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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended August 1, 2020

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 No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, No Par Value	DAKT	NASDAQ Global Select Market
Preferred Stock Purchase Rights	DAKT	NASDAQ Global Select Market

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 ☒ 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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 ☒

The number of shares of the registrant's common stock outstanding as of August 24, 2020 was 44,615,015.

DAKTRONICS, INC. AND SUBSIDIARIES
FORM 10-Q
For the Quarter Ended August 1, 2020

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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)

	August 1, 2020	May 2, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 44,609	$ 40,398
Restricted cash	96	14
Marketable securities	1,230	1,230
Accounts receivable, net	88,608	72,577
Inventories	81,435	86,803
Contract assets	33,261	35,467
Current maturities of long-term receivables	3,306	3,519
Prepaid expenses and other current assets	7,595	9,629
Income tax receivables	260	548
Property and equipment and other assets available for sale	1,966	1,817
Total current assets	262,366	252,002
Property and equipment, net	66,059	67,484
Long-term receivables, less current maturities	739	1,114
Goodwill	8,048	7,743
Intangibles, net	3,070	3,354
Investment in affiliates and other assets	26,526	27,683
Deferred income taxes	13,312	13,271
TOTAL ASSETS	$ 380,120	$ 372,651
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 48,255	$ 47,834
Contract liabilities	50,159	50,897
Accrued expenses	33,941	36,626
Warranty obligations	10,648	9,764
Income taxes payable	1,107	844
Total current liabilities	144,110	145,965
Long-term warranty obligations	16,412	15,860
Long-term contract liabilities	10,715	10,707
Other long-term obligations	21,469	22,105
Long-term income taxes payable	723	582
Deferred income taxes	469	452
Total long-term liabilities	49,788	49,706

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

	August 1, 2020	May 2, 2020
SHAREHOLDERS' EQUITY:		
Common Stock, no par value, authorized 115,000,000 shares; 45,913,210 and 45,913,209 shares issued at August 1, 2020 and May 2, 2020, respectively	60,010	60,010
Additional paid-in capital	45,192	44,627
Retained earnings	92,557	85,090
Treasury Stock, at cost, 1,343,281 and 1,343,281 shares at August 1, 2020 and May 2, 2020, respectively	(7,297)	(7,470)
Accumulated other comprehensive loss	(4,240)	(5,277)
TOTAL SHAREHOLDERS' EQUITY	186,222	176,980
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 380,120	$ 372,651

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	August 1, 2020	**August 3, 2019**
Net sales	$ 143,644	$ 180,256
Cost of sales	107,883	134,751
Gross profit	35,761	45,505
Operating expenses:		
Selling	11,556	18,297
General and administrative	7,124	9,093
Product design and development	7,532	10,500
	26,212	37,890
Operating income	9,549	7,615
Nonoperating (expense) income:		
Interest income	85	269
Interest expense	(73)	(35)
Other (expense) income, net	(627)	193
Income before income taxes	8,934	8,042
Income tax expense	1,467	1,012
Net income	$ 7,467	$ 7,030
Weighted average shares outstanding:		
Basic	44,654	45,089
Diluted	44,751	45,261
Earnings per share:		
Basic	$ 0.17	$ 0.16
Diluted	$ 0.17	$ 0.16

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	August 1, 2020	August 3, 2019
Net income	$ 7,467	$ 7,030
Other comprehensive income (loss):		
Cumulative translation adjustments	1,037	(526)
Unrealized gain (loss) on available-for-sale securities, net of tax	—	41
Total other comprehensive income (loss), net of tax	1,037	(485)
Comprehensive income	$ 8,504	$ 6,545

See notes to condensed consolidated financial statements.

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 May 2, 2020	$ 60,010	$ 44,627	$ 85,090	$ (7,470)	$ (5,277)	$ 176,980
Net income	—	—	7,467	—	—	7,467
Cumulative translation adjustments	—	—	—	—	1,037	1,037
Share-based compensation	—	539	—	—	—	539
Treasury stock reissued	—	26	—	173	—	199
Balance as of August 1, 2020	$ 60,010	$ 45,192	$ 92,557	$ (7,297)	$ (4,240)	$ 186,222

See notes to condensed consolidated financial statements.

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 27, 2019	$ 57,699	$ 42,561	$ 93,593	$ (1,834)	$ (4,356)	$ 187,663
Net income	—	—	7,030	—	—	7,030
Cumulative translation adjustments	—	—	—	—	(526)	(526)
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	41	41
Share-based compensation	—	643	—	—	—	643
Employee savings plan activity	779	—	—	—	—	779
Dividends declared ($0.05 per share)	—	—	(2,250)	—	—	(2,250)
Treasury stock purchase	—	—	—	(1,187)	—	(1,187)
Balance as of August 3, 2019	$ 58,478	$ 43,204	$ 98,373	$ (3,021)	$ (4,841)	$ 192,193

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	August 1, 2020	**August 3, 2019**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 7,467	$ 7,030
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,337	4,383
Loss on sale of property, equipment and other assets	(53)	(26)
Share-based compensation	539	643
Equity in loss of affiliates	529	118
Provision for doubtful accounts	1	5
Deferred income taxes, net	(4)	(40)
Change in operating assets and liabilities	(4,271)	(30,331)
Net cash provided by (used in) operating activities	8,545	(18,218)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,155)	(5,856)
Proceeds from sales of property, equipment and other assets	86	73
Proceeds from sales or maturities of marketable securities	—	14,510
Purchases of and loans to equity investment	(492)	(455)
Net cash (used in) provided by investing activities	(3,561)	8,272
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term obligations	(210)	(1,221)
Dividends paid	—	(2,250)
Payments for common shares repurchased		(1,187)
Net cash used in financing activities	(210)	(4,658)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(481)	(37)
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	4,293	(14,641)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
Beginning of period	40,412	35,742
End of period	$ 44,705	$ 21,101
Supplemental disclosures of cash flow information:		
Cash paid (received) for:		
Interest	$ 43	$ 33
Income taxes, net of refunds	786	491
Supplemental schedule of non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable	969	786
Contributions of common stock under the ESPP	—	779

See notes to condensed consolidated financial statements.

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 disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The balance sheet at May 2, 2020, has been derived from the audited financial statements at that date, but it does not include all the information and disclosures 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 May 2, 2020, 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.

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 fiscal year ended May 1, 2021 will consist of 52 weeks and the fiscal year ended May 2, 2020 was a 53-week year; therefore, the three months ended August 1, 2020 contains operating results for 13 weeks while the three months ended August 3, 2019 contains operating results for 14 weeks.

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

	August 1, 2020	August 3, 2019
Cash and cash equivalents	$ 44,609	$ 20,762
Restricted cash	96	339
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statement of cash flows	$ 44,705	$ 21,101

Other Business Developments - Coronavirus Pandemic

During the first quarter of fiscal 2021, we continued to see the global spread of the coronavirus pandemic ("COVID-19"), which grew to create significant volatility, uncertainty and global economic disruption. As disclosed in our Current Report on Form 8-K filed on April 1, 2020, we are taking proactive steps to solidify our financial position and mitigate any adverse consequences. These steps include preserving liquidity by drawing down $15,000 of our existing line of credit, which is included in the "Other long-term obligations" line item in our condensed consolidated balance sheets. In addition, we are pursuing other sources of financing, reducing investments in capital assets, reducing executive pay and board member compensation, and instituting initiatives to reduce other costs in the business. Our board of directors voted to suspend stock repurchases under our share repurchase program and to suspend dividends for the foreseeable future. We believe these measures are necessary to help preserve our ability to borrow for liquidity needs and help us be well positioned when the pandemic passes and economies begin to recover.

During fiscal 2020, we offered special voluntary retirement and voluntary exit incentive program ("Offering") and during the first quarter of fiscal 2021, we conducted a reduction in force ("RIF") to adjust our capacity and reduce on-going expenses due to the uncertainties created by the COVID-19 pandemic. Under the Offering, employees had until June 2020 to choose to participate. During the first quarter of fiscal 2021, 60 employees agreed to participate and completed employment in June 2020. The approximate cost of this Offering was $931. Under the RIF, employment was terminated with 108 employees with severance totaling $1,426.

Various government programs have been announced which provide financial relief for affected businesses that suffered reductions in revenue resulting from the COVID-19 pandemic including the Canada Emergency Wage Subsidy ("CEWS") under the COVID-19 Economic Response Plan in Canada, the Australian JobKeeper subsidy in Australia, the Temporary COVID-19 Wage Subsidy in Ireland, and the Job Retention Program in the United Kingdom. During the first quarter of fiscal 2021, we received $812 in total governmental wage subsidies and recorded such as a reduction of compensation expense, which is mostly included in the "Costs of sales" line item in our condensed consolidated statements of operations.

Recent Accounting Pronouncements

There have been no material changes to our significant accounting policies and estimates as described in our Annual Report on Form 10-K for the fiscal year ended May 2, 2020, other than described in the Accounting Standards Adopted section below.

Accounting Standards Adopted

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 adopted ASU 2017-04 during the first quarter of fiscal 2021 and the adoption did not have an impact on our condensed consolidated financial statements.

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 improves financial reporting by requiring more timely recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. Under the new guidance, the ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. 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 adopted ASU 2016-13 and its related guidance during the first quarter of fiscal 2021 and the adoption did not have a material impact on our condensed consolidated financial statements.

We estimate an allowance for doubtful accounts using a loss rate method. We measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts.

A reconciliation of the beginning and ending allowance for doubtful accounts is as follows:

	Allowance for Doubtful Accounts:
Balance as of May 2, 2020	$ 2,828
Charged to costs and expenses	735
Deductions (1)	(241)
Balance as of August 1, 2020	$ 3,322

(1) Includes accounts determined to be uncollectible and charged against reserves.

Accounting Standards Not Yet Adopted

There are no significant ASU's issued not yet adopted as of August 1, 2020.

Note 2. Investments in Affiliates

Investments in affiliates over which we have significant influence are accounted for under the equity method of accounting, recording the investment at cost and then subsequently adjusting to account for our share of the affiliates profit or losses, in accordance with the provisions of Accounting Standards Codification ("ASC") 323, *Investments – Equity Method and Joint Ventures*. 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, recording the investment at cost and then subsequently adjusting for any changes in ownership or dividends, in accordance with the provisions of ASC 321, *Investments – Equity Securities*. We have evaluated our relationships with our affiliates and have determined that these entities are not variable interest entities. Cash paid for investments in affiliates and loans to affiliates are included in the "Purchases of and loans to equity investment" line item in our condensed consolidated statements of cash flows. Equity method investments as a whole are assessed for other-than-temporary impairments whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable.

The aggregate amount of investments accounted for under the equity method was $16,728 and $17,257 at August 1, 2020 and May 2, 2020, respectively. 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 three months ended August 1, 2020 and August 3, 2019, our share of the losses of our affiliates was $529 and $118, respectively.

Note 3. Earnings Per Share ("EPS")

We follow the provisions of ASC 260, *Earnings Per Share*, where 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 months ended August 1, 2020 and August 3, 2019:

	Net income	Shares	Per share income
For the three months ended August 1, 2020			
Basic earnings per share	$ 7,467	44,654	$ 0.17
Dilution associated with stock compensation plans	—	97	—
Diluted earnings per share	$ 7,467	44,751	$ 0.17
For the three months ended August 3, 2019			
Basic earnings per share	$ 7,030	45,089	$ 0.16
Dilution associated with stock compensation plans	—	172	—
Diluted earnings per share	$ 7,030	45,261	$ 0.16

Options outstanding to purchase 2,119 shares of common stock with a weighted average exercise price of $9.96 for the three months ended August 1, 2020 and 2,197 shares of common stock with a weighted average exercise price of $10.03 for the three months ended August 3, 2019 were not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

Note 4. Revenue Recognition

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.

