DAKTRONICS INC /SD/
Form 10-Q
November 26, 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 October 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 every Interactive Data File required to be submitted 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 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	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 November 21, 2018 was 44,860,543.

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

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	October 27, 2018	April 28, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 35,557	$ 29,727
Restricted cash	26	28
Marketable securities	31,721	34,522
Accounts receivable, net	92,194	77,387
Inventories	69,529	75,335
Contract assets	30,633	30,968
Current maturities of long-term receivables	1,305	1,752
Prepaid expenses and other current assets	8,172	9,029
Income tax receivables	6,015	5,385
Total current assets	275,152	264,133
Property and equipment, net	69,470	68,059
Long-term receivables, less current maturities	1,348	1,641
Goodwill	8,053	8,264
Intangibles, net	6,101	3,682
Investment in affiliates and other assets	5,623	5,091
Deferred income taxes	7,939	7,930
Total non-current assets	98,534	94,667
TOTAL ASSETS	$ 373,686	$ 358,800
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 46,764	$ 48,845
Contract liabilities	47,198	39,379
Accrued expenses	29,717	27,445
Warranty obligations	13,009	13,891
Current portion of other long-term obligations	1,106	1,088
Income taxes payable	272	660
Total current liabilities	138,066	131,308
Long-term warranty obligations	15,709	16,062
Long-term contract liabilities	8,520	7,475
Other long-term obligations, less current portion	2,420	2,285
Long-term income taxes payable	3,623	3,440
Deferred income taxes	611	614

Total long-term liabilities	30,883	29,876

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

	October 27, 2018	April 28, 2018
SHAREHOLDERS' EQUITY:		
Common Stock, no par value, authorized 115,000,000 shares; 45,031,769 and 44,779,534 shares issued and outstanding at October 27, 2018 and April 28, 2018, respectively	55,608	54,731
Additional paid-in capital	41,345	40,328
Retained earnings	114,033	107,105
Treasury Stock, at cost, 303,957 shares at October 27, 2018 and April 28, 2018, respectively	(1,834)	(1,834)
Accumulated other comprehensive loss	(4,415)	(2,714)
TOTAL SHAREHOLDERS' EQUITY	204,737	197,616
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 373,686	$ 358,800

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	October 27, 2018	October 28, 2017	October 27, 2018	October 28, 2017
Net sales	$172,692	$169,309	$326,880	$342,037
Cost of sales	129,935	126,705	245,876	254,787
Gross profit	42,757	42,604	81,004	87,250
Operating expenses:				
Selling	16,125	15,350	32,503	30,289
General and administrative	8,574	8,868	17,111	17,803
Product design and development	9,039	8,948	18,331	17,995
	33,738	33,166	67,945	66,087
Operating income	9,019	9,438	13,059	21,163
Nonoperating income (expense):				
Interest income	188	151	385	362
Interest expense	(2)	(47)	(41)	(133)
Other (expense) income, net	(66)	(87)	(220)	58
Income before income taxes	9,139	9,455	13,183	21,450
Income tax expense	533	2,323	3	5,889
Net income	$8,606	$7,132	$13,180	$15,561
Weighted average shares outstanding:				
Basic	44,780	44,412	44,717	44,345
Diluted	44,950	44,679	44,994	44,696
Earnings per share:				
Basic	$0.19	$0.16	$0.29	$0.35
Diluted	$0.19	$0.16	$0.29	$0.35

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	October 27, 2018	October 28, 2017	October 27, 2018	October 28, 2017
Net income	$ 8,606	$ 7,132	$ 13,180	$ 15,561
Other comprehensive (loss) income:				
Cumulative translation adjustments	(555)	(20)	(1,694)	1,061
Unrealized gain (loss) on available-for-sale securities, net of tax	6	(26)	(7)	(33)
Total other comprehensive (loss) income, net of tax	(549)	(46)	(1,701)	1,028
Comprehensive income	$ 8,057	$ 7,086	$ 11,479	$ 16,589

See notes to condensed consolidated financial statements.

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DAKTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)
(unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance as of April 28, 2018	$54,731	$40,328	$107,105	$(1,834)	$ (2,714)	$197,616
Net income	—	—	4,574	—	—	4,574
Cumulative translation adjustments	—	—	—	—	(1,139)	(1,139)
Unrealized (loss) gain on available-for-sale securities, net of tax	—	—	—	—	(13)	(13)
Share-based compensation	—	651	—	—	—	651
Exercise of stock options	57	—	—	—	—	57
Employee savings plan activity	820	—	—	—	—	820
Dividends declared ($0.07 per share)	—	—	(3,121)	—	—	(3,121)
Balance as of July 28, 2018	55,608	40,979	108,558	(1,834)	(3,866)	199,445
Net income	—	—	8,606	—	—	8,606
Cumulative translation adjustments	—	—	—	—	(555)	(555)
Unrealized (loss) gain on available-for-sale securities, net of tax	—	—	—	—	6	6
Share-based compensation	—	612	—	—	—	612
Tax payments related to RSU issuances	—	(246)	—	—	—	(246)
Dividends declared ($0.07 per share)	—	—	(3,131)	—	—	(3,131)
Balance as of October 27, 2018	$55,608	$41,345	$114,033	$(1,834)	$ (4,415)	$204,737

See notes to condensed consolidated financial statements.

