.

Note 4. Segment Disclosure

We have organized our business into five segments which meet the definition of reportable segments under ASC 280-10, Segment Reporting: Commercial, Live Events, High School Park and Recreation, Transportation, and International. These segments are based on the type of customer or geography and are the same as our business units.

Our Commercial business unit primarily consists of sales of our video display systems, digital billboards, Galaxy® and Fuelight™ product lines to resellers (primarily sign companies), Out-of-Home ("OOH") companies, national retailers, quick-serve restaurants, casinos and petroleum retailers. Our Live Events business unit primarily consists of sales of integrated scoring and video display systems to college and professional sports facilities and convention centers and sales of our mobile display technology to video rental organizations and other live events type venues. Our High School Park and Recreation business unit primarily consists of sales of scoring systems, Galaxy® displays and video display systems to primary and secondary education facilities. Our Transportation business unit primarily consists of sales of our Vanguard® and Galaxy® product lines to governmental transportation departments, airlines and other transportation related customers. Our International business unit consists of sales of all product lines outside the United States and Canada. In our International business unit, we focus on product lines related to integrated scoring and video display systems for sports and commercial applications, OOH advertising products, and European transportation related products.

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Our segment reporting presents results through gross profit less selling costs. Gross profit is net sales less cost of goods sold. Cost of goods sold consists primarily of inventory, consumables, salaries, other employee-related costs, facilities-related costs for manufacturing locations, machinery and equipment maintenance and depreciation, site sub-contractors, warranty costs, and other service delivery expenses. Selling expenses consist primarily of salaries, other employee-related costs, travel and entertainment expenses, facilities-related costs for sales and service offices, bad debt expenses, third-party commissions and expenditures for marketing efforts, including the costs of collateral materials, conventions and trade shows, product demos, and supplies. Segment profit excludes general and administration expense, product development expense, interest income and expense, non-operating income and income tax expense. Assets are not allocated to the segments. Depreciation and amortization are allocated to each segment based on various financial measures; however, some depreciation and amortization are corporate in nature and remain unallocated. Our segments follow the same accounting policies as those described in Note 1 of our Annual Report on Form 10-K for the fiscal year ended April 29, 2017. Unabsorbed manufacturing costs are allocated to the business unit benefiting most from that manufacturing location's production capabilities. Unabsorbed costs of domestic field sales and services infrastructure, including most field administrative staff, are allocated to the Commercial, Live Events, High School Park and Recreation, and Transportation business units based on cost of sales. Shared manufacturing, buildings and utilities, and procurement costs are allocated based on payroll dollars, square footage and various other financial measures.

We do not maintain information on sales by products; therefore, disclosure of such information is not practical.

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The following table sets forth certain financial information for each of our five reporting segments for the periods indicated:

	Three Months Ended		Nine Months Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Net sales:				
Commercial	$35,483	$ 36,165	$102,723	$112,342
Live Events	45,167	41,036	191,432	157,032
High School Park and Recreation	11,463	12,653	69,602	68,977
Transportation	11,189	9,130	46,577	39,517
International	27,014	16,735	62,019	64,989
	130,316	115,719	472,353	442,857
Gross profit:				
Commercial	7,546	7,711	21,085	27,418
Live Events	9,747	6,629	43,056	30,430
High School Park and Recreation	2,768	3,198	23,672	21,900
Transportation	3,570	2,325	16,696	12,966
International	4,936	3,453	11,308	13,977
	28,567	23,316	115,817	106,691
Selling expense:				
Commercial	4,415	4,575	13,778	13,949
Live Events	3,843	3,417	10,562	9,686
High School Park and Recreation	2,726	2,581	8,073	7,532
Transportation	945	952	3,084	3,461
International	3,342	3,153	10,063	11,200
	15,271	14,678	45,560	45,828
Non-allocated operating expenses:				
General and administrative	8,335	8,599	26,138	26,007
Product design and development	8,299	6,973	26,294	21,142
Operating (loss) income	(3,338)	(6,934)	17,825	13,714
Nonoperating income (expense):				
Interest income	158	183	520	559
Interest expense	(40)	(56)	(173)	(174)
Other (expense) income, net	(487)	(305)	(429)	(250)
(Loss) income before income taxes	(3,707)	(7,112)	17,743	13,849
Income tax expense (benefit)	2,482	(1,985)	8,371	4,416
Net (loss) income	$(6,189)	$ (5,127)	$9,372	$9,433
Depreciation, amortization and impairment:				
Commercial	$1,550	$ 1,616	$4,628	$4,777
Live Events	1,192	1,245	3,626	3,798
High School Park and Recreation	401	421	1,245	1,310
Transportation	281	311	860	957

