DAKTRONICS INC /SD/
Form 10-Q
March 04, 2011

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 29, 2011

OR

[ ] 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 Number)

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 S No o

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

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

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

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

The number of shares of the registrant's common stock outstanding as of February 25, 2011 was 41,559,556.

DAKTRONICS, INC. AND SUBSIDIARIES
FORM 10-Q
For the Quarter Ended January 29, 2011

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Exhibit Index:

Ex.	31.1	Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Ex.	31.2	Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Ex.	32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
Ex.	32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley

Act of 2002 (18 U.S.C. Section 1350).

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	January 29, 2011 (unaudited)	May 1, 2010 (note 1)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$57,549	$63,603
Restricted cash	1,417	1,264
Marketable securities	16,869	-
Accounts receivable, less allowance for doubtful accounts	44,642	45,018
Inventories	46,875	35,673
Costs and estimated earnings in excess of billings	25,567	25,233
Current maturities of long-term receivables	4,720	6,232
Prepaid expenses and other assets	5,454	5,838
Deferred income taxes	10,612	12,578
Income tax receivables	8,583	7,444
Property and equipment available for sale	69	182
Total current assets	222,357	203,065
Advertising rights, net	731	1,348
Long-term receivables, less current maturities	13,695	13,458
Goodwill	3,334	3,323
Intangible and other assets	2,812	3,710
Deferred income taxes	64	62
	20,636	21,901
PROPERTY AND EQUIPMENT:		
Land	1,497	1,471
Buildings	55,308	55,353
Machinery and equipment	56,577	54,058
Office furniture and equipment	51,776	53,831
Equipment held for rental	1,316	1,630
Demonstration equipment	8,258	8,969
Transportation equipment	3,612	4,256
	178,344	179,568
Less accumulated depreciation	107,572	98,683
	70,772	80,885
TOTAL ASSETS	$313,765	$305,851

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

	January 29, 2011 (unaudited)	May 1, 2010 (note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$26,685	$23,149
Accrued expenses and warranty obligations	36,350	33,443
Billings in excess of costs and estimated earnings	17,030	13,105
Customer deposits	12,364	9,348
Deferred revenue (billed or collected)	8,897	7,766
Current maturities of long-term debt and marketing obligations	310	322
Income taxes payable	876	361
Total current liabilities	102,512	87,494
Long-term marketing obligations, less current maturities	530	600
Long-term warranty obligations and other payables	4,572	4,229
Deferred income taxes	2,374	2,167
Long-term deferred revenue (billed or collected)	4,754	4,308
Total long-term liabilities	12,230	11,304
TOTAL LIABILITIES	114,742	98,798
SHAREHOLDERS' EQUITY:		
Common stock, no par value, authorized 120,000,000 shares; 41,582,406 and 41,063,219 shares issued at January 29, 2011 and May 1, 2010, respectively	32,541	29,936
Additional paid-in capital	20,431	17,731
Retained earnings	146,329	159,842
Treasury stock, at cost, 19,680 shares	(9)	(9)
Accumulated other comprehensive loss	(269)	(447)
TOTAL SHAREHOLDERS' EQUITY	199,023	207,053
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$313,765	$305,851

See notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	January 29, 2011	January 30, 2010	January 29, 2011	January 30, 2010
Net sales	$99,868	$72,406	$327,289	$301,221
Cost of goods sold	76,226	61,634	244,242	226,817
Gross profit	23,642	10,772	83,047	74,404
Operating expenses:				
Selling	12,148	13,155	37,084	40,411
General and administrative	6,047	6,523	17,259	19,016
Product design and development	4,673	5,155	13,787	16,558
Gain on insurance proceeds	-	(1,496)	-	(1,496)
Goodwill impairment	-	1,410	-	1,410
	22,868	24,747	68,130	75,899
Operating income (loss)	774	(13,975)	14,917	(1,495)
Nonoperating income (expense):				
Interest income	544	376	1,382	1,129
Interest expense	(41)	(38)	(118)	(149)
Other income (expense), net	557	(265)	818	(1,577)
Income (loss) before income taxes	1,834	(13,902)	16,999	(2,092)
Income tax expense (benefit)	3	(5,531)	5,718	(2)
Net income (loss)	$1,831	$(8,371)	$11,281	$(2,090)
Weighted average shares outstanding:				
Basic	41,534	41,004	41,341	40,862
Diluted	42,201	41,004	41,969	40,862
Earnings (loss) per share:				
Basic	$0.04	$(0.20)	$0.27	$(0.05)
Diluted	$0.04	$(0.20)	$0.27	$(0.05)
Cash dividend paid per share	$-	$-	$0.60	$0.095

See notes to consolidated financial statements.

