

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

FORM 10-K

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

For the Fiscal Year Ended April 30, 2022

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**

(State or Other Jurisdiction of Incorporation or Organization)

**46-0306862**

(I.R.S. Employer Identification No.)

**201 Daktronics Drive  
Brookings, SD**

(Address of Principal Executive Offices)

**57006**

(Zip Code)

**(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

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

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

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

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

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.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's common stock held by non-affiliates at October 30, 2021 (which is the last business day of the Registrant's most recently completed second quarter), computed by reference to the closing sales price of the Registrant's common stock on The Nasdaq Global Select Market on such date, was approximately \$258,641,294. For purposes of determining this number, individual shareholders holding more than 10 percent of the Registrant's outstanding Common Stock are considered affiliates. This number is provided only for the purpose of this Annual Report on Form 10-K and does not represent an admission by either the Registrant or any such person as to the status of such person.

**The number of shares of the Registrant's Common Stock outstanding as of June 2, 2022 was 45,033,839.**

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held August 31, 2022 are incorporated by reference in Part III of the Form 10-K, as indicated in Items 10 through 14 of Part III.



**DAKTRONICS, INC. AND SUBSIDIARIES**  
**FORM 10-K**  
**FOR THE FISCAL YEAR ENDED April 30, 2022**

**Table of Contents**

	<b>Page</b>
<a href="#">SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</a>	1
<b><a href="#">PART I</a></b>	<b>1</b>
<a href="#">ITEM 1. BUSINESS</a>	1
<a href="#">ITEM 1A. RISK FACTORS</a>	8
<a href="#">ITEM 1B. UNRESOLVED STAFF COMMENTS</a>	21
<a href="#">ITEM 2. PROPERTIES</a>	21
<a href="#">ITEM 3. LEGAL PROCEEDINGS</a>	21
<a href="#">ITEM 4. MINE SAFETY DISCLOSURES</a>	22
<b><a href="#">PART II</a></b>	<b>22</b>
<a href="#">ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</a>	22
<a href="#">ITEM 6. <i>[Reserved.]</i></a>	23
<a href="#">ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</a>	23
<a href="#">ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</a>	34
<a href="#">ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</a>	35
<a href="#">ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</a>	71
<a href="#">ITEM 9A. CONTROLS AND PROCEDURES</a>	71
<a href="#">ITEM 9B. OTHER INFORMATION</a>	72
<a href="#">ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS</a>	72
<b><a href="#">PART III</a></b>	<b>72</b>
<a href="#">ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</a>	72
<a href="#">ITEM 11. EXECUTIVE COMPENSATION</a>	72
<a href="#">ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</a>	72
<a href="#">ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</a>	73
<a href="#">ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES</a>	73
<b><a href="#">PART IV</a></b>	<b>74</b>
<a href="#">ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</a>	74
<a href="#">ITEM 16. FORM 10-K SUMMARY</a>	74
<a href="#">SIGNATURES</a>	77

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

*This Annual Report on Form 10-K (including exhibits and any information incorporated by reference herein) (the "Form 10-K" or the "Report") 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 and supply chain disruptions; (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 the section of this Form 10-K 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.*

### **PART I.**

#### **Item 1. BUSINESS**

##### **Business Overview**

Daktronics, Inc. and its subsidiaries (the "Company", "Daktronics", "we", "our", or "us") are an industry leader in designing and manufacturing electronic scoreboards, programmable display systems and large screen video displays for sporting, commercial and transportation applications. We serve our customers by providing high quality standard display products as well as custom-designed and integrated systems. We offer a complete line of products, from small scoreboards and electronic displays to large multimillion-dollar video display systems as well as related control, timing, and sound systems. We are recognized as a technical leader with the capabilities to design, market, manufacture, install and service complete integrated systems displaying real-time data, graphics, animation and video. We engage in a full range of activities: marketing and sales, engineering and product design and development, manufacturing, technical contracting, professional services and customer service and support.

We were founded in 1968 by Drs. Aelred Kurtenbach and Duane Sander, professors of electrical engineering at South Dakota State University in Brookings, South Dakota. The Company began with the design and manufacture of electronic voting systems for state legislatures. In 1971, Daktronics developed the patented Matside® wrestling scoreboard, the first product in the Company's growing and evolving line. In 1994, Daktronics became a publicly traded company and invested in display technologies and new markets. We have continued these investments and have supported our long-term customer relationships to grow from a small company operating out of a garage to a world leader in the display industry. We currently employ 2,477 people globally. We are headquartered at 201 Daktronics Dr., Brookings, SD 57006 telephone 605-692-4200. Our Internet address is <https://www.daktronics.com>.