The following table presents our disaggregation of revenue by segments:

	Three Months Ended August 1, 2020					
	Commercial	Live Events	High School Park and Recreation	Transportation	International	Total
Type of performance obligation						
Unique configuration	$ 8,727	$ 41,975	$ 7,668	$ 7,724	$ 4,012	$ 70,106
Limited configuration	22,555	5,419	20,688	6,266	8,653	63,581
Service and other	3,224	4,080	587	508	1,558	9,957
	$ 34,506	$ 51,474	$ 28,943	$ 14,498	$ 14,223	$ 143,644
Timing of revenue recognition						
Goods/services transferred at a point in time	$ 22,892	$ 6,214	$ 19,368	$ 6,374	$ 9,179	$ 64,027
Goods/services transferred over time	11,614	45,260	9,575	8,124	5,044	79,617
	$ 34,506	$ 51,474	$ 28,943	$ 14,498	$ 14,223	$ 143,644

	Three Months Ended August 3, 2019					
	Commercial	Live Events	High School Park and Recreation	Transportation	International	Total
Type of performance obligation						
Unique configuration	$ 12,965	$ 45,587	$ 6,030	$ 11,897	$ 15,678	$ 92,157
Limited configuration	27,235	7,713	23,800	6,587	9,930	75,265
Service and other	3,835	6,006	635	534	1,824	12,834
	$ 44,035	$ 59,306	$ 30,465	$ 19,018	$ 27,432	$ 180,256
Timing of revenue recognition						
Goods/services transferred at a point in time	$ 27,703	$ 9,120	$ 22,599	$ 6,697	$ 10,188	$ 76,307
Goods/services transferred over time	16,332	50,186	7,866	12,321	17,244	103,949
	$ 44,035	$ 59,306	$ 30,465	$ 19,018	$ 27,432	$ 180,256

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

Contract balances

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 according to 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:

	August 1, 2020	May 2, 2020	Dollar Change	Percent Change
Contract assets	$ 33,261	$ 35,467	$ (2,206)	(6.2)%
Contract liabilities - current	50,159	50,897	(738)	(1.4)
Contract liabilities - noncurrent	10,715	10,707	8	0.1

The changes in our contract assets and contract liabilities from May 2, 2020 to August 1, 2020 were 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 contract assets for the three months ended August 1, 2020.

For service-type warranty contracts, we allocate revenue to this performance obligation, recognize the revenue over time, and recognize costs as incurred. Earned and unearned revenues for these contracts are included in the "Contract assets" and "Contract liabilities" line items in our condensed consolidated balance sheets. Changes in unearned service-type warranty contracts, net were as follows:

		August 1, 2020
Balance at beginning of period	$	24,490
New contracts sold		8,188
Less: reductions for revenue recognized		(9,115)
Foreign currency translation and other		250
Balance at end of period	$	23,813

As of August 1, 2020 and May 2, 2020, our contracts in progress that were identified as loss contracts were immaterial. For these contracts, the provision for losses are included in the "Accrued expenses" line item in our condensed consolidated balance sheets.

During the three months ended August 1, 2020, we recognized revenue of $30,358 related to our contract liabilities as of May 2, 2020.

Remaining performance obligations
As of August 1, 2020, the aggregate amount of the transaction price allocated to the remaining performance obligations was $245,756. We expect approximately $204,878 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 at August 1, 2020 are $191,717 and $54,039, respectively. Although remaining performance obligations reflect 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 organize and manage our business by the following 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), who is our president and chief executive officer, in making resource allocation decisions for our segments.

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

	Three Months Ended	
	August 1, 2020	August 3, 2019
Net sales:		
Commercial	$ 34,506	$ 44,035
Live Events	51,474	59,306
High School Park and Recreation	28,943	30,465
Transportation	14,498	19,018
International	14,223	27,432
	143,644	180,256
Gross profit:		
Commercial	7,742	9,218
Live Events	9,354	12,737
High School Park and Recreation	10,476	10,187
Transportation	5,143	6,754
International	3,046	6,609
	35,761	45,505
Contribution margin: (1)		
Commercial	4,441	4,084
Live Events	7,138	8,872
High School Park and Recreation	7,915	6,592
Transportation	4,381	5,452
International	330	2,208
	24,205	27,208
Non-allocated operating expenses:		
General and administrative	7,124	9,093
Product design and development	7,532	10,500
Operating income	9,549	7,615
Nonoperating income (expense):		
Interest income	85	269
Interest expense	(73)	(35)
Other (expense) income, net	(627)	193
Income before income taxes	8,934	8,042
Income tax expense	1,467	1,012
Net income	$ 7,467	$ 7,030
Depreciation and amortization:		
Commercial	$ 772	$ 974
Live Events	1,451	1,398
High School Park and Recreation	496	512
Transportation	237	264
International	693	524
Unallocated corporate depreciation	688	711
	$ 4,337	$ 4,383

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

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	
	August 1, 2020	August 3, 2019
Net sales:		
United States	$ 128,069	$ 149,460
Outside United States	15,575	30,796
	$ 143,644	$ 180,256

	August 1, 2020	May 2, 2020
Property and equipment, net of accumulated depreciation:		
United States	$ 56,822	$ 58,422
Outside United States	9,237	9,062
	$ 66,059	$ 67,484

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 in 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 August 1, 2020, 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 August 1, 2020 and May 2, 2020, our available-for-sale securities consisted of the following:

	Amortized Cost	Unrealized Losses	Fair Value
Balance as of August 1, 2020			
Certificates of deposit	$ 1,230	$ —	$ 1,230
	$ 1,230	$ —	$ 1,230
Balance as of May 2, 2020			
Certificates of deposit	$ 1,230	$ —	$ 1,230
	$ 1,230	$ —	$ 1,230

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 accumulated other comprehensive loss into earnings based on the specific identification method. In the three months ended August 1, 2020 and August 3, 2019, 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 August 1, 2020 were as follows:

	Less than 12 months	Total
Certificates of deposit	$ 1,230	$ 1,230
	$ 1,230	$ 1,230

Note 7. Goodwill

The changes in the carrying amount of goodwill related to each reportable segment for the three months ended August 1, 2020 were as follows:

	Live Events	Commercial	Transportation	International	Total
Balance as of May 2, 2020	$ 2,266	$ 3,144	$ 38	$ 2,295	$ 7,743
Foreign currency translation	13	91	13	188	305
Balance as of August 1, 2020	$ 2,279	$ 3,235	$ 51	$ 2,483	$ 8,048

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. Our annual analysis is performed during our third quarter of each fiscal year, based on the goodwill amount as of the first business day of our third fiscal quarter. We performed our annual impairment test on November 4, 2019 and concluded no goodwill impairment existed. We plan to complete our annual analysis as of the first business day of our third quarter of fiscal 2021, which will begin on November 2, 2020.

In March 2020, we began to see the impacts from the COVID-19 pandemic that could have a negative impact on our forecasted revenue and profitability and stock price declines. This, along with other market conditions, led us to perform an interim goodwill impairment analysis in the fourth quarter of fiscal 2020. After evaluating our results, events and circumstances, we determined no goodwill impairment was necessary. Although the COVID-19 pandemic continues to cause uncertainty, in the first quarter of fiscal 2021, we considered if any new events had occurred or if circumstances had changed such that it was more likely than not that the fair value of any of our reporting units was below its carrying amount, and we did not identify any further impairment indicators; therefore, we did not perform an additional interim impairment analysis.

Note 8. Selected Financial Statement Data

Inventories consisted of the following:

	August 1, 2020	May 2, 2020
Raw materials	$ 33,076	$ 35,306
Work-in-process	9,943	12,102
Finished goods	38,416	39,395
	$ 81,435	$ 86,803

Property and equipment, net consisted of the following:

	August 1, 2020	May 2, 2020
Land	$ 2,183	$ 2,183
Buildings	69,967	68,804
Machinery and equipment	105,188	104,157
Office furniture and equipment	6,174	6,151
Computer software and hardware	53,691	53,441
Equipment held for rental	287	287
Demonstration equipment	8,368	8,473
Transportation equipment	7,783	7,944
	253,641	251,440
Less accumulated depreciation	187,582	183,956
	$ 66,059	$ 67,484

Note 9. Receivables

We invoice customers based on a billing schedule as established in our contracts. We sometimes have the ability to file a contractor's lien against the product installed as collateral and to file claims against surety bonds to protect our interest in receivables. 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 of $3,322 and $2,828 at August 1, 2020 and May 2, 2020, respectively. Included in accounts receivable as of August 1, 2020 and May 2, 2020 was $741 and $687, respectively, of retainage on construction-type contracts, all of which is expected to be collected within one year.

In some contracts with customers, we agree to installment payments exceeding 12 months. The present value of these contracts is 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, including accrued interest and current maturities, was $4,045 and $4,633 as of August 1, 2020 and May 2, 2020, respectively. Contract receivables bearing annual interest rates of 5.0 to 9.0 percent are due in varying annual installments through 2024. The face value of long-term receivables was $4,327 as of August 1, 2020 and $5,166 as of May 2, 2020.

We evaluated our receivable and contract assets as of August 1, 2020 and reserved for anticipated losses. Due to the uncertainty created by the COVID-19 pandemic, this loss may materially change from this estimate.

Note 10. Share Repurchase Program

On June 17, 2016, our Board of Directors approved a stock repurchase program under which we may purchase up to $40,000 of the Company's outstanding shares of common stock. Under this program, we may repurchase shares from time to time in open market transactions and in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The repurchase program does not require the repurchase of a specific number of shares and may be terminated at any time.

During the three months ended August 1, 2020, we had no repurchases of shares of our outstanding common stock. During the three months ended August 3, 2019, we repurchased 187 shares of common stock at a total cost of $1,187. As of August 1, 2020, we had $32,539 of remaining capacity under our current share repurchase program.

As part of our COVID-19 response, on April 1, 2020, our Board of Directors voted to suspend stock repurchases under our share repurchase program for the foreseeable future.

Note 11. Commitments and Contingencies

Litigation: We are a party to legal proceedings and claims which arise during the ordinary course of business.

As of August 1, 2020 and May 2, 2020, $2,118 and $2,072, respectively, were included in the "Accrued expenses" line item in our condensed consolidated balance sheets for a probable and reasonably estimated cost to settle a patent litigation claim.

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: Changes in our warranty obligation for the three months ended August 1, 2020 consisted of the following:

		August 1, 2020
Beginning accrued warranty obligations	$	25,624
Warranties issued during the period		2,800
Settlements made during the period		(1,056)
Changes in accrued warranty obligations for pre-existing warranties during the period, including expirations		(308)
Ending accrued warranty obligations	$	27,060

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 August 1, 2020, we had outstanding letters of credit and surety bonds in the amount of $14,788 and $35,079, 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. We enter into written agreements with our customers, and those agreements often contain indemnification provisions that require us to make the customer whole if certain acts or omissions by us cause the customer financial loss. We make efforts to negotiate reasonable caps and limitations on the recovery of such damages. As of August 1, 2020, we were not aware of any indemnification claim from a customer.

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 August 1, 2020, we were obligated under the following unconditional purchase commitments:

Fiscal years ending	**Amount**
2021	$ 2,831
2022	2,750
2023	1,755
2024	148
2025	113
Thereafter	40
	$ 7,637

Note 12. 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.

Our effective tax rate for the three months ended August 1, 2020 was 16.4 percent as compared to 12.6 percent for the three months ended August 3, 2019. The quarterly effective tax rate was primarily driven by the benefit of estimated tax credits proportionate to estimated pre-tax earnings similar to the previous period.