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

	Nine Months Ended	
	January 29, 2011	January 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$11,281	$(2,090)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	14,760	16,762
Amortization	220	236
Loss (gain) on sale of property and equipment	53	(993)
Stock-based compensation	2,595	2,491
Equity in losses of affiliates	36	1,532
Impairment of goodwill	-	1,410
Loss on sale of equity investee	-	230
Provision for doubtful accounts	(10)	(270)
Deferred income taxes, net	2,172	(554)
Change in operating assets and liabilities	6,267	19,059
Net cash provided by operating activities	37,374	37,813
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,595)	(12,945)
Purchases of marketable securities	(16,869)	-
Insurance recoveries on property and equipment	114	820
Proceeds from sale of property and equipment	195	-
Other investing activities, net	2,095	(1,241)
Net cash used in investing activities	(20,060)	(13,366)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,223	365
Excess tax benefits from stock-based compensation	106	60
Principal advances on long-term debt	(14)	(13)
Dividend paid	(24,794)	(3,874)
Net cash used in financing activities	(23,479)	(3,462)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	111	(180)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,054)	20,805
CASH AND CASH EQUIVALENTS:		
Beginning	63,603	36,501
Ending	$57,549	$57,306
Supplemental disclosures of cash flow information:		

Cash payments for:		
Interest	$101	$227
Income taxes, net of refunds	4,108	8,752
Supplemental schedule of non-cash investing and financing activities:		
Demonstration equipment transferred to inventory	774	1,062
Purchase of property and equipment included in accounts payable	276	993

See notes to consolidated financial statements.

DAKTRONICS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)
(unaudited)

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

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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 accounting principles generally accepted in the United States of America have been condensed or omitted. The balance sheet at May 1, 2010 has been derived from the audited financial statements at that date, but it does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with our financial statements and notes thereto for the year ended May 1, 2010, 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.

Note 2. Recently Issued Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2009-13, which amends Accounting Standards Codification (ASC) 605-25, Revenue Recognition-Multiple-Element Arrangements. ASU 2009-13 provides principles for allocation of consideration among its multiple elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. ASU 2009-13 introduces an estimated selling price method for allocating revenue to the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and it significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted and may be prospective or retrospective. We did not choose early adoption of this standard. We are currently assessing the impact of ASU 2009-13 on our consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements, which amends ASC 820, Fair Value Measurements and Disclosures. ASU 2010-06 adds new requirements for disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in level 3 fair value measurements, and (4) the transfers between levels 1, 2 and 3 fair value measurements. ASU 2010-06 was effective as of January 30, 2010 for our reporting, except for the requirement to provide the Level 3 activity of purchases, sales, issuances and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years, which we adopted on May 2, 2010. In the period of initial adoption, entities are not required to provide the amended disclosures for any previous periods presented for comparative purposes. However, those disclosures are required for periods ending after initial adoption. We adopted the additional disclosures required for all levels of fair value measurements (see Note 10).

In July 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures are required for periods ending on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. We adopted ASU 2010-20 in the third quarter of fiscal 2011. The adoption of ASC 2010-20 did not have a material impact on our consolidated financial statements.

In December 2010, the FASB issued ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (Topic 350)—Intangibles—Goodwill and Other. ASU 2010-28 amends the criteria for performing Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires performing Step 2 if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. We will adopt ASU 2010-28 in fiscal 2012, and any impairment to be recorded upon adoption will be recognized as an adjustment to our beginning retained earnings. We are currently evaluating the impact of the pending adoption of ASU 2010-28 on our consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29, Business Combinations (Topic 805) — Disclosure of Supplementary Pro Forma Information for Business Combinations. This update clarifies that, when presenting comparative financial statements, registrants should disclose revenue and earnings of the combined entity as though the current period business combinations had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for material (either on an individual or aggregate basis) business combinations entered into in fiscal years beginning on or after December 15, 2010 with early adoption permitted. ASU 2010-29 will be effective for us for acquisitions we make after the beginning of fiscal 2012.