International	284	423	835	1,914
Unallocated corporate depreciation	725	683	2,141	2,015
	$4,433	$ 4,699	$13,335	$ 14,771

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No single geographic area comprises a material amount of our net sales or property and equipment, net of accumulated depreciation, other than the United States. The following table presents information about net sales and property and equipment, net of accumulated depreciation, in the United States and elsewhere:

	Three Months Ended		Nine Months Ended	
	January 27, 2018	January 28, 2017	January 27, 2018	January 28, 2017
Net sales:				
United States	$ 98,297	$ 94,174	$ 396,155	$ 363,766
Outside United States	32,019	21,545	76,198	79,091
	$ 130,316	$ 115,719	$ 472,353	$ 442,857

	January 27, 2018	April 29, 2017
Property and equipment, net of accumulated depreciation:		
United States	$ 58,333	$ 62,425
Outside United States	5,962	4,324
	$ 64,295	$ 66,749

We have numerous customers worldwide for sales of our products and services; therefore, we are not economically dependent on a limited number of customers for the sale of our products and services except with respect to our dependence on two major digital billboard customers in our Commercial business unit.

Note 5. Marketable Securities

We have a cash management program which provides for the investment of cash balances not used in current operations. We classify our investments in marketable securities as available-for-sale in accordance with the provisions of ASC 320, Investments – Debt and Equity Securities. Marketable securities classified as available-for-sale are reported at fair value with unrealized gains or losses, net of tax, reported in accumulated other comprehensive loss. As it relates to fixed income marketable securities, it is not likely we will be required to sell any of these investments before recovery of the entire amortized cost basis. In addition, as of January 27, 2018, we anticipate we will recover the entire amortized cost basis of such fixed income securities, and we have determined no other-than-temporary impairments associated with credit losses were required to be recognized. The cost of securities sold is based on the specific identification method. Where quoted market prices are not available, we use the market price of similar types of securities traded in the market to estimate fair value.

As of January 27, 2018 and April 29, 2017, our available-for-sale securities consisted of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Balance as of January 27, 2018				
Certificates of deposit	$ 8,918	$ —	$ —	$ 8,918
U.S. Government sponsored entities	9,104	—	(73)	9,031
Municipal bonds	6,001	—	(13)	5,988
	$ 24,023	$ —	$ (86)	$ 23,937
Balance as of April 29, 2017				
Certificates of deposit	$ 12,487	$ —	$ —	$ 12,487
U.S. Government securities	400	—	—	400
U.S. Government sponsored entities	12,260	—	(22)	12,238

Municipal bonds	7,574	14	—	7,588
	$ 32,721	$ 14	$ (22)	$ 32,713

Realized gains or losses on investments are recorded in our consolidated statements of operations as other income (expense), net. Upon the sale of a security classified as available-for-sale, the security's specific unrealized gain (loss) is reclassified out of accumulated other comprehensive loss into earnings based on the specific identification method. In the nine months ended January 27, 2018 and January 28, 2017, the reclassifications from accumulated other comprehensive loss to earnings were immaterial.

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All available-for-sale securities are classified as current assets, as they are readily available to support our current operating needs. The contractual maturities of available-for-sale debt securities as of January 27, 2018 were as follows:

	Less than 12 months	1-5 Years	Total
Certificates of deposit	$ 5,207	$ 3,711	$ 8,918
U.S. Government sponsored entities	999	8,032	9,031
Municipal bonds	2,598	3,390	5,988
	$ 8,804	$ 15,133	$ 23,937

Note 6. Business Combinations

ADFLOW Acquisition

We have a contingent liability related to a prior year acquisition of ADFLOW Networks, Inc. ("ADFLOW"), on March 15, 2016. For more information related to the ADFLOW acquisition, see "Note 4. Business Combinations" of our Annual Report on Form 10-K for the fiscal year ended April 29, 2017. The fair value of such contingent consideration is estimated as of the acquisition date, and subsequently at the end of each reporting period, using forecasted cash flows. Projecting future cash flows requires us to make significant estimates and assumptions regarding future events, conditions, or revenues being achieved under the subject contingent agreement as well as the appropriate discount rate. Such valuation techniques include one or more significant inputs that are not observable. See "Note 13. Fair Value Measurement" for more information.