We are subject to U.S. federal income tax as well as income taxes of multiple state and foreign jurisdictions. Fiscal years 2017, 2018, 2019 and 2020 remain open to federal tax examinations, and fiscal years 2016, 2017, 2018, 2019 and 2020 remain open for various 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 2009. 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 in our condensed consolidated statement of operations.

As of August 1, 2020, undistributed earnings of our foreign subsidiaries are considered to be reinvested indefinitely. Additionally, we had $723 of unrecognized tax benefits which would reduce our effective tax rate if recognized.

Note 13. 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 August 1, 2020 and May 2, 2020 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 August 1, 2020				
Cash and cash equivalents	$ 44,609	$ —	$ —	$ 44,609
Restricted cash	96	—	—	96
Available-for-sale securities:				
Certificates of deposit	—	1,230	—	1,230
Derivatives - asset position	—	36	—	36
Derivatives - liability position	—	(242)	—	(242)
Acquisition-related contingent consideration	—	—	(401)	(401)
	$ 44,705	$ 1,024	$ (401)	$ 45,328
Balance as of May 2, 2020				
Cash and cash equivalents	$ 40,398	$ —	$ —	$ 40,398
Restricted cash	14	—	—	14
Available-for-sale securities:				
Certificates of deposit	—	1,230	—	1,230
Derivatives - asset position	—	261	—	261
Derivatives - liability position	—	(17)	—	(17)
Acquisition-related contingent consideration	—	—	(761)	(761)
	$ 40,412	$ 1,474	$ (761)	$ 41,125

A roll forward of the Level 3 contingent liabilities, both short- and long-term, for the three months ended August 1, 2020 is as follows:

Acquisition-related contingent consideration as of May 2, 2020	$ 761
Additions	33
Settlements	(400)
Interest	7
Acquisition-related contingent consideration as of August 1, 2020	$ 401

There have been no changes in the valuation techniques used by us to value our financial instruments since the end of fiscal 2020. For additional information, see our Annual Report on Form 10-K for the fiscal year ended May 2, 2020 for the methods and assumptions used to estimate the fair value of each class of financial instrument.

Note 14. Derivative Financial Instruments

We utilize derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates on those transactions denominated in currencies other than our functional currency, which is the U.S. dollar. We enter into currency forward contracts to manage these economic risks. We account for all derivatives in the condensed consolidated balance sheets within accounts receivable or accounts payable measured at fair value, and changes in fair values are recognized in earnings unless specific hedge accounting criteria are met for cash flow or net investment hedges. As of August 1, 2020 and May 2, 2020, we had not designated any of our derivative instruments as accounting hedges, and thus we recorded the changes in fair value in the "Other (expense) income, net" line item in the condensed consolidated statements of operations.

The foreign currency exchange contracts in aggregated notional amounts in place to exchange U.S. dollars at August 1, 2020 and May 2, 2020 were as follows:

	August 1, 2020		May 2, 2020	
	U.S. Dollars	Foreign Currency	U.S. Dollars	Foreign Currency
Foreign Currency Exchange Forward Contracts:				
U.S. Dollars/Australian Dollars	5,406	7,839	2,235	3,323
U.S. Dollars/Canadian Dollars	—	—	452	648
U.S. Dollars/British Pounds	2,149	1,650	3,160	2,424
U.S. Dollars/Euros	—	—	1,881	1,689

As of August 1, 2020, there was an asset and liability of $36 and $242, respectively; and as of May 2, 2020, there was an asset and liability of $261 and $17, respectively, representing the fair value of foreign currency exchange forward contracts, which were determined using Level 2 inputs from a third-party bank. As of August 1, 2020, all contracts mature within 17 months.

Note 15. Subsequent Events

On August 28, 2020, we entered into the third amendment to our credit agreement and a security agreement over certain assets. The third amendment adds a liquidity covenant and revises other financial covenants.

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 within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21B of 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 the intent, belief or current expectations with respect to, among other things: (i.) our competition; (ii.) our financing plans and ability to maintain adequate liquidity; (iii.) trends affecting our financial condition or results of operations; (iv.) our growth and operating strategies; (v.) the declaration and payment of dividends; (vi.) the timing and magnitude of future contracts; (vii.) raw material shortages and lead times; (viii.) fluctuations in margins; (ix.) the seasonality of our business; (x.) the introduction of new products and technology; (xi.) the amount and frequency of warranty claims; (xii.) our ability to manage the impact that new or adjusted tariffs may have on the cost of raw materials and components and our ability to sell product internationally; (xiii.) the resolution of litigation contingencies; (xiv.) the timing and magnitude of any acquisitions or dispositions; (xv.) the impact of governmental laws, regulations, and orders, including as a result of the COVID-19 pandemic caused by the coronavirus; and (xvi.) disruptions to our business caused by geopolitical events, military actions, work stoppages, natural disasters, or international health emergencies, such as the COVID-19 pandemic. The words “may,” “would,” “could,” “should,” “will,” “expect,” “estimate,” “anticipate,” “believe,” “intend,” “plan” and similar expressions and 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 risks 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 our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended May 2, 2020 in the section entitled “Part I, Item 1A. Risk Factors” and “Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations,” and those factors discussed in detail in our other filings with the Securities and Exchange Commission.

The following discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). This discussion should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements included in this Report. The preparation of these condensed financial statements requires us to make estimates and judgments affecting 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 total costs on long-term construction-type contracts, costs to be incurred for product warranties and extended maintenance contracts, bad debts, excess and obsolete inventory, income taxes, share-based compensation, goodwill impairment and contingencies. Our estimates are based on historical experience and on various other assumptions 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 not readily apparent from other sources. Actual results may differ from these estimates.

OVERVIEW

We design, manufacture and sell a wide range of display systems to customers throughout the world. We focus our sales and marketing efforts on markets, geographical regions and products. Our five business segments consist of four domestic business units and the International business unit. The four domestic business units consist of Commercial, Live Events, High School Park and Recreation, and Transportation, all of which include the geographic territories of the United States and Canada. Disclosures related to our business segments are provided in "Note 5. Segment Reporting" of the Notes to the Condensed Consolidated Financial Statements included elsewhere in this Report.

Our net sales and profitability historically have fluctuated due to the impact of uniquely configured orders, such as display systems for professional sports facilities, colleges and universities, and spectacular projects in the commercial area, as well as the seasonality of the sports market. Uniquely configured orders can include several displays, controllers, and subcontracted structure builds, each of which can occur on varied schedules per the customer's needs. Our third fiscal quarter sales and profit levels are lighter than other quarters due to the seasonality of our sports business, construction cycles, and the reduced number of production days due to holidays in the quarter.

Our gross margins tend to fluctuate more on uniquely configured orders than on limited configured orders. Uniquely configured orders involving competitive bidding and substantial subcontracting work for product installation generally have lower gross margins. Although we follow the over time method of recognizing revenues for uniquely configured orders, we nevertheless have experienced fluctuations in operating results and expect our future results of operations will be subject to similar fluctuations.

Our remaining performance obligations ("backlog") consist of contractually binding sales agreements or purchase orders for integrated electronic display systems and related products and service. Orders are included in backlog when we are in receipt of an executed contract and any required deposits or security. As a result, certain orders for which we have received binding letters of intent or contracts will not be included in backlog until all required contractual documents and deposits are received. Backlog can fluctuate due to large order bookings and the timing and seasonality of net sales. Because order backlog fluctuates and may be subject to extended delivery schedules, orders may be canceled and have varied estimated profitability. Our backlog is not necessarily indicative of future net sales or net income. Backlog is not a measure defined by GAAP, and our methodology for determining backlog may vary from the methodology used by other companies in determining their backlog amounts.

GENERAL

Our mission is to be the world leader at informing and entertaining audiences through dynamic audio-visual communication systems. We organize into business units to focus on customer loyalty over time to earn new and replacement business because our products have a finite lifetime. See "Note 5. Segment Reporting" of the Notes to the Condensed Consolidated Financial Statements included elsewhere in this Report for further information. Our strategies include the creation of a comprehensive line of innovative solutions and systems and our ability to create and leverage platform designs and technologies. These strategies align us to effectively deliver value to our varied customers and their market needs, while serving our stakeholders over the long-term. We focus on creating local capabilities for sales, service, and manufacturing in geographies with expected digital market opportunities. We believe consistently generating profitable growth will provide value to our stakeholders (customers, employees, shareholders, suppliers, and communities).

We measure our success using a variety of measures including:

- our percentage of market share by comparing our estimated revenue to the total estimated global digital display revenue,
- our order growth compared to the overall digital market order change,
- financial metrics such as annual order volume and profit change as compared to our previous financial results,
- customer retention and expansion rates, and
- our ability to generate profits over the long-term to provide a shareholder return.

Certain factors impact our ability to succeed in these strategies and impact our business units to varying degrees. For example, the overall cost to manufacture and the selling prices of our products have decreased over the years and are expected to continue to decrease in the future. Our competitors outside the U.S. are impacted differently by the global trade environment allowing them to avoid tariff costs or reduce prices. As a result, additional competitors have entered the market, and each year we must sell more product to generate the same or greater level of net sales as in previous fiscal years. However, the decline of digital solution pricing over the years and increased user adoption and applications have increased the size of the global market.

Competitor offerings, actions and reactions also can vary and change over time or in certain customer situations. Projects with multimillion-dollar revenue potential attracts competition, and competitors can use marketing or other tactics to win business.

Each business unit's long-term performance can be impacted by economic conditions in different ways and to different degrees. The effects of an adverse economy are generally less severe on our sports related business as compared to our other businesses, although in severe economic downturns with social changes causing decreases in sporting event revenues, the sports business can also be seriously impacted.

Outlook: The COVID-19 pandemic has created disruptions since its initial outbreak, first impacting our China operations. Beginning in February, we created COVID-19 response teams to manage our local and global response activities. Using the guidance from the U.S. Centers for Disease Control and Prevention, the World Health Organization, and other applicable regulatory agencies, we enhanced or implemented robust health, safety, and cleaning protocols across our organization.

Throughout the first quarter of fiscal 2021, employees are working from home where possible, and we have limited travel for the time being. When unable to work safely or within the various regulations in certain geographies and locations and because demand decreased, our sales, manufacturing and field service teams have reduced capacity and furloughed employees.

Our sales teams have continued to engage our customers to promote our value, mostly virtually, across our diverse markets and geographies. However, our customers reduced their spend on audio-visual systems and related services during the first quarter as they work through the economic and business implications of COVID-19. We took corresponding actions to reduce all operating expenses to align with expected order and sales declines expected through the year. These expense reductions vary in permanency and may change throughout the fiscal year.

Our supply chain team has remained alert to potential short supply situations and shipping disruptions, and, if necessary, we are utilizing alternative sources and shipping methods.

We expect the COVID-19 pandemic to have an adverse impact on our revenue and our results of operations, the size and duration of which we are currently unable to predict. The global impact of COVID-19 continues to rapidly evolve. The extent to which COVID-19 will impact our business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the ultimate severity and spread of the disease, the duration of the pandemic, travel restrictions and social distancing requirements in the United States and other countries, the pace and extent of the economic recovery, and any change in trends and practices in how people gather. Given the speed and frequency of continuously evolving developments with respect to this pandemic, we cannot reasonably estimate the magnitude of the impact to our business.

As we continue through fiscal 2021, our operating results are going to be challenged due this crisis. We continue to manage our cost structure to meet the uncertain demand, while taking additional cost reductions actions as needed. Our customers' businesses are subject to the fluctuations in global economic cycles and conditions and other business risk factors which may impact their ability to operate their businesses. The performance and financial condition of our customers may cause us to alter our business terms or to cease doing business with a particular customer. Further, the potential impact of the COVID-19 pandemic on their businesses could adversely impact our customers' ability to pay us for work performed and increase our future estimate of credit losses.