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DAKTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(continued)
(in thousands)
(unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance as of April 29, 2017	$52,530	$38,004	$113,967	$(1,834)	$ (4,381)	$198,286
Net income	—	—	8,429	—	—	8,429
Cumulative translation adjustments	—	—	—	—	1,081	1,081
Unrealized (loss) gain on available-for-sale securities, net of tax	—	—	—	—	(7)	(7)
Share-based compensation	—	673	—	—	—	673
Exercise of stock options	211	—	—	—	—	211
Employee savings plan activity	820	—	—	—	—	820
Dividends declared ($0.07 per share)	—	—	(3,094)	—	—	(3,094)
Balance as of July 29, 2017	53,561	38,677	119,302	(1,834)	(3,307)	206,399
Net income	—	—	7,132	—	—	7,132
Cumulative translation adjustments	—	—	—	—	(20)	(20)
Unrealized (loss) gain on available-for-sale securities, net of tax	—	—	—	—	(26)	(26)
Share-based compensation	—	668	—	—	—	668
Exercise of stock options	301	—	—	—	—	301
Tax payments related to RSU issuances	—	(311)	—	—	—	(311)
Dividends declared ($0.07 per share)	—	—	(3,104)	—	—	(3,104)
Balance as of October 28, 2017	$53,862	$39,034	$123,330	$(1,834)	$ (3,353)	$211,039

See notes to condensed consolidated financial statements.

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

	Six Months Ended October 27, 2018	Six Months Ended October 28, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$13,180	$ 15,561
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,300	8,902
Gain on sale of property, equipment and other assets	(93)	(1,221)
Share-based compensation	1,263	1,341
Contingent consideration adjustment	(956)	—
Equity in loss of affiliate	265	191
Provision for doubtful accounts	51	(21)
Deferred income taxes, net	(85)	81
Change in operating assets and liabilities	(368)	(15,496)
Net cash provided by operating activities	22,557	9,338
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(9,833)	(7,735)
Proceeds from sales of property, equipment and other assets	182	2,000
Purchases of marketable securities	(9,209)	—
Proceeds from sales or maturities of marketable securities	12,034	10,802
Purchases of equity investment	(854)	(607)
Acquisitions, net of cash acquired	(2,250)	—
Net cash (used in) provided by investing activities	(9,930)	4,460
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	57	511
Principal payments on long-term obligations	(431)	(1,027)
Dividends paid	(6,252)	(6,197)
Tax payments related to RSU issuances	(246)	(311)
Net cash used in financing activities	(6,872)	(7,024)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	73	113
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	5,828	6,887
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
Beginning of period	29,755	32,839
End of period	$35,583	$ 39,726
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest	$84	$ 134
Income taxes, net of refunds	954	6,934

Supplemental schedule of non-cash investing and financing activities:		
Demonstration equipment transferred to inventory	$97	$ 48
Purchase of property and equipment included in accounts payable	2,348	1,312
Contributions of common stock under the ESPP	820	820

See notes to condensed consolidated financial statements.

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

Note 1. Basis of Presentation

Daktronics, Inc. and its subsidiaries (the “Company”, “Daktronics”, “we”, “our”, or “us”) are the world's industry leader in designing 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 condensed 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 28, 2018, has been derived from the audited financial statements at that date, but it does not include all 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 28, 2018, which are contained in our Annual Report on Form 10-K previously filed with the Securities and Exchange Commission ("SEC"). 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.

Certain prior year amounts in the condensed consolidated balance sheet have been reclassified to conform to the current year's presentation due to the adoption of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). Billings in excess of costs and estimated earnings, customer deposits, and deferred revenue are combined to present contract liabilities. Costs and estimated earnings in excess of billings now represent contract assets. These reclassifications had no effect on reported net income, comprehensive income, cash flows, total assets or total liabilities.

Daktronics, Inc. operates on a 52- or 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 six months ended October 27, 2018 and October 28, 2017, contained operating results for 26 weeks.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheet that sum to the total of the same amounts shown in the condensed consolidated statement of cash flows:

	October 27, 2018	October 28, 2017
Cash and cash equivalents	$ 35,557	$ 39,699
Restricted cash	26	27
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statement of cash flows	$ 35,583	$ 39,726

Recent Accounting Pronouncements

New Accounting Standards Adopted

In October 2016, the Financial Accounting Standards Board ("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. We adopted ASU 2016-16 during the first quarter of fiscal 2019. The adoption of ASU 2016-16 did not have an impact on our condensed consolidated financial statements.

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In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Subsequently, the FASB also issued ASUs 2016-08, 2016-10, 2016-12, and 2016-20 to give further guidance to revenue recognition matters. ASU 2014-09 and related guidance supersedes revenue recognition requirements under FASB Accounting Standards Codification ("ASC") Topic 605 and related industry specific revenue recognition guidance. This new standard defines a comprehensive revenue recognition model, requiring 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. It defines a five-step process to achieve this core principle and allows companies to use more judgment and make more estimates than under current guidance and requires additional disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. It provides guidance on transition requirements.