Note 3. Earnings Per Share ("EPS")

Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would 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 that then shared in our earnings.

The following is a reconciliation of the income and common stock share amounts used in the calculation of basic and diluted EPS for the three and nine months ended January 29, 2011 and January 30, 2010:

	Net Income		Shares	Per Share Amount	
For the three months ended January 29, 2011:					
Basic earnings per share	$	1,831	41,534	$	0.04
Dilution associated with stock compensation plans	-		667		-
Diluted earnings per share	$	1,831	42,201	$	0.04
For the three months ended January 30, 2010:					
Basic earnings (loss) per share	$	(8,371)	41,004	$	(0.20)
		-	-		-

Dilution associated with stock compensation plans					
Diluted earnings (loss) per share	$	(8,371)	41,004	$	(0.20)
For the nine months ended January 29, 2011:					
Basic earnings per share	$	11,281	41,341	$	0.27
Dilution associated with stock compensation plans		-	628		-
Diluted earnings per share	$	11,281	41,969	$	0.27
For the nine months ended January 30, 2010:					
Basic earnings(loss) per share	$	(2,090)	40,862	$	(0.05)
Dilution associated with stock compensation plans		- -			-
Diluted earnings (loss) per share	$	(2,090)	40,862	$	(0.05)

Options outstanding to purchase 773 shares of common stock with a weighted average exercise price of $25.88 for the three months ended January 29, 2011 and 3,464 shares of common stock with a weighted average exercise price of $12.89 for the three months ended January 30, 2010 were not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

Options outstanding to purchase 1,658 shares of common stock with a weighted average exercise price of $18.49 for the nine months ended January 29, 2011 and 3,464 shares of common stock with a weighted average exercise price of $12.89 for the nine months ended January 30, 2010 were not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

Note 4. Goodwill

The changes in the carrying amount of goodwill related to each reportable segment for the nine months ended January 29, 2011 were as follows:

	Live Events		Commercial		Transportation		Total Goodwill
Balance as of May 1, 2010	$	2,421	$	735	$	167	$	3,323
Foreign currency translation		6		4		1		11
Balance as of January 29, 2011	$	2,427	$	739	$	168	$	3,334

We perform an analysis of goodwill on an annual basis as of the first business day of our third quarter of each year and more frequently if circumstances warrant. We performed this analysis as of October 31, 2010. The result of this analysis indicated that no goodwill impairment existed as of that date.

We performed an additional goodwill impairment test as of January 31, 2010 due to revisions in our forward-looking 12 month forecast during the month of January 2010, which indicated lower than expected order bookings and increased near-term uncertainty, primarily in our Live Events business unit, the significance of orders being delayed in all business units and the decline in our stock price. Based on our test, we determined that the goodwill associated with the Schools and Theatres business unit of $685 and the goodwill associated with our International business unit of $725 were impaired.

We face a number of risks to our business which can adversely impact cash flows in each of our business units and cause a significant decline in fair value of each business unit. This decline could lead to an impairment of goodwill to some or all of our business units. Because the fair values of the business units are based in part on the market price of our common stock, a significant decline in the market price of our stock may lead to an impairment. Furthermore, if orders and sales were to worsen materially and we were unable to respond in ways that preserve future cash flows, an impairment may occur regardless of the market price of our common stock. As of October 31, 2010, the date of our last analysis, the fair value of each business unit significantly exceeded its respective carrying values.

Note 5. Inventories

Inventories consist of the following:

	January 29, 2011	May 1, 2010
Raw materials	$ 19,870	$ 13,396
Work-in-process	9,707	4,785
Finished goods	16,121	16,077
Finished goods subject to deferred revenue arrangements	1,177	1,415
	$ 46,875	$ 35,673

Finished goods subject to deferred revenue arrangements represent inventory provided to customers on a trial basis and contain contractual provisions which make a purchase probable.

Note 6. Segment Disclosure

We organized our business into five business units which meet the definition of reportable segments under ASC 280-10, Segment Reporting: the Commercial segment, the Live Events segment, the Schools and Theatres segment, the Transportation segment, and the International segment.