In addition to the COVID-19 impacts noted above, the outlook and unique key growth drivers and challenges by our business units include:

Commercial Business Unit: In the near-term, our customers who rely on advertising revenues for Out-of-Home ("OOH") advertising or who are reliant on customer foot-traffic to drive sales have been adversely impacted by stay-at-home or quarantine orders which started in March 2020 with varied or no published expiration. These customers are expected to delay their discretionary capital spending through the COVID-19 economic recovery. Business using our displays for self-promotion or on-premise advertising may have reduced budgets for the foreseeable future or choose to utilize displays as part of their recovery, both actions creating an impact to the Commercial near-term outlook. We cannot reasonably estimate the magnitude or length of time our Commercial business will be adversely impacted.

Over the long-term, we believe growth in the Commercial business unit will result from a number of factors, including:

- Standard display product market growth due to market adoption and lower product costs, which drive marketplace expansion. Standard display products are used to attract or communicate with customers and potential customers of retail, commercial, and other establishments. Pricing and economic conditions are the principal factors that impact our success in this business unit. We utilize a reseller network to distribute our standard products.
- National accounts standard display market opportunities due to customers' desire to communicate their message, advertising and content consistently across the country. Increased demand is possible from national retailers, quick serve restaurants, petroleum retailers, and other nationwide organizations.
- Additional standard display offerings using micro-light emitting diode ("LED") designs.
- Increasing use of LED technologies replacing signage previously using liquid crystal display ("LCD") technology by existing and new customers.
- Increasing interest in spectaculars, which include very large and sometimes highly customized displays as part of entertainment venues such as casinos, shopping centers, cruise ships and Times Square type locations.
- Dynamic messaging systems demand growth due to market adoption and expanded use of this technology.
- The use of architectural lighting products for commercial buildings, which real estate owners use to add accents or effects to an entire side or circumference of a building to communicate messages or to decorate the building.
- The continued deployment of digital billboards as OOH advertising companies continue developing new sites and replacing digital billboards reaching end of life. This is dependent on no adverse changes occurring in the digital billboard regulatory environment restricting future billboard deployments, as well as maintaining our current market share in a business that is concentrated in a few large OOH companies.
- Replacement cycles within each of these areas.

Live Events Business Unit: In the near-term, our customers who rely on advertising and event revenues are expected to delay spending on projects because of the COVID-19 pandemic. Changes to the way people gather may change the long-term usage of our systems.

Over the long-term, we believe growth in the Live Events business unit will result from a number of factors, including:

- Facilities spending more on larger display systems to enhance the game-day and event experience for attendees.
- Lower product costs, driving an expansion of the marketplace.
- Our product and service offerings, including additional micro-LED offerings which remain the most integrated and comprehensive offerings in the industry.
- The competitive nature of sports teams, which strive to out-perform their competitors with display systems.
- The desire for high-definition video displays, which typically drives larger displays or higher resolution displays, both of which increase the average transaction size.
- Dynamic messaging system needs throughout a sports facility.
- Increasing use of LED technologies replacing signage previously using LCD technology in and surrounding live events facilities.
- Replacement cycles within each of these areas.

High School Park and Recreation Business Unit: In the near-term, our customers who rely on advertising revenue for sports installations or who may be impacted by governmental tax revenue availability may choose to delay spending on projects because of the COVID-19 pandemic.

Over the long-term, we believe growth in the High School Park and Recreation business unit will result from a number of factors, including:

- Increased demand for video systems in high schools as school districts realize the revenue generating potential of these displays compared to traditional scoreboards and these systems' ability to provide or enhance academic curriculum offerings for students.
- Increased demand for different types of displays and dynamic messaging systems, such as message centers at schools to communicate to students, parents and the broader community.
- Lower system costs driving the use of more sophisticated displays in school athletic facilities, such as large integrated video systems.
- Expanding control system options tailored for the markets' needs.

Transportation Business Unit: In the near term, customers in the mass-transit and airport part of the market are expected to delay spending as a result of the limited use of this infrastructure during the COVID-19 pandemic. In the long-term, roadway projects may be impacted due to reduced tax revenues. That impact will increase as the duration of the reduction in infrastructure usage continues.

Over the long-term, we believe growth in the Transportation business unit will result from increasing applications and acceptance of electronic displays to manage transportation systems, including roadway, airport, parking, transit and other applications. Effective use of the United States transportation infrastructure requires intelligent transportation systems. This growth is highly dependent on government spending, primarily by state and federal governments, along with the continuing acceptance of private/public partnerships as an alternative funding source. Growth is also expected in dynamic messaging systems for advertising and wayfinding use in public transport and airport terminals due to expanded market usage and displays, with LED technology replacing prior LCD installations and additional display offerings using micro-LEDs.

International Business Unit: In the near-term, our customers who rely on advertising, retail, event revenues and governmental tax revenue availability are expected to delay spending on projects due to the COVID-19 pandemic. Changes to the ways people gather may change the long-term usage of our systems.

Over the long-term, we believe growth in the International business unit will result from achieving greater penetration in various geographies and building products more suited to individual markets. We continue to broaden our product offerings into the transportation segment in Europe and the Middle East. We also focus on sports facility, spectacular-type, OOH advertising products, and architectural lighting market opportunities and the factors listed in each of the other business units to the extent they apply outside of the United States and Canada. Additional opportunities exist with expanded market usage of LED technology due to price considerations, usage of LED technology replacing prior LCD installations and additional display offerings using micro-LEDs.

RESULTS OF OPERATIONS

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 fiscal year ended May 1, 2021 will consist of 52 weeks and the fiscal year ended May 2, 2020 was a 53-week year; therefore, the three months ended August 1, 2020 contains operating results for 13 weeks while the three months ended August 3, 2019 contains operating results for 14 weeks.

COMPARISON OF THE THREE MONTHS ENDED AUGUST 1, 2020 AND AUGUST 3, 2019

Net Sales

	Three Months Ended			
in thousands)	**August 1, 2020**	**August 3, 2019**	**Dollar Change**	**Percent Change**
Net sales:				
Commercial	$ 34,506	$ 44,035	$ (9,529)	(21.6)%
Live Events	51,474	59,306	(7,832)	(13.2)
High School Park and Recreation	28,943	30,465	(1,522)	(5.0)
Transportation	14,498	19,018	(4,520)	(23.8)
International	14,223	27,432	(13,209)	(48.2)
	$ 143,644	$ 180,256	$ (36,612)	(20.3)%
Orders:				
Commercial	$ 25,533	$ 38,648	$ (13,115)	(33.9)%
Live Events	41,860	66,969	(25,109)	(37.5)
High School Park and Recreation	28,099	30,552	(2,453)	(8.0)
Transportation	13,089	22,215	(9,126)	(41.1)
International	13,572	29,079	(15,507)	(53.3)
	$ 122,153	$ 187,463	$ (65,310)	(34.8)%

Sales and orders in all business units were impacted as a result of the economic downturn caused by the COVID-19 pandemic as well as the three months ended August 3, 2019 included 14 weeks compared to the more common 13 weeks. The three months ended August 1, 2020 contained 13 weeks.

For net sales, during the first three months ended August 1, 2020, we achieved a $11.1 million per week average run rate as compared to $12.9 million per week during the first three months ended August 3, 2019, or an approximate 14% decrease. The change in sales primarily relates to fluctuations in the timing of order bookings, and related conversion to sales.

For orders, during the first three months ended August 1, 2020, we achieved a $9.4 million per week average run rate as compared to $13.4 million per week during the first three months ended August 3, 2019, or an approximate 30% decrease. The change in orders primarily relates to timing of large contract orders which cause lumpiness, and due to lower market activity in light of the COVID-19 pandemic.

Product Order Backlog

The product order backlog as of August 1, 2020 was $192 million as compared to $207 million as of August 3, 2019 and $212 million at the end of the fourth quarter of fiscal 2020. Historically, our product order backlog varies due to the seasonality of our business, the timing of large projects, and customer delivery schedules for these orders. The product order backlog as of August 1, 2020 increased in the High School Park and Recreation and Transportation business units and decreased in the Commercial, Live Events, and International business units from August 3, 2019.

Gross Profit

	Three Months Ended			
	August 1, 2020		August 3, 2019	
(in thousands)	**Amount**	**As a Percent of Net Sales**	**Amount**	**As a Percent of Net Sales**
Commercial	$ 7,742	22.4%	$ 9,218	20.9%
Live Events	9,354	18.2	12,737	21.5
High School Park and Recreation	10,476	36.2	10,187	33.4
Transportation	5,143	35.5	6,754	35.5
International	3,046	21.4	6,609	24.1
	$ 35,761	24.9%	$ 45,505	25.2%

Gross profit is net sales less cost of sales. Cost of sales consists primarily of inventory, logistics related costs including tariffs and duties, consumables, salaries, other employee-related costs, facilities-related costs for manufacturing locations, machinery and equipment maintenance and depreciation, site sub-contractors, warranty costs, and other service delivery expenses.

The decrease in our gross profit percentage for the three months ended August 1, 2020 compared to the same period one year ago was mostly related to lower sales volumes over relatively fixed infrastructure costs. We continued to see the global spread of the coronavirus pandemic (COVID-19) impact order volumes and took various steps to solidify our financial position and reduce expenses. During the first quarter of fiscal 2021, we completed a special voluntary retirement and voluntary exit offering with 60 employees and we conducted a reduction in force of 108 employees to adjust our capacity and reduce on-going expenses due to the uncertainties created by the COVID-19 pandemic. The approximate cost of these programs included in the "Costs of sales" line item in our condensed consolidated statements of operations was $1.2 million, which was offset by $0.6 million of governmental wage subsidies.

We earned a higher rate of gross profit on our service agreements due to reduced stand ready services conducted during the quarter. This was due to lower on-site demand as events were not being held. We believe this higher gross profit level will not be sustained in future quarters. Total warranty as a percent of sales for the three months ended August 1, 2020 compared to the same period one year ago remained relatively flat. The following describes the overall impact by business unit for the three months ended August 1, 2020 compared to the same period one year ago:

The gross profit percent increased in the High School Park and Recreation business unit primarily due to product mix, which was partially offset by lower sales volumes over relatively fixed infrastructure costs. The gross profit percent increased in the Commercial business unit primarily due to lower warranty expense and product mix. The gross profit percent decreased in the Live Events business unit primarily due to lower sales volumes over relatively fixed infrastructure costs, which was partially offset by lower warranty expense. The gross profit percent decreased in the International business unit primarily due to higher warranty expense and lower sales volumes over relatively fixed infrastructure costs, which was partially offset by governmental wage subsidy. The gross profit percent remained relatively flat in the Transportation business unit compared to the same period one year ago.

Contribution Margin

	Three Months Ended				
	August 1, 2020			August 3, 2019	
(in thousands)	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales
Commercial	$ 4,441	12.9%	8.7 %	$ 4,084	9.3%
Live Events	7,138	13.9	(19.5)	8,872	15.0
High School Park and Recreation	7,915	27.3	20.1	6,592	21.6
Transportation	4,381	30.2	(19.6)	5,452	28.7
International	330	2.3	(85.1)	2,208	8.0
	$ 24,205	16.9%	(11.0)%	$ 27,208	15.1%

Contribution margin consists of gross profit less selling expenses. Selling expenses consist primarily of salaries, other employee-related costs, travel and entertainment expenses, facility-related costs for sales and service offices, bad debt expenses, third-party commissions and expenditures for marketing efforts, including the costs of collateral materials, conventions and trade shows, product demonstrations, customer relationship management systems, and supplies.