We adopted ASU 2014-09 and its related guidance under the modified retrospective method during the first quarter of fiscal 2019 by applying the guidance to all open contracts at the adoption date. We completed our evaluation of our revenue arrangements under the new standard and determined that the adoption did not materially change the timing or amount of revenue recognized, primarily based upon our assessment of "point in time" and "over time" revenue recognition. No adjustment to beginning retained earnings was recorded, and we have made additional disclosures related to revenue from contracts with customers as required by the new standard upon adoption. See "Note 4. Revenue Recognition" for more information.

New 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 (the "Tax Act"). ASU 2018-02 is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted that can be made on a prospective or retrospective basis. We are currently evaluating the effect that adopting ASU 2018-02 will have on our condensed 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 condensed 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, and will require adoption on a modified retrospective basis. We are currently evaluating the effect that adopting ASU 2016-13 will have on our condensed 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. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842 (Leases), and ASU 2018-11, Leases (Topic 842), Targeted Improvements, which provide (i) narrow amendments to clarify how to apply certain aspects of the new lease standard, (ii) entities with an additional transition method to adopt the new standard, and (iii) lessors with a practical expedient for separating components of a contract. All ASUs are effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted, and will require adoption on a modified retrospective basis.

We plan to adopt this new standard in the first quarter of fiscal 2020. We are still reviewing the new standard and recent updates published by FASB. Our preliminary assumptions suggest we will likely adopt certain practical expedients, including the lookback option, and not change historical conclusions related to (1) contracts that contain leases, (2) existing lease classification, and (3) initial direct costs. We are continuing to evaluate the effect that adopting these ASUs will have on our condensed consolidated financial statements and related disclosures but at this time do not think the adoption will have a material impact on our financial statements.

Note 2. Investments in Affiliates

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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 $4,236 and $3,647 at October 27, 2018 and April 28, 2018, 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 condensed consolidated statements of cash flows. Our proportional share of the respective affiliates' earnings or losses is included in the "Other (expense) income, net" line item in our condensed consolidated statements of operations. For the six months ended October 27, 2018 and October 28, 2017, our share of the losses of our affiliates was $265 and $191, respectively.

The aggregate amount of investments accounted for under the cost method was $42 at October 27, 2018 and April 28, 2018, 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.

Note 3. 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.

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 six months ended October 27, 2018 and October 28, 2017:

	Net income	Shares	Per share income
For the three months ended October 27, 2018			
Basic earnings per share	$8,606	44,780	$ 0.19
Dilution associated with stock compensation plans	—	170	—
Diluted earnings per share	$8,606	44,950	$ 0.19
For the three months ended October 28, 2017			
Basic earnings per share	$7,132	44,412	$ 0.16
Dilution associated with stock compensation plans	—	267	—
Diluted earnings per share	$7,132	44,679	$ 0.16
For the six months ended October 27, 2018			
Basic earnings per share	$13,180	44,717	$ 0.29
Dilution associated with stock compensation plans	—	277	—
Diluted earnings per share	$13,180	44,994	$ 0.29
For the six months ended October 28, 2017			
Basic earnings per share	$15,561	44,345	$ 0.35
Dilution associated with stock compensation plans	—	351	—
Diluted earnings per share	$15,561	44,696	$ 0.35

Options outstanding to purchase 2,377 shares of common stock with a weighted average exercise price of $9.94 for the three months ended October 27, 2018 and 1,303 shares of common stock with a weighted average exercise price of $13.08 for the three months ended October 28, 2017 were not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

Options outstanding to purchase 2,129 shares of common stock with a weighted average exercise price of $10.15 for the six months ended October 27, 2018 and 1,312 shares of common stock with a weighted average exercise price of $13.08 for the six months ended October 28, 2017 were not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

Note 4. Revenue Recognition

Our accounting policies and estimates as a result of adopting ASU 2014-09, Revenue from Contracts with Customers (Topic 606), are as follows:

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Contracts are identified and follow the revenue recognition policies when: we have evidence all parties to the contract have approved the contract and are committed to perform their respective obligations, we can identify each party's rights regarding the goods or services to be transferred, we can identify the payment terms for the goods or services to be transferred, the contract has commercial substance, and it is probable we will collect substantially all of the consideration to which we would be entitled in exchange for the goods or services.

Precontract costs are generally expensed as incurred, unless they are directly associated with an anticipated contract and recoverability from that contract is probable. Precontract costs directly associated with anticipated contracts expected to be recoverable include $359 and $217 as of October 27, 2018 and April 28, 2018, respectively. These are included in Inventories on the Consolidated Balance Sheet.

At contract inception, we identify performance obligations by reviewing the agreement for material distinct goods and services. Goods and services are distinct when the customer can benefit from them on their own and our promises to transfer these items are identifiable from other promises within the contract. When we are contracted to provide a single promise (an integrated system), we often treat it as a single performance obligation as we are providing goods and services with the same patterns of transfer, that are highly integrated or interdependent, that are modified or customized by other goods or services promised, or that provide a combined outcome for which the customer has contracted. When less interdependency or integration is necessary, or the customer can benefit from distinct items, we separate the contract into multiple performance obligations. We account for those warranties that extend beyond typical terms and include other services ("service-type warranty") as a separate performance obligation.