Our annual, quarterly and current reports and any amendments to those reports are freely available in the "Investor Relations" section of our website. We post each of these documents on our website as soon as reasonably practicable after it is electronically filed with the Securities and Exchange Commission (the "SEC"). These reports and other reports, proxy statements, and electronic filings are also found on the SEC's website at [www.sec.gov](http://www.sec.gov). Information contained on our website is not deemed to be incorporated by reference into this Report or filed with the SEC.

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. Financial information concerning these segments is set forth in this Form 10-K in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Note 3. Segment Reporting" of the Notes to our Consolidated Financial Statements included in this Form 10-K.

## **Industry Background**

Over the years, our products have evolved significantly from scoreboards and matrix displays with related software applications to complex, integrated visual display systems which include full color video with text and graphics displays located on a local or remote network that are tied together through sophisticated control systems. In the mid-1990's, as light emitting diodes ("LEDs") became available in red, blue and green colors with outdoor brightness, we pioneered the development of full color LED video displays capable of replicating trillions of colors, thereby producing large format video systems with excellent color, brightness, energy efficiency and lifetime. Due to our foundation of developing scoring and graphics display systems, we were able to add video capabilities so we could meet all our customers' large format display needs in a complete, integrated system. This has proven to be a key factor in Daktronics becoming a leader in large electronic displays. LED technologies continue to evolve and advance, creating new high-resolution and micro-LED display options of all shapes and sizes. Today, the industry continues development in both the construct of the micro-LED and production methods of micro-LED display panels using mass-transfer technology.

Integrated visual display systems are increasingly used across a variety of vertical markets including: media/advertising, stadiums/venues, hospitality/leisure, transportation, military and government, broadcast, control room, corporate and education, and retail. Generally, these vertical markets use systems to collaboratively communicate, inform, entertain, and advertise to various sized audiences. Advances in technologies and the decrease in costs of systems have opened up and increased the market's size.

## **Description of Business**

We are engaged in a full range of activities: marketing and sales, engineering and product design and development, manufacturing, technical contracting, professional services and customer service and support. Each of those activities is described below:

*Marketing and Sales.* Our sales force is comprised of direct sales staff and resellers located throughout the world supporting all customer types in both sales and service. We primarily use a direct sales force for large integrated display system sales in professional sports, colleges and universities, and commercial spectacular projects. We also use our direct sales force to sell third-party advertising and transportation applications. We utilize resellers outside North America for large integrated system sales where we do not have a direct sales presence. The majority of our products sold by resellers in North America are standard catalog products. We support our resellers through direct mail/email advertising, social media campaigns, trade journal advertising, product and installation training, trade show exhibitions and accessibility to our regional sales or service teams and demonstration equipment.

*Engineering and Product Design and Development.* The large format electronic display industry is characterized by ongoing product innovations and developments in technology and complementary services. To remain competitive, we have a tradition of applying engineering resources throughout our business to anticipate and respond rapidly to the system needs in the marketplace. We employ and contract with engineers and technicians in the areas of mechanical and electrical design; applications engineering; software design; quality design; and customer and product support. Product managers assigned to each product family assist our sales staff in training and implementing product improvements which ensures each product is designed for maximum reliability and serviceability. We employ and contract with process engineers to assist in quality and reliability processing in our product design testing and manufacturing areas. We also make selected investments in and contract with affiliated companies to support and advance technologies and capabilities for our product lines and solutions.

*Manufacturing.* The majority of our products are manufactured in the United States, specifically in South Dakota and Minnesota. We also have manufacturing facilities in China and Ireland. We perform component manufacturing, system manufacturing (metal fabrication, electronic assembly, sub-assembly and final assembly) and testing in-house for most of our products to control quality, improve response time and maximize cost-effectiveness. Given the cyclical nature of some parts of our business and dispersed sales geography, we balance and maintain our ability to manufacture the same products

across our plants so we can efficiently utilize our capacity and reduce costs. A key strategy of ours is to increase standardization and commonality of parts and manufacturing processes across product lines through the use of product platforms to increase efficiencies. Other strategies include supplier management programs and lean manufacturing techniques. For more details on our facilities, see "Part II, Item 2. Properties".

*Technical Contracting.* We serve as a technical contractor for larger display system installations requiring custom designs and innovative product solutions. The purchase of display systems typically involves competitive proposals. As part of our response to a proposal request, we may suggest additional products or features to assist the prospective customer in analyzing the optimal type of display system. We usually include site preparation and installation services related to the display system in our proposal. In these cases, we serve as a contractor and may retain subcontractors for electrical, steel and installation labor. We have developed relationships with many subcontractors throughout the United States and the world, which is an advantage for us in bidding and delivering on these projects. We are licensed as a general contractor in many jurisdictions.