All areas of selling expenses were impacted as a result of the economic downturn caused by the COVID-19 pandemic as well as the three months ended August 3, 2019 included 14 weeks compared to the more common 13 weeks. The three months ended August 1, 2020 contained 13 weeks. Contribution margin is impacted by the previously discussed sales and gross margin for each business unit. Each business unit's contribution margin was impacted by a decrease in selling expenses in the first quarter of fiscal 2021 compared to the same quarter a year ago due to a decrease in personnel related expenses offset by severance costs for reductions in force, as well as reductions in travel and entertainment and in marketing and convention related expenses.

Other Operating Expenses

	Three Months Ended				
	August 1, 2020			August 3, 2019	
(in thousands)	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales
General and administrative	$ 7,124	5.0%	(21.7)%	$ 9,093	5.0%
Product design and development	$ 7,532	5.2%	(28.3)%	$ 10,500	5.8%

All areas of operating expenses were impacted as a result of the economic downturn caused by the COVID-19 pandemic as well as the three months ended August 3, 2019 included 14 weeks compared to the more common 13 weeks. The three months ended August 1, 2020 contained 13 weeks.

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

General and administrative expenses in the first quarter of fiscal 2021 decreased as compared to the same period one year ago primarily due to a decrease in personnel related expenses offset by severance costs for reductions in force.

Product design and development expenses consist primarily of salaries, other employee-related costs, professional services, facilities costs and equipment-related costs and supplies. Product design and development investments in the near term are focused on developing or improving our video technology over a wide range of pixel pitches for both indoor and outdoor applications. These new or improved technologies are focused on varied pixel density for image quality and use, expanded product line offerings for our various markets and geographies, improved quality and reliability, and improved cost points. We plan to make continued investments in our software and controller capabilities throughout our various product offerings. Through our design efforts, we focus on standardizing display components and control systems for both single site and network displays.

Our costs for product design and development represent an allocated amount of costs based on time charges, professional services, material costs and the overhead of our engineering departments. Generally, a significant portion of our engineering time is spent on product design and development, while the rest is allocated to large contract work and included in cost of sales.

Product design and development expenses in the first quarter of fiscal 2021 decreased as compared to the same period one year ago primarily due to decreased labor costs and professional services assigned to product design and development projects as a result of our response to COVID-19.

Other Income and Expenses

	Three Months Ended				
	August 1, 2020			August 3, 2019	
(in thousands)	**Amount**	**As a Percent of Net Sales**	**Percent Change**	**Amount**	**As a Percent of Net Sales**
Interest income, net	$ 12	— %	(94.9)%	$ 234	0.1%
Other (expense) income, net	$ (627)	(0.4)%	(424.9)%	$ 193	0.1%

Interest income, net: We generate interest income through short-term cash investments, marketable securities, and product sales on an installment basis or in exchange for the rights to sell and retain advertising revenues from displays, which result in long-term receivables. Interest expense is comprised primarily of interest costs on long-term obligations.

The change in interest income, net for the first quarter of fiscal 2021 compared to the same period one year ago was primarily due to the change in investment levels caused by the volatility of working capital needs and interest payments from our existing line of credit.

Other (expense) income, net: The change in other income and expense, net for the first quarter of fiscal 2021 as compared to the same period one year ago was primarily due to foreign currency volatility and the losses recorded from equity method affiliates.

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 (pretax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. Due to various factors, including operations in multiple jurisdictions worldwide, our effective tax rate is subject to fluctuation.

We have recorded an effective tax rate of 16.4 percent for the first quarter of fiscal 2021 as compared to an effective tax rate of 12.6 percent for the first quarter of fiscal 2020. The quarterly effective tax rate was primarily driven by the benefit of estimated tax credits proportionate to estimated pre-tax earnings similar to the previous period.

LIQUIDITY AND CAPITAL RESOURCES

	Three Months Ended		
(in thousands)	**August 1, 2020**	**August 3, 2019**	**Percent Change**
Net cash provided by (used in):			
Operating activities	$ 8,545	$ (18,218)	(146.9)%
Investing activities	(3,561)	8,272	(143.0)
Financing activities	(210)	(4,658)	(95.5)
Effect of exchange rate changes on cash	(481)	(37)	1,200.0
Net increase in cash, cash equivalents and restricted cash	$ 4,293	$ (14,641)	(129.3)%

Cash increased by $4.3 million for the first three months of fiscal 2021 as compared to a decrease of $14.6 million in the first three months of fiscal 2020, which is primarily due to cash generation of operations.

Net cash provided by (used in) operating activities: Operating cash flows consist primarily of net income adjusted for non-cash items, including depreciation and amortization, stock-based compensation, deferred income taxes, and the effect of changes in operating assets and liabilities. Overall, changes in net operating assets and liabilities can be impacted by the timing of cash flows on large orders, which can cause significant short-term and seasonal fluctuations in inventory, accounts receivables, accounts payable, contract assets and liabilities, and various other operating assets and liabilities. Variability in contract assets and liabilities relates to the timing of billings on construction-type contracts and revenue recognition, which can vary significantly depending on contractual payment terms and build and installation schedules. Balances are also impacted by the seasonality of the sports market.

Net cash provided by (used in) operating activities was $8.5 million for the first three months of fiscal 2021 compared to net cash used in operating activities of $18.2 million in the first three months of fiscal 2020. The $26.7 million increase in cash provided by operating activities from the first three months of fiscal 2020 to the first three months of fiscal 2021 was the result of changes in net operating assets and liabilities of $26.1 million, $0.4 million increase in net income, and $0.2 million in other non-cash items.

Year-to-date cash provided from operations differed as compared to last year primarily due to order volatility, which accounted for most of the changes in accounts receivable, inventory, contract assets, accounts payable, and contract liabilities as compared to last year.

The changes in operating assets and liabilities consisted of the following:

	Three Months Ended	
	August 1, 2020	**August 3, 2019**
(Increase) decrease:		
Accounts receivable	$ (15,514)	$ (30,973)
Long-term receivables	693	(2,298)
Inventories	5,826	(6,763)
Contract assets	2,378	(9,180)
Prepaid expenses and other current assets	2,122	(1,296)
Income tax receivables	308	52
Investment in affiliates and other assets	211	(53)
Increase (decrease):		
Accounts payable	1,240	12,535
Contract liabilities	(1,095)	6,341
Accrued expenses	(2,026)	206
Warranty obligations	881	158
Long-term warranty obligations	550	823
Income taxes payable	398	461
Long-term marketing obligations and other payables	(243)	(344)
	$ (4,271)	$ (30,331)

Net cash (used in) provided by investing activities: Net cash used in investing activities totaled $3.6 million in the first three months of fiscal 2021 compared to net cash provided by investing activities of $8.3 million in the first three months of fiscal 2020. We had no proceeds from sales or maturities of marketable securities in the first three months of fiscal 2021 as compared to $14.5 million in the first three months of fiscal 2020. Net proceeds of marketable securities in fiscal 2020 were utilized to cover working capital needs for changes in operating assets and liabilities described above. Purchases of property and equipment totaled $3.2 million in the first three months of fiscal 2021 compared to $5.9 million in the first three months of fiscal 2020. Purchases of and loans to an equity investment totaled $0.5 million in the first three months of fiscal 2021 as compared to $0.5 million in the first three months of fiscal 2020.

Net cash used in financing activities: Net cash used in financing activities was $0.2 million for the three months ended August 1, 2020 compared to $4.7 million in the same period one year ago. Principal payments on long-term obligations for the first three months of fiscal 2021 were $0.2 million compared to $1.2 million during the first three months of fiscal 2020, which was mostly related to contingent liability payments. Dividends of $2.3 million, or $0.05 per share, paid to Daktronics shareholders during the first three months of fiscal 2020, while there were no dividends paid during the first three months of fiscal 2021. During the first three months of fiscal 2020, we repurchased $1.2 million of shares as part of the $40.0 million share repurchase plan authorized by our Board of Directors. There were no share repurchases in the first three months of fiscal 2021. As part of our COVID-19 response, our Board of Directors has suspended dividends and stock repurchases for the foreseeable future.

Other Liquidity and Capital Resources Discussion: The timing and amounts of working capital changes, dividend payments, stock repurchase program, and capital spending impact our liquidity.

Working capital was $118.3 million and $106.0 million at August 1, 2020 and May 2, 2020, respectively. The changes in working capital, particularly changes in accounts receivable, accounts payable, inventory, and contract assets and liabilities, and the sports market seasonality can have a significant impact on the amount of net cash provided by operating activities largely due to the timing of payments and receipts. On multimillion-dollar orders, the time between order acceptance and project completion may extend up to or exceed 12 months or more depending on the amount of custom work and a customer's delivery needs. We often receive down payments or progress payments on these orders.

We had $5.7 million of retainage on long-term contracts included in receivables and contract assets as of August 1, 2020, which has an impact on our liquidity. We expect to collect these amounts within one year. When working capital is needed, we have historically financed our cash needs through a combination of cash flow from operations and borrowings under bank credit agreements.

On November 15, 2019, we entered into an amendment to extend the maturity date of our credit agreement and a related revolving bank note from November 15, 2019 to November 15, 2022 and to modify certain other terms and financial covenants. On August 28, 2020, we entered into the third amendment to our credit agreement and a security agreement over certain assets. The third amendment adds a liquidity covenant and revises other financial covenants. The revolving amount of the agreement and note remains at $35.0 million, including up to $15.0 million for commercial and standby letters of credit. The credit agreement and amendments require us to be in compliance with certain financial ratios and other covenants and contain customary events of default, including failure to comply with covenants, failure by us to pay or discharge material judgments and taxes, bankruptcy, failure pay loans and fees, and change of control. The occurrence of an event of default would permit the lenders to terminate their commitments and accelerate loans repayment, obtain securitized assets, and require collateralization of outstanding letters of credit. As of August 1, 2020, $15.0 million had been advanced to us under the loan portion of the line of credit, and the balance of letters of credit outstanding was approximately $6.8 million. As of August 1, 2020, we were in compliance with all applicable bank loan covenants.

We are sometimes required to obtain bank guarantees or other financial instruments for display installations and utilize a global bank to provide such instruments. If we are unable to complete the installation work, our customer would draw on the banking arrangement, and the bank would subrogate its loss to Daktronics. As of August 1, 2020, we had $8.0 million of such instruments outstanding.

We are sometimes required to obtain performance bonds for display installations, and we have a bonding line available through a surety company for an aggregate of $150.0 million in bonded work outstanding. If we were unable to complete the installation work, and our customer would call upon the bond for payment, the surety company would subrogate its loss to Daktronics. At August 1, 2020, we had $35.1 million of bonded work outstanding against this line.

Our business growth and profitability improvement strategies depend on investments in capital expenditures and strategic investments. We are projecting capital expenditures to be approximately $15 million for fiscal 2021. Projected capital expenditures include manufacturing equipment for new or enhanced product production, expanded capacity, investments in quality and reliability equipment, and continued information infrastructure investments. We also evaluate and may invest in new technologies or acquire companies aligned with our business strategy.

We believe our working capital available from all sources will be adequate to meet the cash requirements of our operations and strategies in the foreseeable future. If our growth extends beyond current expectations, or if we make significant strategic investments, we may need to utilize and possibly increase our credit facilities or seek other means of financing. We anticipate we will be able to obtain any needed funds under commercially reasonable terms from our current lenders or other sources, although this availability cannot be guaranteed.