Our contracts can contain multiple components of transaction price. We evaluate each contract for these components and include fixed consideration, variable consideration, financing components, and non-cash consideration and exclude consideration payable to a customer and sales taxes in the transaction price. When we are responsible for site installations which includes subcontracted work, we maintain the responsibility and risks and consider ourselves the principal and include the consideration for these services in the transaction price. When our contract contains variable consideration, including return rights, discounts, claims, unpriced change orders, and liquidated damages, we estimate the transaction price using the expected value (i.e., the sum of the probability-weighted amount) or the most likely amount method, whichever is expected to better predict revenue for that contract situation. We also constrain the revenue to the extent that it is probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. We consider the following factors in determining revenue associated with variable consideration: (a) the contract or other evidence providing legal basis, (b) additional costs caused by unforeseen circumstances, (c) evidence supporting the claim, and (d) historical evidence and patterns of customers. We adjust the contract price for the effects of a significant financing component if we expect, at contract inception, that the period between when we transfer goods and services to a customer will exceed one year from the time the customer pays and represents financing. If the payment structures exceed a year but are structured to account for risks with a contract or correspond to payments on milestones or are scheduled for performance, we do not adjust the contract price for a financing component. See "Note 11. Receivables" for amounts recorded in long-term receivables.

When separate performance obligations are identified, we allocate the transaction price to the individual performance obligation based on the best evidence and method we judge as faithfully depicting the value of the performance obligation. We allocate revenue to each performance obligation on the relative the standalone selling price basis, when the standalone selling price is available. Many of our contracts are bundled and we do not have separate selling prices for each performance obligation, therefore, we primarily use the cost plus a margin approach to allocate the relative transaction price to identified performance obligations as it is the best representative of our pricing methods.

Revenue is recognized when we satisfy a performance obligation. We receive payments from customers based on a billing schedule as established in our contracts. Billing schedules include down payments and progress billings over time, set milestone payments specific to the project, are scheduled for performance-based payments, or are set time-based payment(s). Variability in contract assets and contract liabilities ("Net over/under billings") relates to the timing of billings and revenue recognition, which can vary significantly depending on contractual payment terms and build and installation schedules and the related timing differences in transfer of control. Balances are also impacted by the seasonality in our business.

Significant judgments and estimates are used in our revenue policies. Throughout the revenue cycle, we evaluate contractual evidence, monitor our performance, evaluate variable consideration changes, update estimated costs to complete cost-to-cost projects, and obtain evidence of deliveries or other control change evidence for appropriate and consistent revenue recognition. We maintain internal policies and procedures to provide guidance for those involved in recording revenue. We monitor for changes in our business sales practices and customer interactions to capture the appropriate types of performance obligations and adjust for any change in control terms and conditions.

Our material performance obligation types include:

Unique configuration contracts: audio-visual communication systems uniquely configured (custom) or integrated for a customer's particular location and system configuration may include all or a combination of the following: engineering services, project management services, video display(s), control solution(s), installation and integration services, scoring and messaging equipment, training, other on-site services, spare parts, software licenses, and assurance-type warranties.

We account for these types of contracts as a combined single performance obligation with no segmentation between types of products and services. In our judgment, this accounting treatment is most appropriate because the substantial part of our promise to customers is to provide significant integration services and incorporates individual goods and services into a combined output or system, often times the system is customized or significantly modified to the customers' desired configurations and location, and the interrelated goods and services provide utility to the customers as a package.

Revenue for uniquely configured (custom) or integrated systems is recognized over time. Over time revenue recognition is appropriate because we have no alternative use for the uniquely configured system and have an enforceable right to payment for work performed. Sales and profits are recognized over time following the cost-to-cost input method measured by the percentage of costs incurred to date as compared to estimated total costs for each contract. The cost-to-cost input method is the most faithful depiction of our performance because it measures the value of the contract transferred to the customer. Costs to perform include direct and indirect costs for contract design, production, integration, installation, and assurance-type warranty reserve. Direct costs include material and components; manufacturing, project management, and engineering labor; and subcontracting expenses. Indirect costs include allocated charges for such items as facilities and equipment depreciation and general overhead. Provisions of estimated losses on uncompleted contracts are made in the period when such losses are capable of being estimated.

Contract modifications to existing contracts with customers are evaluated in accordance with the five-step revenue model. We treat contract modifications as a separate contract and new performance obligations when the additional goods or services are distinct and do not add to the unique configuration or are outside the integrated system and when the consideration reflects standalone selling prices. If the additional goods or services offered under the modification enhance the uniquely configured or integrated systems, revenue is allocated to the existing contracts' performance obligation. Modifications may cause changes in the timing of revenue recognition depending on the allocation to various performance obligations.

The time between contract order and project completion is typically less than 12 months but may extend longer depending on the amount of custom work and customers' delivery needs.

Limited configuration (standard systems) and after-sale parts contracts: Limited configured (standard systems) or after-sale parts contracts with limited or no configuration or limited integration are recognized as distinct individual performance obligations when material or when not distinct, we combine into one performance obligation the goods and/or services with each other until the bundle of goods or services are distinct. For standard display purchases made in large quantities, we account for each piece of equipment separately as a distinct performance obligation from which a customer derives benefit. Immaterial goods or services in the context of the contract are included with the display system performance obligation. Standard systems and equipment with limited configurations or integrations may include all or a combination (when immaterial) of the following performance obligations: engineering services, project management services, video display(s), control solution(s), installation and integration services, scoring, messaging and audio equipment, training, spare parts, software licenses, assurance-type warranties, and after-sale parts.