Note 7. Sale of Non-Digital Division

In September 2017, we sold our non-digital division assets, primarily consisting of inventory, non-digital manufacturing equipment, patented and unpatented technology and know-how, customer lists, and backlog, net of warranty obligations and accounts payable with a net book value of $517. We recorded a gain of $1,267 on the disposal, which is included in cost of goods sold in the International business unit.

Note 8. Goodwill

The changes in the carrying amount of goodwill related to each reportable segment for the nine months ended January 27, 2018 were as follows:

	Live Events	Commercial	Transportation	International	Total
Balance as of April 29, 2017	$ 2,274	$ 3,199	$ 45	$ 2,294	$ 7,812
Foreign currency translation	38	258	38	323	657
Balance as of January 27, 2018	$ 2,312	$ 3,457	$ 83	$ 2,617	$ 8,469

We perform an analysis of goodwill on an annual basis, and it is tested for impairment more frequently if events or changes in circumstances indicate that an asset might be impaired. We performed our annual analysis based on the goodwill amount as of the first business day of our third quarter in fiscal 2018, which was October 29, 2017. The result of the analysis indicated no goodwill impairment existed as of that date.

Note 9. Inventories

Inventories consisted of the following:

	January 27, 2018	April 29, 2017
Raw materials	$ 26,833	$ 24,801
Work-in-process	11,813	7,366
Finished goods	31,805	34,319
	$ 70,451	$ 66,486

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Note 10. Receivables

Accounts receivable are reported net of an allowance for doubtful accounts of $2,311 and $2,610 at January 27, 2018 and April 29, 2017, respectively. Included in accounts receivable as of January 27, 2018 and April 29, 2017 was $2,044 and $1,857, respectively, of retainage on construction-type contracts, all of which is expected to be collected within one year.

In connection with certain sales transactions, we have entered into sales contracts with installment payments exceeding twelve months and sales-type leases. The present value of these contracts and leases are recorded as a receivable as the revenue is recognized in accordance with GAAP, and profit is recognized to the extent the present value is in excess of cost. We generally retain a security interest in the equipment or in the cash flow generated by the equipment until the contract is paid. The present value of long-term contracts and lease receivables, including accrued interest and current maturities, was $4,147 and $4,890 as of January 27, 2018 and April 29, 2017, respectively. Contract and lease receivables bearing annual interest rates of 4.8 to 10.0 percent are due in varying annual installments through August 2024. The face amount of long-term receivables was $4,547 and $5,201 as of January 27, 2018 and April 29, 2017, respectively.

Note 11. Commitments and Contingencies

Litigation: We are a party to legal proceedings and claims which arise during the ordinary course of business. We review our legal proceedings and claims, regulatory reviews and inspections, and other legal matters on an ongoing basis and follow appropriate accounting guidance when making accrual and disclosure decisions. We establish accruals for those contingencies when the incurrence of a loss is probable and can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our financial statements to not be misleading. We do not record an accrual when the likelihood of loss being incurred is probable, but the amount cannot be reasonably estimated, or when the loss is believed to be only reasonably possible or remote, although disclosures will be made for material matters as required by ASC 450-20, Contingencies - Loss Contingencies. Our assessment of whether a loss is reasonably possible or probable is based on our assessment and consultation with legal counsel regarding the ultimate outcome of the matter following all appeals.

As of January 27, 2018 and April 29, 2017, we did not believe there was a reasonable probability that any material loss for these various claims or legal actions, including reviews, inspections or other legal proceedings, if any, would be incurred. Accordingly, no material accrual or disclosure of a potential range of loss has been made related to these matters. In the opinion of management, the ultimate liability of all unresolved legal proceedings is not expected to have a material effect on our financial position, liquidity or capital resources.

Warranties: We offer a standard parts coverage warranty for periods varying from one to five years for most of our products. We also offer additional types of warranties to include on-site labor, routine maintenance and event support. In addition, the terms of warranties on some installations can vary from one to 10 years. The specific terms and conditions of these warranties vary primarily depending on the type of product sold. We estimate the costs which may be incurred under the contractual warranty obligations and record a liability in the amount of such estimated costs at the time the revenue is recognized. Factors affecting our estimate of the cost of our warranty obligations include historical experience and expectations of future conditions. We continually assess the adequacy of our recorded warranty accruals and, to the extent we experience any changes in warranty claim activity or costs associated with servicing those claims, our accrued warranty obligation is adjusted accordingly.