We believe the audio-visual industry fundamentals will drive long-term growth for our business, but the near-term outlook shows contraction and greater volatility overall. We expect our customers will continue to have disruptions in revenue caused by COVID-19 throughout the current fiscal year. While it is difficult to estimate the longevity and severity of the COVID-19 pandemic impact to the economy and to our financial position, operating results, and cash flows, we have or are taking proactive steps to solidify our financial position and mitigate any adverse consequences. These steps include:

- preserving liquidity by drawing down $15 million from our existing line of credit and pursuing other sources of financing;
- reducing investments in capital assets; we estimate approximately $15 million in capital expenses in fiscal year 2021;
- reducing executive pay and Board member compensation;
- utilizing tax and other government opportunities to improve liquidity;
- temporarily furloughing and permanently reducing our staffing and reducing salaries, where necessary, to maintain a right-sized skilled workforce;
- instituting other cost reductions across the business;
- suspending stock repurchases under our share repurchase program; and
- suspending dividend declarations for the foreseeable future.

We believe these measures are necessary to help preserve our ability to borrow for liquidity needs and provide adequate working capital to weather the economic downturn caused by the COVID-19 pandemic. However, no assurance can be made that we will be able to secure such financing, if needed, on favorable terms or at all, or that these strategies will be successful. We continue to carefully monitor this crisis, its impact on market demand, and our expense structure and will take additional actions as needed.

Off-Balance Sheet Arrangements and Contractual Obligations

There has been no material change in our off-balance sheet arrangements and contractual obligations since the end of our 2020 fiscal year on May 2, 2020. For additional information, see our Annual Report on Form 10-K for the fiscal year ended May 2, 2020.

Significant Accounting Policies and Estimates

We describe our significant accounting policies in "Note 1. Nature of Business and Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended May 2, 2020. We discuss our critical accounting estimates in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended May 2, 2020. In the first quarter of fiscal 2021, we adopted Accounting Standards Update ("ASU") 2017-04, *Intangibles-Goodwill and Other (Topic 350)* and ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, as described in "Note 1. Basis of Presentation" of the Notes to the Condensed Consolidated Financial Statements included elsewhere in this Report. There have been no other significant changes in our significant accounting policies or critical accounting estimates since the end of fiscal 2020.

New Accounting Pronouncements

For a summary of recently issued accounting pronouncements and the effects of those pronouncements on our financial results, refer to "Note 1. Basis of Presentation" of the Notes to the Condensed Consolidated Financial Statements included elsewhere in this Report.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain interest rate, foreign currency, and commodity risks as disclosed in our Annual Report on Form 10-K for the fiscal year ended May 2, 2020. There have been no material changes in our exposure to these risks during the first three months of fiscal 2021.

Item 4. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our "disclosure controls and procedures," as that term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as of August 1, 2020, which is the end of the period covered by this Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of August 1, 2020, our disclosure controls and procedures were effective.

Based on the evaluation described in the foregoing paragraph, our Chief Executive Officer and Chief Financial Officer concluded that during the quarter ended August 1, 2020, there was no change in our internal control over financial reporting which has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Not applicable.

Item 1A. RISK FACTORS

The discussion of our business and operations included in this Quarterly Report on Form 10-Q should be read together with the risk factors described in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended May 2, 2020. They describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties, together with other factors described elsewhere in this Report, have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. New risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect our financial condition or financial results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchases

During the three months ended August 1, 2020, we did not repurchase any shares of our common stock.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

A list of exhibits required to be filed as part of this report is set forth in the Index of Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

SIGNATURES

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

/s/ Sheila M. Anderson
Daktronics, Inc.
Sheila M. Anderson
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Date: August 28, 2020

Index to Exhibits

Certain of the following exhibits are incorporated by reference from prior filings. The form with which each exhibit was filed and the date of filing are as indicated below; the reports described below are filed as Commission File No. 0-23246 unless otherwise indicated.

3.1	Amended and Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3.1 of the Current Report on Form 10-Q/A (Amendment No. 1) of Daktronics, Inc. filed on December 21, 2018).
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.4 filed with our Annual Report on Form 10-K on June 12, 2013).
4.1	Rights Agreement dated as of November 16, 2018 between Daktronics, Inc. and Equiniti Trust Company, as Rights Agent (Incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K of Daktronics, Inc. filed on November 16, 2018).
10.1	Credit Agreement dated November 15, 2016 by and between the Company and U.S. Bank National Association (Incorporated by reference to Exhibit 10.1 filed with our Current Report on Form 8-K filed on November 16, 2016).
10.2	Revolving Note dated November 15, 2016 issued by the Company to U.S. Bank National Association (Incorporated by reference to Exhibit 10.2 filed with our Current Report on Form 8-K filed on November 16, 2016).
10.3	Second Amendment to Credit Agreement dated as of November 15, 2019 by and between the Company and U.S. Bank National Association (Incorporated by reference to Exhibit 10.1 filed with our Current Report on Form 8-K filed on November 15, 2019).
10.4	Third Amendment to Credit Agreement dated as of August 28, 2020 by and between the Company and U.S. Bank National Association (1).
10.5	Security Agreement dated as of August 28, 2020 by and between the Company and U.S. Bank National Association (1).
10.6	Daktronics, Inc. 2015 Stock Incentive Plan ("2015 Plan") (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A filed on July 14, 2015).
10.7	Form of Restricted Stock Award Agreement under the 2015 Plan (Incorporated by reference to Exhibit 10.2 filed with our Current Report on Form 8-K on September 3, 2015).
10.8	Form of Non-Qualified Stock Option Agreement Terms and Conditions under the 2015 Plan (Incorporated by reference to Exhibit 10.3 filed with our Current Report on Form 8-K on September 3, 2015).
10.9	Form of Incentive Stock Option Terms and Conditions under the 2015 Plan (Incorporated by reference to Exhibit 10.4 filed with our Current Report on Form 8-K on September 3, 2015).
10.10	Form of Restricted Stock Unit Terms and Conditions under the 2015 Plan (Incorporated by reference to Exhibit 10.5 filed with our Current Report on Form 8-K on September 3, 2015).
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. (1)
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. (1)
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). (1)
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). (1)
101	The following financial information from our Quarterly Report on Form 10-Q for the period ended August 1, 2020 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, (v) Notes to Condensed Consolidated Financial Statements, and (vii) document and entity information. (1)

(1) Filed herewith electronically.

Exhibit 10.4

THIRD AMENDMENT TO CREDIT AGREEMENT

This Third Amendment to Credit Agreement ("Amendment") dated August 28, 2020 is entered into between DAKTRONICS, INC., a South Dakota corporation (the "Borrower") and U.S. BANK NATIONAL ASSOCIATION, a national banking association (together with its successors and assigns, the "Lender").

RECITALS:

A. Lender and Borrower entered into a Credit Agreement dated November 15, 2016, as amended, pursuant to which Lender made certain Revolving Loans to Borrower.

B. The parties wish to amend the Credit Agreement as provided in this Amendment.

NOW, THEREFORE, for good and valuable consideration, the receipt of which is acknowledged, the parties agree as follows:

1. Each of the following defined terms in Section 1.1 of the Credit Agreement are amended and restated to read:

"EBITDA" means, with respect to any fiscal period of determination, the net income of the Borrower before deductions for income, taxes, interest expense, depreciation, amortization, and non-cash, stock-based compensation, all as determined in accordance with GAAP.

"IBD" means all interest bearing obligations, including those represented by bonds, debentures, or other debt securities and open-ended bank guaranties, but excluding any long-term contractual obligations related to marketing transactions whose source of payment is underlying advertising agreements.

"Loan Documents" means this Agreement, the Facility LC Applications, the Notes, the Security Agreement, and any other document or agreement, now or in the future, executed by the Borrower for the benefit of the Lender in connection with this Agreement.

"Obligations" means all unpaid principal of and accrued and unpaid interest (including interest that accrues after the commencement of an insolvency proceeding with respect to the Borrower, regardless of whether allowed or allowable in whole or in part as a claim in such insolvency proceeding) on the Loans, all Facility LC Obligations, all ACH obligations, all obligations in connection with Cash Management Services, all Hedge Management Obligations provided to the Borrower or any Subsidiary by the Lender, all accrued and unpaid fees, and all expenses (including fees and expenses that accrue after the commencement of an insolvency proceeding, regardless of whether allowed or allowable in whole or in part as a claim in such insolvency proceeding), reimbursements, indemnities and other obligations of the Borrower or any Subsidiary to Lender, any of its Affiliates or any indemnified party arising under the Loan Documents (regardless of whether allowed or allowable in whole or in part as a claim in such insolvency proceeding), whether arising from an extension of credit, issuance of a letter of credit, acceptance, loan, guaranty, indemnification or otherwise, and whether direct or indirect, absolute or contingent, due or to become due, primary or secondary, or joint or several.

2. The following defined term is added to Section 1.1 of the Credit Agreement:

"Unrestricted, Unencumbered Liquid Assets" means unrestricted, unencumbered marketable securities, cash, and cash equivalents plus the availability under the Borrower's line of credit.

3. Section 2.6 of the Credit Agreement is amended and restated to read:

2.6 Interest Rates. Interest on each advance hereunder shall accrue at an annual rate equal to the Applicable Margin plus the Daily Reset LIBOR Rate. Lender's internal records of applicable interest rates shall be determinative in the absence of manifest error. If Lender has determined that (a) the rate index described above ("LIBOR") is no longer available, either because (i) LIBOR is not being quoted or published, (ii) any relevant agency or authority has announced that LIBOR will no longer be published or is no longer representative, or (iii) any similar circumstance exists such that LIBOR has become unavailable or ceased to exist, or (b) similar loans are being documented with a replacement rate to LIBOR, Lender may, in its discretion, replace LIBOR with a replacement rate (which may include a successor index and a spread adjustment), taking into consideration any selection or recommendation of a replacement rate by any relevant agency or authority and evolving or prevailing market conventions. In connection with the selection and implementation of any such replacement rate, Lender may make any technical, administrative or operational changes that Lender decides may be appropriate to reflect the adoption and implementation of such replacement rate. Lender does not warrant or accept any responsibility for the administration or submission of, or any other matter related to, LIBOR or with respect to any alternative or successor rate thereto, or replacement rate thereof, including without limitation whether any such alternative, successor or replacement rate will have the same value as, or be economically equivalent to, LIBOR.

4. Section 2.12(a) of the Credit Agreement is amended and restated to read:

(a) Issuance. Lender agrees, on the terms and conditions set forth in this Agreement, to issue standby and commercial Letters of Credit denominated in Dollars (each, a "Facility LC") and to renew, extend, increase, decrease or otherwise modify each Facility LC ("Modify," and each such action a "Modification"), from time to time from and including the Effective Date and prior to the Facility Termination Date upon the request of the Borrower; *provided that* immediately after each such Facility LC is issued or Modified, (i) the aggregate amount of the outstanding Facility LC Obligations shall not exceed $20,000,000, and (ii) the aggregate amount of the Revolving Exposure shall not exceed the Revolving Commitment Amount. In the event either party elects not to renew or extend the Credit Agreement (either by new agreement or amendment), or this Agreement otherwise terminates pursuant to the terms hereof, Borrower agrees to Cash Collateralize, on or before the fifth Business Day prior to the Facility Termination Date, an amount equal to 100% of the Facility LC Obligations that have any expiry date later than the Facility Termination Date. Notwithstanding anything herein to the contrary, the Lender shall have no obligation hereunder to issue any Facility LC the proceeds of which would be made available to any Person (i) to fund any activity or business of or with any Sanctioned Person, or in any country or territory that, at the time of such funding, is the subject ofany Sanctions or (ii) in any manner that would result in a violation of any Sanctions by any party to this Agreement.

5. Section 6.16 of the Credit Agreement is amended and restated to read:

6.16 Financial Covenants.

(a) Adjusted Fixed Charge Coverage Ratio. Commencing with Borrower's first fiscal quarter in 2021 and thereafter, Borrower will not permit the Adjusted Fixed Charge Ratio, determined as of the end of each fiscal quarter for the then most-recently ended four (4) fiscal quarters, to be less than 2.0 to 1.0.