Revenue is recognized at a point in time when title or control passes, or over time as services are performed. When fulfilling limited configuration performance obligations, we are typically able to redirect the video displays or scoring, messaging, or audio equipment to another customer without incurring significant economic losses. Therefore, we have alternative use for the performance obligation and recognize revenue upon our substantial completion and at the point in time we estimate control has transferred to the customer. When limited configured single performance obligations are more service-type (i.e., installation and integration services), we recognize revenue over time using the cost-to-cost input method, which is the most faithful depiction of the customer obtaining control and benefits from the work performed.

Services and other: Services sold on a stand-alone basis or after the initial system sale include performance obligations such as event support, control room design, on-site training, equipment service, service-type warranties, technical support, software sold as a service, and other immaterial revenue streams. These are contracted with a customer generally per service event or service type on a stand-alone basis. Services and other are recognized as net sales when the services are performed, and control is transferred to the customer at a point in time when title or control passes or over time as services are performed and for time-based "stand ready to perform" type obligations. We use professional judgment to determine control transfer. If we have the right to consideration from a customer that directly corresponds with the value of our performance (where we bill a fixed amount for each hour of service provided), we recognize revenue related to the work completed.

Software: Revenues from software license fees on sales, other than uniquely configured type contracts, are recognized when delivery of the product has occurred. Subscription-based licenses include the right for a customer to use our licenses and receive related support for a specified term, and revenue is recognized pro-rata over the term of the engagement.

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Shipping and handling costs: Shipping and handling costs collected from our customers in connection with our sales are recorded as revenue. We record shipping and handling costs as a component of cost of sales at the time the product is shipped.

Warranty: Our warranty offerings are described in "Note 12. Commitments and Contingencies."

Disaggregation of revenue
In accordance with ASC 606-10-50, we disaggregate revenue from contracts with customers by the type of performance obligation and the timing of revenue recognition. We determine that disaggregating revenue in these categories achieves the disclosure objective to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors and to enable users of financial statements to understand the relationship to each reportable segment. As noted in the segment information footnote, we are organized in five business segments: Commercial, Live Events, High School Park and Recreation, Transportation, and International.

The following table presents our disaggregation of revenue by segments:

	Three Months Ended October 27, 2018					
	Commercial	Live Events	High School Park and Recreation	Transportation	International	Total
Type of performance obligation						
Unique configuration	$11,426	$38,283	$ 6,671	$ 10,427	$ 10,776	$77,583
Limited configuration	31,385	11,467	24,381	7,195	9,851	84,279
Service and other	3,258	5,349	528	455	1,240	10,830
	$46,069	$55,099	$ 31,580	$ 18,077	$ 21,867	$172,692
Timing of revenue recognition						
Goods/services transferred at a point in time	$31,896	$12,558	$ 22,060	$ 7,267	$ 10,126	$83,907
Goods/services transferred over time	14,173	42,541	9,520	10,810	11,741	88,785
	$46,069	$55,099	$ 31,580	$ 18,077	$ 21,867	$172,692

	Six Months Ended October 27, 2018					
	Commercial	Live Events	High School Park and Recreation	Transportation	International	Total
Type of performance obligation						
Unique configuration	$14,475	$77,204	$ 15,614	$ 20,045	$ 26,992	$154,330
Limited configuration	55,252	17,285	42,928	14,278	20,629	150,372
Service and other	6,911	10,082	1,158	911	3,116	22,178
	$76,638	$104,571	$ 59,700	$ 35,234	$ 50,737	$326,880
Timing of revenue recognition						
Goods/services transferred at a point in time	$56,479	$19,360	$ 39,058	$ 14,499	$ 21,662	$151,058
Goods/services transferred over time	20,159	85,211	20,642	20,735	29,075	175,822
	$76,638	$104,571	$ 59,700	$ 35,234	$ 50,737	$326,880

See "Note 5. Segment Reporting" for a disaggregation of revenue by geography.

Contract Balances

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Contract assets represent revenue recognized in excess of amounts billed and include unbilled receivables. Unbilled receivables, which represent an unconditional right to payment subject only to the passage of time, are reclassified to accounts receivable when they are billed under the contract terms. Contract liabilities represent amounts billed to the clients in excess of revenue recognized to date.

The following table reflects the changes in our contract assets and liabilities:

	October 27, 2018	April 28, 2018	Dollar Change	Percent Change
Contract assets	$ 30,633	$ 30,968	$ (335)	(1.1)%
Contract liabilities - current	47,198	39,379	7,819	19.9
Contract liabilities - noncurrent	8,520	7,475	1,045	14.0

The decrease in our contract assets and increase in contract liabilities from April 28, 2018 to October 27, 2018 was due to the timing of billing schedules and revenue recognition, which can vary significantly depending on the contractual payment terms and the seasonality of the sports markets. We had no material impairments of accounts receivable or contract assets for the year.