Our Commercial segment primarily consists of sales of our video, Galaxy® and Valo™ product lines to resellers (primarily sign companies), outdoor advertisers, national retailers, quick-serve restaurants, casinos and petroleum retailers. Our Live Events segment 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 PST display technology to video rental organizations and other live events type venues. Our Schools and Theatres segment primarily consists of sales of scoring systems, Galaxy® displays and video display systems to primary and secondary education facilities and sales of our Vortek® automated rigging systems for theatre applications. Our Transportation segment primarily consists of sales of our Vanguard® and Galaxy® product lines to governmental transportation departments, airlines and other transportation related customers. Finally, our International segment primarily consists of sales of all product lines to geographies outside the United States and Canada.

Segment reports present results through contribution margin, which is comprised of gross profit less selling costs. 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, excluding that portion related to non-allocated costs, are allocated to each segment based on various financial measures. In general, segments follow the same accounting policies as those described in Note 1. Costs of domestic field sales and services infrastructure, including most field administrative staff, are allocated to the Commercial, Live Events and Schools and Theatres segments based on cost of sales. Shared manufacturing, building 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 and, therefore, disclosure of such information is not practical.

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

	Three Months Ended		Nine Months Ended	
	January 29, 2011	January 30, 2010	January 29, 2011	January 30, 2010
Net Sales:				
Commercial	$ 28,750	$ 20,903	$ 83,760	$ 69,011
Live Events	36,138	22,773	120,846	125,617
Schools & Theatres	11,672	12,325	49,671	49,526
Transportation	11,063	8,087	30,091	31,307
International	12,245	8,318	42,921	25,760
	$ 99,868	$ 72,406	$ 327,289	$ 301,221
Contribution Margin:				
Commercial	$ 3,423	$ (885)	$ 10,272	$ 3,484
Live Events	2,837	(2,556)	14,183	17,676
Schools & Theatres	734	(408)	7,244	4,247
Transportation	2,199	852	6,676	7,101
International	2,301	614	7,588	1,485
	11,494	(2,383)	45,963	33,993
Non-Allocated Operating Expenses:				
General & administrative	6,047	6,523	17,259	19,016
Product development	4,673	5,155	13,787	16,558
Gain on insurance proceeds	-	(1,496)	-	(1,496)
Goodwill impairment	-	1,410	-	1,410
Operating income (loss)	774	(13,975)	14,917	(1,495)
Nonoperating income (expense):				
Interest income	544	376	1,382	1,129
Interest expense	(41)	(38)	(118)	(149)
Other income (expense), net	557	(265)	818	(1,577)
Income (loss) before income taxes	1,834	(13,902)	16,999	(2,092)
	3	(5,531)	5,718	(2)

Income tax expense (benefit)				
Net income (loss)	$ 1,831	$ (8,371)	$ 11,281	$ (2,090)
Depreciation and amortization:				
Commercial	$ 1,743	$ 1,794	$ 5,104	$ 5,443
Live Events	1,614	1,905	4,790	5,641
Schools & Theatres	658	713	2,001	2,163
Transportation	391	449	1,102	1,360
International	210	325	656	765
Unallocated corporate depreciation	435	1,217	1,327	1,626
	$ 5,051	$ 6,403	$ 14,980	$ 16,998

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No single geographic area comprises a material amount of net sales or long-lived assets other than the United States. The following table presents information about us in the United States and elsewhere:

	United States	Others	Total
Net sales for three months ended:			
January 29, 2011	$ 83,668	$ 16,200	$ 99,868
January 30, 2010	62,902	9,504	72,406
Net sales for nine months ended:			
January 29, 2011	$ 275,429	$ 51,860	$ 327,289
January 30, 2010	270,521	30,700	301,221
Long-lived assets at:			
January 29, 2011	$ 69,023	$ 1,749	$ 70,772
May 1, 2010	78,465	2,420	80,885

We are not economically dependent on a limited number of customers for the sale of our products and services because we have numerous customers world-wide. We are not economically dependent on a limited number of suppliers for our inventory items because we have numerous suppliers world-wide.

Note 7. Comprehensive Income

We follow the provisions of ASC 220, Reporting Comprehensive Income, which establishes standards for reporting and displaying comprehensive income and its components. Comprehensive income reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For us, comprehensive income represents net income adjusted for foreign currency translation and net gains and losses on derivative instruments. The foreign currency translation adjustment included in comprehensive income has not been tax affected, as the investments in foreign affiliates are deemed to be permanent. In accordance with ASC 220, we have chosen to disclose comprehensive income in the consolidated statement of shareholders' equity on an annual basis.