During fiscal 2016, we discovered a warranty issue caused by a mechanical device failure within a module for displays primarily in our OOH applications built prior to fiscal 2013. The device failure causes a visual defect in the display. Over the past three years, we have deployed preventative maintenance to sites impacted and repaired the defective devices in our repair center. When certain site locations have exceeded an acceptable failure rate, we have refurbished the display to meet customers' expectations under contractual obligations. During fiscal 2017, 2016, and 2015 we recognized warranty expense for probable and reasonably estimated costs to remediate this issue of $1,766, $9,174, and $1,168, respectively. We recognized warranty expense related to this issue of $4,034 during the nine months ended January 27, 2018. This increased expense level is not the result of a new issue, but is primarily based on our decision to preserve our market leadership. We elected to expand the refurbishments for customer relationship purposes. As of January 27, 2018, we had $3,066 remaining in accrued warranty obligations for the estimate of probable future claims related to this issue. Although many of our contractual warranty arrangements are nearing expiration for products with this issue, we may incur additional discretionary costs to maintain customer relationships or for higher than expected failure rates. Accordingly, it is possible that the ultimate cost to resolve this matter may increase and be materially different from the amount of the current estimate and accrual.

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Changes in our warranty obligation for the nine months ended January 27, 2018 consisted of the following:

	Amount
Beginning accrued warranty obligations	$27,899
Warranties issued during the period	9,652
Settlements made during the period	(13,581)
Changes in accrued warranty obligations for pre-existing warranties during the period, including expirations	5,230
Ending accrued warranty obligations	$29,200

Performance guarantees: We have entered into standby letters of credit and surety bonds with financial institutions relating to the guarantee of our future performance on contracts, primarily construction type contracts. As of January 27, 2018, we had outstanding letters of credit and surety bonds in the amount of $13,396 and $8,330, respectively. Performance guarantees are issued to certain customers to guarantee the operation and installation of the equipment and our ability to complete a contract. These performance guarantees have various terms, which are generally one year.

Leases: We lease vehicles, office space and equipment for various global sales and service locations, including manufacturing space in the United States and China. Some of these leases, including the lease for manufacturing facilities in Sioux Falls, South Dakota, include provisions for extensions or purchase. The lease for the facilities in Sioux Falls, South Dakota, can be extended for an additional five years past its current term, which ends March 31, 2022, and it contains an option to purchase the property subject to the lease from March 31, 2017 to March 31, 2022 for $9,000, which approximates fair value. If the lease is extended, the purchase option increases to $9,090 for the year ending March 31, 2023 and $9,180 for the year ending March 31, 2024. Rental expense for operating leases was $2,568 and $2,358 for the nine months ended January 27, 2018 and January 28, 2017, respectively.

Future minimum payments under noncancelable operating leases, excluding executory costs such as management and maintenance fees, with initial or remaining terms of one year or more consisted of the following at January 27, 2018:

Fiscal years ending	Amount
2018	$ 775
2019	2,624
2020	2,101
2021	1,771
2022	1,437
Thereafter	544
	$ 9,252

Purchase commitments: From time to time, we commit to purchase inventory, advertising, cloud-based information systems, information technology maintenance and support services, and various other products and services over periods that extend beyond one year. As of January 27, 2018, we were obligated under the following conditional and unconditional purchase commitments, which included $350 in conditional purchase commitments:

Fiscal years ending	Amount
2018	$ 665
2019	2,675
2020	1,898
2021	313
2022	143
Thereafter	380
	$ 6,074

Note 12. Income Taxes

We are subject to U.S. Federal income tax as well as income taxes of multiple state and foreign jurisdictions. Due to various factors and operating in multiple state and foreign jurisdictions, our effective tax is subject to fluctuation. As a result of the expiration of statutes of limitations, our fiscal years 2015, 2016, and 2017 are the remaining years open under statutes of limitations for federal and state income tax examinations. Certain subsidiaries are also subject to income tax in several foreign jurisdictions which have open tax years varying by jurisdiction beginning in fiscal 2008.