During the six months ended October 27, 2018, we recognized revenue of $30,667 related to our contract liabilities as of April 28, 2018.

Remaining performance obligations

As of October 27, 2018, the aggregate amount of the transaction price allocated to the remaining performance obligations was $201,955. We expect approximately $167,857 of our remaining performance obligations to be recognized over the next 12 months with the remainder recognized thereafter. Remaining performance obligations related to product and service agreements are $150,123 and $51,832, respectively. Although remaining performance obligations reflects business that is considered to be legally binding, cancellations, deferrals or scope adjustments may occur. Any known project cancellations, revisions to project scope and cost, foreign currency exchange fluctuations and project deferrals are reflected or excluded in the remaining performance obligation balance as appropriate.

Note 5. Segment Reporting

We have organized and manage our business by 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 customer type or geography and are the same as our business units. We evaluate segment performance based on operating results through contribution margin, which is comprised of gross profit less selling expense. We exclude general and administration expense, product design and development expense, non-operating income and expense and income tax expense in the segment analysis. Separate financial information is available and regularly evaluated by our chief operating decision-maker (CODM), the president and chief executive officer, in making resource allocation decisions for our segments.

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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		Six Months Ended	
	October 27, 2018	October 28, 2017	October 27, 2018	October 28, 2017
Net sales:				
Commercial	$46,069	$ 34,377	$76,638	$ 67,240
Live Events	55,099	68,653	104,571	146,265
High School Park and Recreation	31,580	29,660	59,700	58,139
Transportation	18,077	16,476	35,234	35,388
International	21,867	20,143	50,737	35,005
	172,692	169,309	326,880	342,037
Gross profit:				
Commercial	11,757	5,271	18,651	13,539
Live Events	12,312	16,255	22,545	33,309
High School Park and Recreation	9,759	10,553	19,261	20,904
Transportation	6,140	6,181	11,591	13,126
International	2,789	4,344	8,956	6,372
	42,757	42,604	81,004	87,250
Contribution margin: (1)				
Commercial	7,050	602	9,524	4,176
Live Events	8,918	12,854	15,903	26,590
High School Park and Recreation	6,706	7,810	13,258	15,557
Transportation	4,991	5,079	9,286	10,987
International	(1,033)	909	530	(349)
	26,632	27,254	48,501	56,961
Non-allocated operating expenses:				
General and administrative	8,574	8,868	17,111	17,803
Product design and development	9,039	8,948	18,331	17,995
Operating income	9,019	9,438	13,059	21,163
Nonoperating income (expense):				
Interest income	188	151	385	362
Interest expense	(2)	(47)	(41)	(133)
Other (expense) income, net	(66)	(87)	(220)	58
Income before income taxes	9,139	9,455	13,183	21,450
Income tax expense	533	2,323	3	5,889
Net income	$8,606	$ 7,132	$13,180	$ 15,561
Depreciation and amortization:				
Commercial	$1,236	$ 1,544	$2,414	$ 3,078
Live Events	1,334	1,196	2,506	2,434
High School Park and Recreation	517	422	960	844
Transportation	277	285	551	579

International	723	270	1,423	551
Unallocated corporate depreciation	725	725	1,446	1,416
	$4,812	$ 4,442	$9,300	$ 8,902

(1) Contribution margin consists of gross profit less selling expense.

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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		Six Months Ended	
	October 27, 2018	October 28, 2017	October 27, 2018	October 28, 2017
Net sales:				
United States	$146,377	$ 145,034	$268,074	$ 300,472
Outside United States	26,315	24,275	58,806	41,565
	$172,692	$ 169,309	$326,880	$ 342,037

	October 27, 2018	April 28, 2018
Property and equipment, net of accumulated depreciation:		
United States	$61,665	$ 61,206
Outside United States	7,805	6,853
	$69,470	$ 68,059

We have numerous customers worldwide for sales of our products and services, and no customer accounted for 10% or more of net sales; therefore, we are not economically dependent on a limited number of customers for the sale of our products and services.

We have numerous raw material and component suppliers, and no supplier accounts for 10% or more of our cost of sales; however, we have a number of single-source suppliers that could limit our supply or cause delays in obtaining raw material and components needed in manufacturing.

Note 6. 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 on the condensed consolidated balance sheets. 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 October 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 October 27, 2018 and April 28, 2018, our available-for-sale securities consisted of the following:

	Amortized Cost	Unrealized Losses	Fair Value
Balance as of October 27, 2018			
Certificates of deposit	$ 5,196	$ —	$5,196
U.S. Government securities	7,240	(9)	7,231
U.S. Government sponsored entities	16,090	(104)	15,986
Municipal bonds	3,322	(14)	3,308

	$ 31,848	$ (127)	$ 31,721
Balance as of April 28, 2018			
Certificates of deposit	$ 8,669	$ —	$ 8,669
U.S. Government securities	999	(7)	992
U.S. Government sponsored entities	20,072	(123)	19,949
Municipal bonds	4,936	(24)	4,912
	$ 34,676	$ (154)	$ 34,522

Realized gains or losses on investments are recorded in our condensed consolidated statements of operations as "Other (expense) income, net." Upon the sale of a security classified as available-for-sale, the security's specific unrealized gain (loss) is reclassified out of

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accumulated other comprehensive loss into earnings based on the specific identification method. In the six months ended October 27, 2018 and October 28, 2017, the reclassifications from accumulated other comprehensive loss to net earnings were immaterial.