A summary of comprehensive income is as follows:

	Nine Months Ended January 29, 2011	Nine Months Ended January 30, 2010
Net income (loss)	$ 11,281	$ (2,090)
Net foreign currency translation adjustment	168	(2)
Unrealized gain on derivatives	13	-
Unrealized gain (loss) on available for sale securities	(3)	-
Total comprehensive income (loss)	$ 11,459	$ (2,092)

Note 8. Commitments and Contingencies

Litigation: We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, based upon consultation with legal counsel, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial statements.

Guarantees: In connection with the sale of equipment to a financial institution, we entered into a contractual arrangement whereby we agreed to repurchase equipment at the end of the lease term at a fixed price of approximately $1,100. We have recognized a guarantee liability in the amount of $200 under the provisions of ASC 460, Guarantees, in the accompanying financial statements.

Warranties: We offer a standard parts coverage warranty for periods varying from one to five years for all of our products. We also offer additional types of warranties that 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 the product sold. We estimate the costs that may be incurred under the warranty and record a liability in the amount of such costs at the time the revenue is recognized. Factors that affect our warranty liability include historical and anticipated claims costs. We periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary to reflect our best estimate of expected costs of warranty claims.

Changes in our product warranties for the nine months ended January 29, 2011 consisted of the following:

	Amount
Beginning accrued warranty costs	$ 18,866
Warranties issued during the period	6,747
Settlements made during the period	(10,813)
Changes in accrued warranty costs for pre-existing warranties during the period, including expirations	6,106
Ending accrued warranty costs	$ 20,906

Leases: We lease office space for various sales and service locations throughout the world, manufacturing space in the United States and China, and various equipment, primarily office equipment. 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 three years past its current term, which ends December 31, 2016, and contains an option to purchase the property subject to the lease from January 1, 2015 to December 31, 2016 for $8,400. If the lease is extended, the purchase option increases to $8,600 for the year ending December 31, 2017 and $8,800 for the year ending December 31, 2018. Rental expense for operating leases was $2,632 and $2,814 for the nine months ended January 29, 2011 and January 30, 2010, 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 29, 2011:

Fiscal years ending	Amount
2011	$ 834
2012	2,889
2013	2,019
2014	1,514
2015	1,246
Thereafter	1,865
Total	$ 10,367

Purchase commitments: From time to time, we commit to purchase inventory and advertising rights over periods that extend beyond a year. As of January 29, 2011, we were obligated to purchase inventory and advertising rights through fiscal 2014 as follows:

Fiscal years ending	Amount
2011	$ 109
2012	1,296
2013	2,276
2014	760
Total	$ 4,441

In October 2009, our subsidiary Star Circuits, Inc., which produces circuit boards for use in our products, had a fire which damaged or destroyed its key production equipment and building mechanical and structural components. Operations were stopped in this facility until new equipment was installed and the build out was completed in another building in the fourth quarter of fiscal 2010. Our insurance coverages entitled us to receive payments for business interruption, as well as recoveries for damage to the building and equipment as a result of the fire. The total extent of the property damage and other expected costs to rebuild and cover losses are estimated to be approximately $3,340. This estimate is subject to change based on the final insurance settlement and analysis of losses.

During the fourth quarter of fiscal 2010, we received $3,213 in insurance proceeds related to this incident. Insurance proceeds to reimburse costs to reconstruct the facility, replace manufacturing equipment, supplies and contents resulted in gains of $1,496 for the quarter ended January 30, 2010, or $0.04 per share, net of taxes. Additionally, in the third quarter of fiscal 2010, we recorded $512 in business interruption reimbursements for extra expenses incurred during the non-operating period. At January 30, 2010, approximately $2,351 was included in accounts receivable for insurance reimbursements.

Note 9. Income Taxes

As of January 29, 2011, we did not have material unrecognized tax benefits that would affect our effective tax rate if recognized. We recognize interest and penalties related to income tax matters in income tax expense. We do not expect our unrecognized tax benefits to change significantly over the next 12 months.

We are subject to U.S. Federal income tax as well as income taxes of multiple state jurisdictions. As a result of the completion of exams by the Internal Revenue Service on prior years and the expiration of statutes of limitations, fiscal years 2008, 2009 and 2010 are the only years remaining open under statutes of limitations. Certain subsidiaries are also subject to income tax in foreign jurisdictions which have open tax years varying by jurisdiction extending back to 2004. We operate under a tax holiday in China that will expire in fiscal 2012. At this time, we are unable to predict how the expiration of the tax holiday will impact us in the future.