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As of January 27, 2018, we had $3,179 of unrecognized tax benefits which would reduce our effective tax rate if recognized.

On December 22, 2017, President Trump signed the U.S. Tax Cuts and Jobs Act (the "Tax Act") into law. The Tax Act makes broad and complex changes to the U.S. tax code. Some of the most significant provisions of the Tax Act impacting us include a reduction of the U.S. federal corporate income tax rate from 35% to 21%, a one-time "deemed repatriation" tax on previously untaxed accumulated earnings and profits of certain subsidiaries in non-U.S. jurisdictions, and a transition of U.S. international taxation from a worldwide tax system to a territorial tax system. GAAP accounting for income taxes requires us to record the impact of any tax law change in the quarter the law change is enacted. On December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 which provides additional guidance allowing companies to record provisional amounts during a measurement period, not to exceed one year from the enactment date of the Tax Act, to account for the impacts of the Tax Act in their financial statements when companies do not have the necessary information available, prepared or analyzed in reasonable detail to complete their accounting for the effects of the changes in the Tax Act. We have accounted for the impacts of the Tax Act to the extent a reasonable estimate could be made during the quarter ended January 27, 2018. We will continue to refine our estimates throughout the measurement period or until the accounting is complete, and the impact of the Tax Act may differ from these estimates, possibly materially, due to, among other things, changes in estimates and assumptions that we have made.
As a result, we have recorded a provisional reduction to our net deferred tax asset (which represents future tax benefits) of $3,679 which resulted in a corresponding increase to income tax expense for the quarter ended January 27, 2018. The revaluation of our net deferred tax asset is subject to further adjustments during the measurement period due to the complexity of determining our net deferred tax asset as of the enactment date of the Tax Act. Some of the information necessary to determine the accounting impacts of the tax rate change includes finalization of our fiscal 2018 tax return as well as refining the analysis of which existing deferred balances at the enactment date will reverse in fiscal 2018 and which deferred balances will reverse after fiscal 2018.
Additionally, we have recorded a provisional increase to income tax expense of $601 for the one-time deemed repatriation tax. The estimate of the deemed repatriation tax is based, in part, on the amount of cash and other specified assets anticipated to be held by Daktronics' foreign subsidiaries as of April 28, 2018. As a result, the final amount may change as the amounts are finalized. We plan to pay the tax payable in installments in accordance with the Tax Act.

Note 13. Fair Value Measurement

ASC 820, Fair Value Measurement, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. It also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy within ASC 820 distinguishes between the following three levels of inputs which may be utilized when measuring fair value.

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices included within Level 1 for the assets or liabilities, either directly or indirectly (for example, quoted market prices for similar assets and liabilities in active markets or quoted market prices for identical assets or liabilities in markets not considered to be active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated input).

Level 3 - Unobservable inputs supported by little or no market activity based on our own assumptions used to measure assets and liabilities.

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The following table sets forth by Level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis at January 27, 2018 and April 29, 2017 according to the valuation techniques we used to determine their fair values. There have been no transfers of assets or liabilities among the fair value hierarchies presented.

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Balance as of January 27, 2018				
Cash and cash equivalents	$49,042	$—	$—	$49,042
Restricted cash	28	—	—	28
Available-for-sale securities:				
Certificates of deposit	—	8,918	—	8,918
U.S. Government sponsored entities	—	9,031	—	9,031
Municipal bonds	—	5,988	—	5,988
Derivatives - asset position	—	64	—	64
Derivatives - liability position	—	(720)	—	(720)
Contingent liability	—	—	(1,034)	(1,034)
	$49,070	$23,281	$(1,034)	$71,317
Balance as of April 29, 2017				
Cash and cash equivalents	$32,623	$—	$—	$32,623
Restricted cash	216	—	—	216
Available-for-sale securities:				
Certificates of deposit	—	12,487	—	12,487
U.S. Government securities	400	—	—	400
U.S. Government sponsored entities	—	12,238	—	12,238
Municipal bonds	—	7,588	—	7,588
Derivatives - asset position	—	64	—	64
Derivatives - liability position	—	(277)	—	(277)
Contingent liability	—	—	(1,891)	(1,891)
	$33,239	$32,100	$(1,891)	$63,448

A roll forward of the Level 3 contingent liability, both short- and long-term, for the nine months ended January 27, 2018 is as follows:

Contingent liability as of April 29, 2017