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 October 27, 2018 were as follows:

	Less than 12 months	1-5 Years	Total
Certificates of deposit	$2,479	$2,717	$5,196
U.S. Government securities	6,240	991	7,231
U.S. Government sponsored entities	11,157	4,829	15,986
Municipal bonds	2,961	347	3,308
	$22,837	$8,884	$31,721

Note 7. Business Combinations

AJT Systems, Inc. Acquisition

We acquired the net assets of AJT Systems, Inc. ("AJT"), a Florida-based company, on June 21, 2018. The results of its operations have been included in our condensed consolidated financial statements since the date of acquisition. We have not made pro forma disclosures because the results of its operations are not material to our condensed consolidated financial statements.

AJT is a developer of real-time live to air graphics rendering and video server systems for the broadcast TV industry. This acquisition will allow our organization to grow and strengthen our solution offerings to the market. This acquisition was primarily funded with cash on hand.

Note 8. Sale of Non-Digital Division Assets

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 sales in the International business unit during the second quarter of fiscal 2018. No gain was recorded in the three or six months ended October 27, 2018.

Note 9. Goodwill

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

	Live Events	Commercial	Transportation	International	Total
Balance as of April 28, 2018	$2,295	$ 3,344	$ 67	$ 2,558	$8,264
Foreign currency translation	(6)	(40)	(6)	(159)	(211)
Balance as of October 27, 2018	$2,289	$ 3,304	$ 61	$ 2,399	$8,053

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 perform our annual analysis during our third quarter of each fiscal year, based on the goodwill amount as of the first business day of our third fiscal quarter. The result of the analysis indicated no goodwill impairment existed for our third quarter in fiscal 2018, which began on October 30, 2017. We are currently in the process of completing this annual analysis based on the goodwill amount as of the first business day of our third quarter of fiscal 2019, which began on October 29, 2018.

In conducting our impairment testing, we compare the fair value of each of our business units to the related carrying value of the allocated assets. We utilize the income approach based on discounted projected cash flows to estimate the fair value of each unit. The projected cash flows use many estimates including market conditions, expected market demand and our ability to grow or maintain market share, gross profit, and expected expenditures for capital and operating expenses. Assets shared or not directly attributed to a reportable segment's activities are allocated to the reportable segment based on sales and other measures.

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Note 10. Selected Financial Statement Data

Inventories consisted of the following:

	October 27, 2018	April 28, 2018
Raw materials	$ 27,693	$ 30,570
Work-in-process	8,075	8,645
Finished goods	33,761	36,120
	$ 69,529	$ 75,335

Property and equipment, net consisted of the following:

	October 27, 2018	April 28, 2018
Land	$ 2,178	$ 2,161
Buildings	67,834	67,773
Machinery and equipment	97,437	93,439
Office furniture and equipment	6,073	5,878
Computer software and hardware	54,982	53,004
Equipment held for rental	287	287
Demonstration equipment	7,004	7,035
Transportation equipment	7,667	7,632
	243,462	237,209
Less accumulated depreciation	173,992	169,150
	$ 69,470	$ 68,059

Note 11. Receivables

Accounts receivable are reported net of an allowance for doubtful accounts of $2,236 and $2,151 at October 27, 2018 and April 28, 2018, respectively. Included in accounts receivable as of October 27, 2018 and April 28, 2018 was $2,013 and $964, 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 12 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 $2,653 and $3,393 as of October 27, 2018 and April 28, 2018, respectively. Contract and lease receivables bearing annual interest rates of 4.8 to 9.0 percent are due in varying annual installments through 2024. The face amount of long-term receivables was $2,929 as of October 27, 2018 and $3,733 as of April 28, 2018.

Note 12. 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 condensed 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 October 27, 2018 and April 28, 2018, we recorded a liability and related other receivable of $1,529 and $1,904 for a net claim from a customer against work performed by one of our subcontractors during installation which damaged our customer's property. The amount recorded is for probable and reasonably estimated cost to remediate the damage. Our subcontractor has full insurance for such matters, we have claims to a performance bond as additional collateral, and we carry insurance to cover such matters. In the opinion of management, the ultimate liability of this claim is not expected to have a material effect on our financial position, liquidity or capital resources.

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As of October 27, 2018 and April 28, 2018, a customer was withholding $2,224 of payment claiming we did not perform to the customer's specifications. We believe we have performed to the agreed-upon written specifications, have strong contractual documentation to support our position, and a customer with wherewithal to pay. We believe that we will ultimately prevail in collections. Although our assessment of the loss is remote, a number of factors could change the outcome.

For other unresolved legal proceedings or claims, we do not believe there is a reasonable probability that any material loss would be incurred. Accordingly, no material accrual or disclosure of a potential range of loss has been made related to these matters. We do not expect the ultimate liability of these unresolved legal proceedings or claims 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 (assurance type warranty) 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. For service-type warranty contracts, we allocate revenue to this performance obligation and recognize the revenue over time and costs as incurred.