During the third quarter of fiscal 2011, the President signed into law a reinstatement of the research and development tax credit, retroactively to January 1, 2010. As a result, we recognized in the third quarter of fiscal 2011 approximately $686 in benefits for the credit for the ten months preceding the third quarter of fiscal 2011.

Note 10. Fair Value Measurement

ASC 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received to sell an asset or paid to transfer the liability (an exit price) in an orderly transaction between market participants. 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 three levels of inputs that may be utilized when measuring fair value, consisting of level 1 inputs (using quoted prices in active markets for identical assets or liabilities), level 2 inputs (using inputs other than level 1 prices, such as quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability), and level 3 inputs (unobservable inputs supported by little or no market activity based on our own assumptions used to measure assets and liabilities). A financial asset's or liability's classification within this hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The fair values for fixed-rate contracts receivable are estimated using discounted cash flow analyses based on interest rates currently being offered for contracts with similar terms to customers with similar credit quality. The carrying amounts reported on our consolidated balance sheets for contracts receivable approximate fair value. The carrying amounts reported for variable rate long-term marketing obligations approximate fair value. Fair values for fixed-rate long-term marketing obligations are estimated using a discounted cash flow calculation that applies interest rates currently being offered for debt with similar terms and underlying collateral. The total carrying value of long-term marketing obligations reported on our consolidated balance sheets approximates fair value.

The following table sets forth by level within the fair value hierarchy, our financial assets that were accounted for at fair value on a recurring basis at January 29, 2011 and May 1, 2010 according to the valuation techniques we used to determine their fair values. There have been no transfers of assets between the fair value hierarchies presented.

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
January 29, 2011:				
Cash and cash equivalents	$ 57,549	$ -	$ -	$ 57,549
Restricted cash	1,417	-	-	1,417
Available for sale securities:				
Certificates of deposit	-	2,941	-	2,941
U.S. Treasury Bills	7,024	-	-	7,024
U.S. Government sponsored entities	-	5,060	-	5,060
Municipal obligations	-	1,889	-	1,889
Derivatives:				
Currency forward contracts	-	26	-	26
	$ 65,990	$ 9,916	$ -	$ 75,906

May 1, 2010:								
Cash and cash equivalents	$	63,603	$	-	$	-	$	63,603
Restricted cash		1,264		-		-		1,264
	$	64,867	$	-	$	-	$	64,867

The following methods and assumptions were used to estimate the fair value of each class of financial instrument. There have been no changes in the valuation techniques used by us to value our financial instruments.

Cash and Cash equivalents. Consists of cash on hand in bank deposits and highly liquid investments, primarily money market accounts. The fair value was measured using quoted market prices and is classified as Level 1. The carrying amount approximates fair value.

Restricted Cash. Consists of cash and cash equivalents that are held in bank deposit accounts to secure issuances of foreign bank guarantees. The carrying amount approximates fair value and is classified as Level 1.

Certificates of deposit. Consists of time deposit accounts with original maturities of less than three years and various yields. The carrying amount approximates fair value and is classified as Level 2.

U.S. Treasury Bills. Consists of U.S. Government treasury bills with original maturities of less than three years and various yields. The fair value of these securities was measured using quoted market prices in active markets and is classified as Level 1.

U.S Government sponsored entities. Consist of Fannie Mae and Federal Home Loan Bank investment grade debt securities that trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The fair value of these securities was measured based on quoted fair market value of the securities and is classified as Level 2. The contractual maturities of these investments vary from one month to three years.

Municipal obligations. Consist of investment grade municipal bonds that trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The fair value of these bonds was measured based on quoted fair market value of the bonds and is classified as Level 2. The contractual maturities of these investments vary from two to three years.

The fair value measurement standard also applies to certain nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis. For example, certain long-lived assets such as goodwill, intangible assets and property, plant and equipment are measured at fair value in connection with business combinations or when an impairment is recognized and the related assets are written down to fair value. We did not make any material business combinations during the first nine months of fiscal 2011 or fiscal 2010. Other than impairment of goodwill in fiscal 2010, as described in Note 4, no material impairments of our long-lived assets were recognized during the first nine months of fiscal 2011 or fiscal 2010.