(b) IBD/EBITDA Ratio. Commencing with Borrower's first fiscal quarter in 2021 and thereafter, Borrower will not permit the ratio of its IBD plus all outstanding non-cash secured letters of credit and bank guarantees to EBITDA, determined as of the end of each fiscal quarter for the then most-recently ended four (4) fiscal quarters, to be greater than 2.5 to 1.0.

(c) Minimum Liquidity. Commencing with Borrower's first fiscal quarter in 2021 and thereafter through Borrower's second fiscal quarter in 2021, Borrower will maintain minimum Unrestricted, Unencumbered Liquid Assets of $7,000,000 or greater, determined at the end of each of its fiscal quarters for the then most-recently ended four (4) fiscal quarters. Commencing with Borrower's third fiscal quarter in 2021 and thereafter, Borrower will maintain minimum Unrestricted, Unencumbered Liquid Assets of $15,000,000 or greater, determined at the end of each of its fiscal quarters for the then most-recently ended four (4) fiscal quarters. Availability under the Borrower's line of credit for this calculation will be limited to what is supported by the IBD/EBITDA ratio covenant.

6. Subsection (d) of Section 8.1 of the Credit Agreement is amended and restated to read:

(d) After the exercise of remedies provided for in this Section 8.1 (or after the Obligations under this Agreement and the other Loan Documents have automatically become immediately due and payable as set forth in the first sentence of Section 8.1), any amounts received by Lender on account of the Obligations will be applied by Lender to the payment of the Obligations and any other amounts as shall from time to time have become due and payable by the Borrower to the Lender as Lender may decide in its sole discretion.

7. Borrower represents and warrants that as of the date of this Amendment, no Default or Event of Default has occurred and is continuing.

8. This Amendment does not constitute a novation of the Credit Agreement. Except as modified in this Amendment, all of the terms and conditions of the Credit Agreement will remain in full force and effect.

9. Borrower acknowledges the Credit Agreement and related Loan Documents are and will remain the legal and binding obligation of Borrower, free of any claim, defense, or offset.

10. The officers signing on behalf of the Borrower represent and warrant that the execution and delivery of this Amendment has been fully authorized by all necessary corporate action.

BORROWER:

DAKTRONICS, INC.

By: /s/ Reece A. Kurtenbach
Name: Reece A. Kurtenbach
Title: Chief Executive Officer

By: /s/ Sheila M. Anderson
Name: Sheila M. Anderson
Title: Chief Financial Officer

LENDER:

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Carl A. Johnson
Name: Carl A. Johnson
Title: Vice President

Exhibit 10.5

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Agreement") dated August 28, 2020 is entered into between DAKTRONICS, INC., a South Dakota corporation, as grantor and obligor (the "Debtor"), with an address of 201 Daktronics Drive, Brookings, South Dakota 57006 and U.S. BANK NATIONAL ASSOCIATION, a national banking association, with an address of 141 North Main Avenue, Sioux Falls, South Dakota 57104 (together with its successors and assigns, the "Secured Party"), and is executed and delivered by Debtor to Secured Party pursuant to the Credit Agreement between Debtor and Secured Party dated November 15, 2016 (as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time, the "Credit Agreement").

1. Grant of Security Interest. As security for the full, prompt and complete payment and performance by the Debtor of the Obligations (as defined in the Credit Agreement), Debtor grants to, and creates in favor of, Secured Party a continuing security interest in, and lien on, all of Debtor's rights, title and interest in and to the following property whether governed by Article 9 of the UCC or other law, wherever located within the United States or Canada, and whether now owned or existing or hereafter acquired or arising within the United States or Canada, or in which Debtor now has or hereafter acquires any rights, title, or interest within the United States or Canada (the "Collateral"):

(a) all of Debtor's Accounts, Chattel Paper, Deposit Accounts, Equipment, Instruments, Inventory, Goods, Letter-of-Credit Rights, payment intangibles, and Software;

(b) without limiting the description of the property or any rights or interests in the property described above, all of Debtor's rights, title and interest in and to (i) all of Debtor's money, cash, and other funds; (ii) all attachments, accessions, parts and appurtenances to, all substitutions for, and all replacements of any and all of Debtor's Equipment, and other Goods; (iii) all of Debtor's agreements, tangible chattel paper, electronic chattel paper, leases, lease contracts, lease agreements, warehouse receipts, proceeds of letters of credit, promissory notes, and records; and (iv) all of Debtor's franchises, customer lists, insurance refunds, insurance refund claims, tax refunds, tax refund claims, pension plan refunds, and pension plan reversions;

(c) all supporting obligations; and

(d) all of the products and proceeds of all of the foregoing described property and interests in property, including cash proceeds and noncash proceeds, and including proceeds of any insurance, whether in the form of original collateral or any of the property or rights or interests in property described above.

Notwithstanding the foregoing, the Collateral does not include (i) real property or fixtures, (ii) intellectual property, (iii) investment property, (iv) vehicles, (v) general intangibles with the exception of payment intangibles, (vi) any assets of Debtor's or its Subsidiaries located outside the United State or Canada, (vii) any lease, license or other agreement or contract or any property subject to a purchase money security interest, Lien securing a Capitalized Lease Obligation or similar arrangement, in each case permitted to be incurred under the Credit Agreement, to the extent that a grant of a security interest therein would require a consent not obtained or violate or invalidate such lease, license, agreement, contract, purchase money arrangement, Capitalized Lease Obligation or similar arrangement or create a right of termination in favor of any other party thereto (other than the Debtor or a grantor), in each case after giving effect to the applicable anti-assignment provisions of the UCC and other applicable law and other than proceeds and receivables thereof, the assignment of which is expressly deemed effective under the UCC or other applicable law notwithstanding such prohibition.

2. Debtor's Representations, Warranties, and Further Agreements. Debtor represents, warrants, and agrees:

a. Debtor is organized under the laws of the State of South Dakota. Debtor's principal place of business is located at 201 Daktronics Drive, Brookings, South Dakota 57006. Debtor will notify Secured Party in writing of any change in Debtor's location. Debtor's Internal Revenue Service Taxpayer Identification Number is 46-0306862 and Debtor will use such number as its exclusive Internal Revenue Service Taxpayer Identification Number until all of its Obligations to Secured Party are satisfied in full. Debtor will not change its name, without Secured Party's prior written consent, which may be conditioned upon amendments to financing statements or other documents as Secured Party may require.

b. With respect to any of the Collateral for which control of such Collateral is a method of perfection under the UCC, including all of Debtor's rights, title and interest in deposit accounts, electronic chattel paper and letter-of-credit rights, and without limiting the obligations of Debtor under the provisions of other sections of this Agreement and otherwise on Secured Party's request, cause to be executed by each Person that Secured Party determines is appropriate, a control agreement in a form acceptable to Secured Party. The control agreement will provide that the Secured Party will not give any such instructions or withhold any withdrawal rights from the Debtor unless an Event of Default (as defined in the Credit Agreement) has occurred and is continuing.

c. Upon the occurrence and during the continuance of any Event of Default, if Debtor at any time holds or acquires any promissory notes or tangible chattel paper, Debtor will indorse, assign and deliver the same to Secured Party, accompanied by such instruments of transfer or assignment duly executed in blank as Secured Party may from time to time specify.

d. Upon the occurrence and during the continuance of any Event of Default, if Debtor holds or acquires an interest in any electronic chattel paper or any "transferable record," as that term is defined in Section 201 of the Federal Electronic Signatures in Global and National Commerce Act, or in Section 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, Debtor will promptly notify Secured Party thereof and, at the request and option of Secured Party, will take such action as Secured Party may reasonably request to vest in Secured Party control, under Section 9-105 of the UCC, of such electronic chattel paper or control under Section 201 of the Federal Electronic Signatures in Global and National Commerce Act or, as the case may be, Section 16 of the Uniform Electronic Transactions Act, as so in effect in such jurisdiction, of such transferable record.

e. Upon the occurrence and during the continuance of any Event of Default, if Debtor is a beneficiary under a letter of credit now or hereafter, Debtor will promptly notify Secured Party thereof and, at the request and option of Secured Party, Debtor will, pursuant to an agreement in form and substance satisfactory to Secured Party, either, at the option of Secured Party, (i) arrange for the issuer and any confirmer or other nominated person of such letter of credit to consent to an assignment to Secured Party of the proceeds of the letter of credit or (ii) arrange for Secured Party to become the beneficiary of the letter of credit.

f. Debtor will not sell, lease or otherwise dispose of the Collateral other than in the ordinary course of its business at prices constituting the then fair market value thereof, if any.

3. Perfection of Secured Party's Security Interest. Until the termination of this Agreement, Debtor will perform any and all steps and take all actions requested by Secured Party from time to time to perfect, maintain, protect, and enforce Secured Party's security interest in, and lien on, the Collateral, including: (a) signing and delivering all appropriate documents and instruments as Secured Party may determine are necessary or desirable to perfect, preserve, or enforce Secured Party's interest in the Collateral, including financing statements, all in form and substance satisfactory to Secured Party, (b) delivering and endorsing to Secured Party any warehouse receipts or other documents of title covering that portion of the Collateral which, with Secured Party's consent, may be located in warehouses and in respect of which warehouse receipts are issued, (c) upon the occurrence and the continuance of any Event of Default, transferring Inventory to warehouses approved by Secured Party, (d) placing notations on Debtor's books of account to disclose Secured Party's security interest and lien therein, and (e) taking such other steps and actions as deemed necessary or desirable by Secured Party to perfect and enforce Secured Party's security interest in, lien on, and other rights and interests in the Collateral.

Debtor irrevocably authorizes Secured Party at any time and from time to time to file in any filing office in any jurisdiction any initial financing statements and amendments thereto that (a) indicate the Collateral (i) as the assets of Debtor as described in Section 1, whether now owned or hereafter acquired or arising, and all proceeds and products thereof, or (ii) as being of an equal or lesser scope or with greater detail, and (b) provide any other information required by the UCC or any other applicable law for the sufficiency or filing office acceptance of any financing statement or amendment, including whether Debtor is an organization, the type of organization and any organizational identification number issued to Debtor. Debtor irrevocably authorizes Secured Party at any time and from time to time to correct or complete, or to cause to be corrected or completed, any financing statements, continuation statements or other such documents as have been filed naming Debtor as debtor and Secured Party as secured party. Debtor agrees to furnish any necessary information to Secured Party promptly upon request. At Secured Party's request, Debtor will execute notices appropriate under any applicable law that Secured Party deems desirable to evidence, perfect, or protect its security interest in and other liens on the Collateral in such form(s) as are satisfactory to Secured Party. Debtor will pay the cost of filing all financing statements and other notices in all public offices where filing is deemed by Secured Party to be necessary or desirable to perfect, protect or enforce the security interest and lien granted to Secured Party hereunder. A copy or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement. Secured Party is authorized to give notice to any creditor, landlord or any other Person as may be necessary or desirable under applicable laws to evidence, protect, perfect, or enforce the security interest and lien granted to Secured Party in the Collateral.

To protect, perfect, or enforce, from time to time, Secured Party's rights or interests in the Collateral, Secured Party may, in its discretion (but without any obligation to do so), (a) discharge any liens at any time levied or placed on the Collateral, (b) pay any insurance to the extent Debtor has failed to timely pay the same, (c) maintain security guards where any Collateral is located if an Event of Default has occurred and is continuing, and (d) obtain any record from any service bureau and pay such service bureau the cost thereof. All costs and expenses incurred by Secured Party in exercising its discretion under this Section 3 will be part of the Obligations, payable on Secured Party's demand and secured by the Collateral.