*Professional Services.* To assist our clients' ability to engage, inform and entertain their audiences, we provide professional services including event support, content creation, product maintenance, marketing assistance, training on hardware and software, control room design, and continuing technical support training for operators.

*Customer Service and Support.* We offer limited warranties on our products, ranging from one to 10 years, against failure due to defective parts or workmanship. In addition, we offer service agreements of various scopes. To serve our customers, we provide help-desk access, parts repair and replacement, display monitoring and on-site support. Our technical help desk has experienced technicians who are on-call 24 hours a day to support events and sites. Our field service personnel and third-party service partners are trained to provide on-site support. We use third-party service partners to allow us to respond to the changes in volume of service requests during our seasonal peaks.

## **Products and Technologies**

The two principal components of our systems are the display and the controller, which manages the operation of the display. We produce displays varying in complexity, size and resolution. The physical dimensions of a display depend on the size of the viewing area, the distance from the viewer to the display, and the amount and type of information to be displayed. The controller is comprised of computer hardware and software products designed to compile information provided by the operator and other integrated sources to display information, graphics or animation on the displays. We customize our products according to the design specifications of the customer and the conditions of the environment in which our products function.

Our products are comprised of the following product families:

- Video displays/video walls
- Scoreboards and timing systems
- Message displays
- ITS (intelligent transportation systems) dynamic message signs
- Mass Transit displays
- Sound systems
- Digital billboards
- Digital street furniture
- Digit and price displays
- Indoor dynamic messaging systems and indoor liquid crystal display ("LCD") signs
- Software and controllers including Venus® Control Suite

Each of these product families is described below:

*Video Displays/Video Walls.* These displays are comprised of a large number of full-color pixels capable of showing various levels of video, graphics and animation. These displays include red, green and blue LEDs arranged in various combinations to form pixels. The electronic circuitry, which controls the pixels, allows for variances in the relative brightness of each LED to provide a full color spectrum, thereby displaying video images in striking, vibrant colors. Variables in video displays include the spacing of the pixels (pixel pitch), the resolution of the displays (number of pixels), the brightness of the displays (nits), the number of discrete colors the display is able to produce (color depth), the viewing angles, and the LED technology.

We offer a broad range of indoor and outdoor LED video displays with these varying features. Examples of indoor offerings include centerhung displays, landmark displays, video walls, ribbon board displays, hanging banners, corporate office entrance displays, conference room displays, and video displays designed for retail stores, restaurants, malls, transportation hubs and other similar indoor facilities.

Video displays provide content to serve as a revenue generation source through advertising or as an information and communication medium (such as scoring, statistics, wayfinding, advertising, control center information), or to provide interior design elements to create luxurious space to feature digital art.

Our mobile and modular display systems are transportable and are comprised of lightweight individual LED video panels less than a square meter in size and are assembled together to form a display in a customizable size. These displays are used for both indoor and outdoor touring shows and for other live events.

Our display technology may be integrated with architectural mesh to deliver a dynamic communication medium that provides a semi-transparent viewing experience within a building. These displays can be mounted over a solid facade or in front of windows, resulting in a finished solution that is free from visible cabling and delivers a clean, semi-transparent view. These displays are less than one inch in depth and provide an elegant, refined structural appearance.

Our line of freeform LED displays is architectural lighting and display products. The ProPixel® freeform products use mountable LED elements to transform ordinary structures into stunning visual landmarks. A flexible mounting platform allows designers to transform any structure into a full-motion video display.

The control components for video displays in live event applications include our Show Control Software Suite, proprietary digital media players and video processors. These control components provide advanced capabilities for the display of live video and real-time content on our displays. The Show Control Software Suite can operate an entire network of displays within a venue from a single, intuitive control interface. Its features allow users to instantly deliver media clips, camera feeds, and streaming information to any display in a network.

*Scoreboards and Timing Systems.* Our line of scoreboards and timing products include indoor and outdoor scoreboards for many different sports, digit displays, scoring and timing controllers, statistics software and other related products. Indoor and outdoor systems range in complexity from small scoreboards to larger systems incorporating scoring, timing, video, message centers, advertising panels and control software.

We offer a variety of controllers complementing our scoreboards and displays. These controllers vary in complexity from the All Sport® 100, a handheld controller for portable scoreboards, to the All Sport® Pro, designed for more sophisticated scoring systems and allowing for more user-defined options.