Note 11. Investments in Affiliates

We have a variable interest in Outcast Media International, Inc. ("Outcast"). Outcast operates the largest pumptop display network in the United States. The results of the variable interest analysis we completed indicated that we are not the primary beneficiary of this variable interest entity and, as a result, we are not required to consolidate it. Our analysis included reviewing the amount of financial support, equity at risk, and board influence. Our interest in Outcast consists of a 37% equity interest and convertible debt of approximately $612. As of May 1, 2010, we had written down our equity investment and convertible debt to zero.

During the first quarter of fiscal 2011, we entered into an arrangement whereby we restructured certain obligations we had related to Outcast. The result of these restructurings required us to advance an additional $1,900 to settle certain obligations in exchange for a note for that amount, plus other debt owed by Outcast. This note was paid in full in the third quarter of fiscal 2011, which resulted in a gain of approximately $605 related to recoveries of previously written off amounts and interest owed not previously recognized. As of January 29, 2011, we no longer have any material obligations related to Outcast.

Note 12. Marketable Securities

We have a cash management program which provides for the investment of cash balances not to be used in current operations. We classify our investments in marketable securities as available-for-sale in accordance with the provisions of ASU 320, Investments – Debt and Equity Securities. Marketable securities classified as available-for-sale are reported at fair value with unrealized gain or loss, net of tax, reported in other comprehensive income. All available-for-sale securities are classified as current assets as they are readily available to support our current operating needs. Unrealized losses considered to be "other-than-temporary" are recognized currently in earnings. 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 that are traded in the market to estimate fair value. As of January 29, 2011 and May 1, 2010, our available-for-sale securities consisted of the following:

	Cost	Fair Value	Carrying Value	Unrealized Gain (Loss)
May 1, 2010:	$ -	$ -	$ -	$ -
January 29, 2011:				
Certificates of deposit	$ 2,940	$ 2,941	$ 2,941	$ -
U.S. Government sponsored entities	12,000	12,084	12,084	2
Municipal obligations	1,750	1,889	1,889	(5)
	$ 16,690	$ 16,914	$ 16,914	$ (3)

The contractual maturities of available-for-sale debt securities as of January 29, 2011 were as follows:

	Less than 12 months	Greater than 12 months	Total
Certificates of deposit	$ 2,941	$ -	$ 2,941
U.S. Government sponsored agencies	6,059	6,025	12,084
Municipal obligations	-	1,889	1,889
	$ 9,000	$ 7,914	$ 16,914

Note 13. Financing Receivables

We sell our products throughout the United States and certain foreign countries on credit terms that we establish for each customer. On the sale of certain products, we have the ability to file a contractor's lien against the product installed as collateral. Foreign sales are at times secured by irrevocable letters of credit or bank guarantees.

Accounts receivable are reported net of an allowance for doubtful accounts. In connection with certain sales transactions, we have entered into sales contracts with installment payments exceeding six months and sales type leases. The present value of these contracts and leases is recorded as a receivable upon the installation and acceptance of the equipment, and profit is recognized to the extent that 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.

We make estimates regarding the collectability of our accounts receivable, long-term receivables, costs and estimated earnings in excess of billings and other receivables. In evaluating the adequacy of our allowance for doubtful accounts, we analyze specific balances, customer creditworthiness, changes in customer payment cycles, and current economic trends. If the financial condition of any customer was to deteriorate, resulting in an impairment of its ability to make payments, additional allowances may be required. We charge off receivables at such time as it is determined that collection will not occur. Charge offs of receivables and our allowance for doubtful accounts related to financing receivables are not material to our financial results.

Note 14. Derivative Financial Instruments

We utilize derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates on those transactions that are denominated in currency other than our functional currency, which is the U.S. dollar. We enter into currency forward contracts to manage these economic risks. In accordance with ASC Topic 815, Accounting for Derivative Instruments and Hedging Activities, we recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in the fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in accumulated other comprehensive gain (loss) until the hedged item is recognized in earnings.