4. Account Debtors. In the Event of Default, or upon mutual agreement of the parties from time to time, Secured Party, in its own name or in the name of others, may communicate with Debtor's Account Debtors, customers and other obligors to verify with them, to Secured Party's satisfaction, the existence, amount and terms of any sums owed by such Account Debtors, customers or other obligors to Debtor and the nature of any such Account Debtor's, customer's or other obligor's relationship with Debtor.

5. Duty of Care. Secured Party will have no duty of care with respect to the Collateral except that Secured Party will exercise reasonable care with respect to the Collateral in Secured Party’s custody. Secured Party will be deemed to have exercised reasonable care if (a) such property is accorded treatment substantially equal to that which Secured Party accords its own property, or (b) Secured Party takes such action with respect to the Collateral as Debtor reasonably requests in writing. Secured Party will not be deemed to have, and nothing in this Section 5 may be construed to deem that Secured Party has, failed to exercise reasonable care in the custody or preservation of Collateral in its possession merely because either (i) Secured Party failed to comply with any request of Debtor, or (ii) Secured Party failed to take steps to preserve rights against any Persons in such property. Debtor agrees that Secured Party has no obligation to take steps to preserve rights against any prior parties.

6. Power of Attorney. Debtor makes, constitutes and appoints Secured Party (or any officer or agent of Secured Party) as Debtor’s true and lawful attorney-in-fact, with full power of substitution, in the name of Debtor or in the name of Secured Party or otherwise, for the use and benefit of Secured Party, from time to time upon the occurrence and during the continuance of any Event of Default, but at the cost and expense of Debtor, to: (a) indorse the name of Debtor on any instruments, notes, checks, drafts, money orders, or other media of payment (including payments payable under any policy of insurance on the Collateral) or Collateral that may come into the possession of Secured Party or any Affiliate of Secured Party in full or part payment of any of the Obligations; (b) sign and indorse the name of Debtor on any invoice, freight or express bill, bill of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with any Collateral, and any instrument or document relating thereto or to any of Debtor’s rights therein; (c) file financing statements pursuant to the UCC and other notices appropriate under applicable law as Secured Party deems necessary to perfect, preserve, and protect Secured Party’s rights and interests under this Agreement; (d) obtain insurance covering the Collateral and endorse any drafts and cancel any insurance so obtained by Secured Party; (e) notify Account Debtors and other persons obligated on any of the Collateral of the security interest of Secured Party in any Account, chattel paper, payment intangible, instrument or other Collateral that the payment thereof is to be made directly to Secured Party; (f) give written notice to the United States Post Office to effect change(s) of address so that all mail addressed to Debtor may be delivered directly to Secured Party; and (g) to do any and all things necessary or desirable to perfect Secured Party’s security interest in, and lien on, and other rights and interests in, the Collateral, to preserve and protect the Collateral, and to otherwise carry out this Agreement. Secured Party will use commercially reasonable efforts to provide notice to Debtor prior to taking any action permitted by the preceding sentence; provided however, the failure to deliver such notice will not limit Secured Party’s right to take such action.

This power of attorney, being coupled with an interest, will be irrevocable for the term of this Agreement and all transactions under this Agreement and thereafter so long as any of the Obligations remain in existence. Debtor ratifies and approves all acts of such attorney and neither Secured Party nor its attorney will be liable for any acts or omissions or for any error of judgment or mistake of fact or law. Debtor will sign and deliver promptly to Secured Party all instruments necessary or desirable, as determined in Secured Party’s discretion, to further Secured Party’s exercise of the rights and powers granted to it in this Section 6.

7. Remedies. After an Event of Default has occurred and is continuing, Secured Party will, without any other notice to or demand upon Debtor, thereafter have in any jurisdiction in which enforcement is sought, in addition to all other rights and remedies, the rights and remedies of a secured party under the UCC, including the right to take possession of the Collateral.

8. Secured Party’s Additional Rights Regarding Collateral. In addition to Secured Party’s other rights and remedies under the Loan Documents, Secured Party may, in its discretion exercised in good faith,

following the occurrence and during the continuance of any Event of Default: (a) exchange, enforce, waive or release any of the Collateral or portion thereof, (b) apply the proceeds of the Collateral against the Obligations and direct the order or manner of the liquidation thereof (including any sale or other disposition), as Secured Party may, from time to time, in each instance determine, and (c) settle, compromise, collect or otherwise liquidate any Collateral in any manner without affecting or impairing its right to take any other further action with respect to any Collateral or any part thereof.

9. Standards for Exercising Remedies. To the extent applicable law imposes duties on the Secured Party to exercise remedies in a commercially reasonable manner, Debtor acknowledges and agrees it is not commercially unreasonable for the Secured Party (a) to fail to incur expenses reasonably deemed significant by the Secured Party to prepare Collateral for disposition or otherwise to complete raw material or work in process into finished goods or other finished products for disposition, (b) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (c) to fail to exercise collection remedies against Account Debtors or other persons obligated on Collateral or to remove liens or encumbrances on or any adverse claims against Collateral, (d) to exercise collection remedies against Account Debtors and other persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (e) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (f) to contact other persons, whether or not in the same business as the Debtor, for expressions of interest in acquiring all or any portion of the Collateral, (g) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the collateral is of a specialized nature, (h) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets, (i) to dispose of assets in wholesale rather than retail markets, (j) to disclaim disposition warranties, (k) to purchase insurance or credit enhancements to insure the Secured Party against risks of loss, collection or disposition of Collateral or to provide to the Secured Party a guaranteed return from the collection or disposition of Collateral, or (l) to the extent deemed appropriate by the Secured Party, to obtain the services of brokers, investment bankers, consultants and other professionals to assist the Secured Party in the collection or disposition of any of the Collateral. Debtor acknowledges that the purpose of this Section 9 is to provide non-exhaustive indications of what actions or omissions by the Secured Party would not be commercially unreasonable in the Secured Party’s exercise of remedies against the Collateral and that other actions or omissions by the Secured Party will not be deemed commercially unreasonable solely on account of not being indicated in this Section 9. Without limitation upon the foregoing, nothing contained in this Section 9 will be construed to grant any rights to Debtor or to impose any duties on the Secured Party that would not have been granted or imposed by this Agreement or by applicable law in the absence of this Section 9.

10. Marshaling. Secured Party will not be required to marshal any present or future collateral security (including but not limited to this Agreement and the Collateral) for, or other assurances of payment of, the Obligations or to resort to such collateral security or other assurances of payment in any particular order. All of Secured Party’s rights hereunder and in respect of such collateral security and other assurances of payment will be cumulative and in addition to all other rights, however existing or arising. Debtor will not invoke any law relating to the marshaling of collateral under this Agreement and, to the extent it lawfully may, Debtor waives the benefits of all such laws.

11. Defined Terms. All capitalized terms used in this Agreement without definitions have the respective meanings provided in the Credit Agreement. Unless otherwise defined herein or in the Credit Agreement, capitalized terms used herein that are defined in the UCC have the meanings assigned to them

in the UCC. However, if a term is defined in Article 9 of the UCC differently than in another Article of the UCC, the term has the meaning specified in Article 9. The following terms used in this Agreement have the following meanings regardless of whether they are capitalized:

"Account Debtor" means any Person obligated on an Account.

"Accounts" means as at any date of determination, all "accounts" (as such term is defined in the UCC) of the Debtor, including, without limitation, the unpaid portion of the obligation of a customer of Debtor in respect of Inventory purchased by and shipped to such customer and/or the rendition of services by Debtor, as stated on the respective invoice of Debtor.

"Chattel Paper" means a record or records that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, a security interest in specific goods and license of software used in the goods, a lease of specific goods, or a lease of specific goods and license of software used in the goods. In this paragraph, "monetary obligation" means a monetary obligation secured by the goods or owed under a lease of the goods and includes a monetary obligation with respect to software used in the goods. The term does not include (i) charters or other contracts involving the use or hire of a vessel or (ii) records that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card. If a transaction is evidenced by records that include an instrument or series of instruments, the group of records taken together constitutes chattel paper.

"Deposit Account" means a demand, time, savings, passbook, or similar account maintained with a bank. The term does not include investment property or accounts evidenced by an instrument

"Equipment" means goods other than inventory, consumer goods, or vehicles.

"Goods" means things that are movable when a security interest attaches, with the exception of fixtures and vehicles. The term includes a computer program embedded in goods and any supporting information provided in connection with a transaction relating to the program if (i) the program is associated with the goods in such a manner that it customarily is considered part of the goods, or (ii) by becoming the owner of the goods, the Debtor acquires a right to use the program in connection with the goods. The term does not include a computer program embedded in goods that consist solely of the medium in which the program is embedded. The term also does not include accounts, chattel paper, commercial tort claims, deposit accounts, documents, general intangibles, instruments, investment property, letter-of-credit rights, letters of credit, money, or oil, gas, or other minerals before extraction.

"Instrument" means a negotiable instrument or any other writing that evidences a right to the payment of a monetary obligation, is not itself a security agreement or lease, and is of a type that in ordinary course of business is transferred by delivery with any necessary indorsement or assignment. The term does not include (i) investment property, (ii) letters of credit, or (iii) writings that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card.

"Inventory" means goods which are leased by Debtor as lessor; are held by Debtor for sale or lease or to be furnished under a contract of service; are furnished by Debtor under a contract of service; or consist of raw materials, work in process, or materials used or consumed in Debtor's business.

"Letter-of-Credit Right" means a right of Debtor to payment or performance under a letter of credit, whether or not the Debtor has demanded or is at the time entitled to demand payment or performance. The term does not include the right of the Debtor to demand payment or performance under a letter of credit.

"Software" means a computer program and any supporting information provided in connection with a transaction relating to the program. The term does not include intellectual property or a computer program that is included in the definition of Goods.

"UCC" means the Uniform Commercial Code as in effect from time to time in the State of South Dakota.

12. Notices. Debtor and Secured Party agree that all notices, statements, requests, demands and other communications made by Secured Party pursuant to or under this Agreement will be made in the manner set forth in the Credit Agreement.

DEBTOR:

DAKTRONICS, INC.

By: /s/ Reece A. Kurtenbach
Name: Reece A. Kurtenbach
Title: Chief Executive Officer

By: /s/ Sheila M. Anderson
Name: Sheila M. Anderson
Title: Chief Financial Officer

SECURED PARTY:

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Carl A. Johnson
Name: Carl A. Johnson
Title: Vice President

EXHIBIT 31.1

DAKTRONICS, INC.
CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER REQUIRED BY RULE 13a-14(e)
OR RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Reece A. Kurtenbach, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended August 1, 2020 of Daktronics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financially reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Reece A. Kurtenbach
Reece A. Kurtenbach
Chief Executive Officer
Date: 8/28/2020

EXHIBIT 31.2

DAKTRONICS, INC.
CERTIFICATION OF THE CHIEF FINANCIAL OFFICER REQUIRED BY RULE 13a-14(e)
OR RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sheila M. Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended August 1, 2020 of Daktronics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financially reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Sheila M. Anderson
Sheila M. Anderson
Chief Financial Officer
Date: 8/28/2020

EXHIBIT 32.1

DAKTRONICS, INC.
CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Daktronics, Inc. (the “Company”) for the quarterly period ended August 1, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Reece A. Kurtenbach, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Reece A. Kurtenbach
Reece A. Kurtenbach
Chief Executive Officer
Date: 8/28/2020

EXHIBIT 32.2

DAKTRONICS, INC.
CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Daktronics, Inc. (the “Company”) for the quarterly period ended August 1, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Sheila M. Anderson, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Sheila M. Anderson
Sheila M. Anderson
Chief Financial Officer
Date: 8/28/2020