We disclosed a warranty issue in Note 18 of our Annual Report on Form 10-K for the fiscal year ended April 28, 2018 regarding a mechanical device failure within a module for displays. During the six months ended October 27, 2018 and October 28, 2017, we recognized warranty expense for probable and reasonably estimated costs to remediate this issue of $1,335 and $3,439, respectively. As of October 27, 2018, we had $1,301 remaining accrued warranty and maintenance agreement obligations for the estimate of probable future claims related to this issue. Although many of our contractual warranty arrangements have expired 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.

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

	October 27, 2018
Beginning accrued warranty obligations	$ 29,953
Warranties issued during the period	4,838
Settlements made during the period	(9,201)
Changes in accrued warranty obligations for pre-existing warranties during the period, including expirations	3,128
Ending accrued warranty obligations	$ 28,718

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 October 27, 2018, we had outstanding letters of credit and surety bonds in the amount of $11,936 and $5,218, 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, but 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 $1,724 and $1,715 for the six months ended October 27, 2018 and October 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 October 27, 2018:

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Fiscal years ending	Amount
2019	$ 1,611
2020	2,770
2021	2,398
2022	1,646
2023	249
Thereafter	296
	$ 8,970

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 October 27, 2018, we were obligated under the following conditional and unconditional purchase commitments, which included $250 in conditional purchase commitments:

Fiscal years ending	Amount
2019	$ 1,782
2020	3,918
2021	2,051
2022	143
2023	113
Thereafter	266
	$ 8,273

Note 13. Income Taxes

We calculate the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate for the full fiscal year to “ordinary” income or loss (pre-tax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. Due to various factors and operating in multiple state and foreign jurisdictions, our effective tax rate is subject to fluctuation. We recorded an effective tax rate expense of 5.8 percent and 0.0 percent for the three and six months ended October 27, 2018, respectively, and an effective tax rate expense of 24.6 percent and 27.5 percent for the three and six months ended October 28, 2017, respectively. The decreases in the effective tax rates, as compared to the same prior year period, are due to tax credits proportionate to pre-tax book income, and a decrease in the federal statutory tax rate from 35 percent to 21 percent pursuant to the Tax Act.

Pursuant to the Tax Act, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Act (SAB 118), which allows us to record provisional amounts during a measurement period not to extend beyond one year from the enactment date of December 22, 2017. The accounting for the deemed repatriation tax is provisional and incomplete due to continued guidance from the U.S. tax authority and our ongoing analysis of final year-end data and tax positions. This provisional estimate was included in our consolidated financial statements as of April 28, 2018. We did not make any measurement period adjustments during the first six months of fiscal 2019. We expect to complete the analysis within the measurement period in accordance with SAB 118. As of October 27, 2018, the accounting for the remeasurement of U.S. deferred tax assets was finalized, resulting in additional tax expense of $12. We have also elected to recognize tax resulting from any Global Intangible Low Taxed Income (GILTI) inclusion as a period cost if, and when, incurred. We have not previously provided deferred taxes on unremitted earnings attributable to foreign subsidiaries that have been considered to be reinvested indefinitely. The full effects of the Tax Act require a reassessment of previous indefinite reinvestment assertions with respect to certain jurisdictions. As of October 27, 2018, undistributed earnings of our foreign subsidiaries were considered to have been reinvested indefinitely.

We are subject to U.S. federal income tax as well as income taxes of multiple state and foreign jurisdictions. Fiscal years 2015, 2016, 2017, and 2018 remain open to 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. In the event of any future tax assessments, we have elected to record the income taxes and any related interest and penalties as income tax expense on our statement of operations.

As of October 27, 2018, we had $3,360 of unrecognized tax benefits which would reduce our effective tax rate if recognized.

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Note 14. 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.

The fair values for fixed-rate long-term receivables are estimated using a discounted cash flow analysis based on interest rates currently being offered for contracts with similar terms to customers with similar credit quality. The carrying amounts reported on our condensed consolidated balance sheets for long-term receivables approximate fair value and have been categorized as a Level 2 fair value measurement. Fair values for fixed-rate long-term marketing obligations are estimated using a discounted cash flow calculation applying interest rates currently being offered for debt with similar terms and underlying collateral. The total carrying value of long-term marketing obligations as reported on our condensed consolidated balance sheets within other long-term obligations approximates fair value and has been categorized as a Level 2 fair value measurement.

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 October 27, 2018 and April 28, 2018 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 October 27, 2018				
Cash and cash equivalents	$35,557	$—	$—	$35,557
Restricted cash	26	—	—	26
Available-for-sale securities:				
Certificates of deposit	—	5,196	—	5,196
U.S. Government securities	7,231	—	—	7,231
U.S. Government sponsored entities	—	15,986	—	15,986
Municipal bonds	—	3,308	—	3,308
Derivatives - asset position	—	187	—	187
Derivatives - liability position	—	(7)	—	(7)
Contingent liabilities	—	—	(1,338)	(1,338)
	$42,814	$24,670	$(1,338)	$66,146
Balance as of April 28, 2018				
Cash and cash equivalents	$29,727	$—	$—	$29,727
Restricted cash	28	—	—	28

Available-for-sale securities:				
Certificates of deposit	—	8,669	—	8,669
U.S. Government securities	992	—		