To protect against the reduction in value of forecasted foreign currency cash flows resulting from export sales, we have instituted a foreign currency cash flow hedging program. We hedge portions of our forecasted revenue denominated in foreign currencies with forward contracts. When the dollar strengthens significantly against the foreign currencies, the decline in value of future foreign currency revenue is offset by gains in the value of the forward contracts designated as hedges. Conversely, when the dollar weakens, the increase in the value of future foreign currency cash flows is offset by losses in the value of the forward contracts. During the nine months ended January 29, 2011, we assessed all hedges to be effective and recorded changes of value in other comprehensive income. The fair value of all derivatives is approximately $26 as of January 29, 2011 and is included in prepaid expenses and other assets in the consolidated balance sheets.

As of January 29, 2011, we expect to reclassify $13 of net gains on derivative instruments from accumulated other comprehensive income to earnings during the next 12 months due to actual sales.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (including exhibits and any information incorporated by reference herein) contains both historical and forward-looking statements that involve risks, uncertainties and assumptions. The statements contained in this report that are not purely historical are forward-looking statements that are subject to the safe harbors created under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, beliefs, intentions and strategies for the future. These statements appear in a number of places in this Report and include all statements that are not historical statements of fact regarding our intent, belief or current expectations with respect to, among other things: (i) our financing plans; (ii) trends affecting our financial condition or results of operations; (iii) our growth strategy and operating strategy; (iv) the declaration and payment of dividends; (v) the timing and magnitude of future contracts; (vi) parts shortages and longer lead times; (vii) fluctuations in margins; and (viii) the introduction of new products and technology. The words "may," "would," "could," "should," "will," "expect," "estimate," "anticipate," "believe," "intend," "plans" and similar e variations thereof are intended to identify forward-looking statements. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, many of which are beyond our ability to control, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors discussed herein, including those discussed in detail in our filings with the Securities and Exchange Commission, including in our Annual Report on Form 10-K for the fiscal year ended May 1, 2010 in the section entitled "Item 1A. Risk Factors."

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

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

OVERVIEW

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

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

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

We operate on a 52 to 53 week fiscal year, with our fiscal year ending on the Saturday closest to April 30 of each year. When April 30 falls on a Wednesday, the fiscal year ends on the preceding Saturday. Fiscal 2011 and fiscal

2010 each contains 52 weeks. Within each fiscal year, each quarter is comprised of 13 week periods following the beginning of each fiscal year. In each 53 week year, each of the last three quarters is comprised of a 13 week period, and an additional week is added to the first quarter of that fiscal year.

For a summary of recently issued accounting pronouncements and the effects of those pronouncements on our financial results, refer to Note 2 of the notes to our consolidated financial statements, which are included elsewhere in this report.

RESULTS OF OPERATIONS

The following table sets forth the percentage of net sales represented by items included in our Consolidated Statements of Operations for the periods indicated:

	Three Months Ended		Nine Months Ended	
	January 29, 2011	January 30, 2010	January 29, 2011	January 30, 2010
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	76.3 %	85.1 %	74.6 %	75.3 %
Gross profit	23.7 %	14.9 %	25.4 %	24.7 %
Operating expenses	22.9 %	34.2 %	20.8 %	25.2 %
Operating income (loss)	0.8 %	(19.3)%	4.6 %	(0.5)%
Interest income	0.5 %	0.5 %	0.4 %	0.3 %
Interest expense	- %	- %	- %	- %
Other income (expense), net	0.5 %	(0.4)%	0.2 %	(0.5)%
Income before income taxes	1.8 %	(19.2)%	5.3 %	(0.7)%
Income tax expense (benefit)	- %	(7.6)%	1.8 %	- %
Net income (loss)	1.8 %	(11.6)%	3.5 %	(0.7)%

NET SALES

The following table sets forth net sales and orders by business unit for the periods indicated (dollars in thousands):

	Three Months Ended			Nine Months Ended		
	January 29, 2011		January 30, 2010	January 29, 2011		January 30, 2010
Net Sales:	Amount	Percent Change	Amount	Amount	Percent Change	Amount
Commercial	$ 28,750	37.5 %	$ 20,903	$ 83,760	21.4 %	$ 69,011
Live Events	36,138	58.7	22,773	120,846	(3.8)	125,617
Schools & Theatres	11,672	(5.3)	12,325	49,671	0.3	49,526
Transportation	11,063	36.8	8,087	30,091	(3.9)	31,307
International	12,245	47.2	8,318	42,921	66.6	25,760
	$ 99,868	37.9 %	$ 72,406	$ 327,289	8.7 %	$ 301,221