We also offer timing systems for sports events, primarily aquatics and track competitions. A component of these systems is our OmniSport® timing console. The system has the capability to time and rank the competitors and to interface with event management software to facilitate the sporting event. Other timing system components include swimming touchpads, race start systems, and relay take-off platforms.

As a key component of an integrated system, we market sports statistics and results software under the DakStats® trademark. The software allows the entry and display of sports statistics and other information. It is one of the leading applications of its type in collegiate and high school sports.

*Message Displays.* The Galaxy® product line is a family of full-matrix displays, available in both indoor and outdoor models and controlled with the Venus® Control Suite. Galaxy® displays are full color or monochrome with varying pixel spacing depending on color, size and viewing distance. Galaxy® displays can display text, graphics and animation, as well as prerecorded video clips. They are used primarily to convey information and on-premises advertising to consumers.

The Venus® Control Suite software is used to control the creation of messages and graphic sequences for uploading to the Galaxy® displays. This software is designed to be user friendly and applicable to all general advertising or message applications. It can be used to control a single message display or can scale up to provide a secure, cloud-based control center for large networks of message displays.

*ITS Dynamic Message Signs ("DMS").* DMS products include a wide range of LED displays for road management applications. The Vanguard® family of dynamic message displays is typically used to direct traffic and inform motorists.

These displays are used over freeways, on arterial roads, near bridges, at toll booths and in other locations. We have also developed a Vanguard® control system for these displays to help transportation agencies manage large networks of displays.

*Mass Transit Displays.* Our Mass Transit products include a wide range of LCD and LED display solutions for public transportation applications. Installations often involve a network of displays located on railway platforms, at bus stations, or on concourses within a transportation hub to guide travelers to their intended destination.

*Sound Systems.* Our sound systems include both standard and custom options. Standard systems are designed to meet the needs of a variety of indoor and outdoor sports venues based on the size and configuration of the facility. Custom indoor and outdoor systems are tailored for larger venues and venues with unique seating configurations and are often integrated into an overall venue solution for scoring, timing, message display and/or video capability. Our audio systems also complement our video display systems used in mall applications.

*Digital Billboards.* Our line of digital billboards offers a unique display solution for the Out-of-Home (“OOH”) advertising industry. The products are used to display images which change at regular intervals. These systems include many features unique to the outdoor advertising market, such as our patented mounting system, self-adjusting brightness, improved energy consumption, and enhanced network security.

*Digital street furniture.* Our LED street furniture features some of the brightest imagery in the industry and is built to withstand full-sun conditions. Our line of digital street furniture engages people with advertising content at eye level as they walk through campuses, cityscapes, and malls. This design enhances the message and complements surrounding architecture. These street furniture displays are our most flexible solution for digital OOH campaigns.

*Digit and Price Displays.* This product line includes our DataTime® and Fuelight™ displays. The DataTime® product line consists of outdoor time and temperature displays which use a remote sensor for temperature data. Fuelight™ digit displays are specifically designed for the petroleum industry, offering high visibility and quick fuel price updates using the Fuelink™ control software.

*Indoor Dynamic Messaging Systems and LCD screens.* Our ADFLOW DMS™ systems include indoor networked solutions for retailers, convenience stores and other businesses. These solutions, either using LED or LCD technologies, allow customers to broadcast advertising campaigns and other information through the software, media players and visual hardware.

*Software & Controllers including Venus® Control Suite.* The Venus® Control Suite is our platform for scheduled control capability. It can be used in any application where the intended message is created in advance and scheduled to play at a predetermined time. It is available in an on-premise or hosted cloud-based configuration and is capable of supporting a single display or scaling to support many displays. For applications that require both scheduled content and live video or real time content, a control solution can combine the capabilities of Venus® Control Suite with the capabilities of the Show Control Software Suite to create a powerful solution that enables customers to easily manage content on their displays. Content includes media, scoring, timing, statistics, advertising, way-finding information, playback loops and entertainment type visualizations.

## **Raw Materials**

Materials used in the production of our video display and control systems are sourced from around the world. Examples of the materials we use in production include LEDs, integrated circuits, printed circuit boards, power supplies, plastics, aluminum, and steel. We source some of our materials from a single-source or a limited number of suppliers due to the proprietary nature of the materials. The loss of a key supplier, part unavailability, tariff changes, price changes, war or other geopolitical impacts to trade or transport, or defects in the supplied material or component could have an adverse impact on our business and operations. Our sourcing group works to implement strategies to mitigate these risks. Periodically, we enter into pricing agreements or purchasing contracts under which we agree to purchase a minimum amount of product in exchange for guaranteed price terms over the length of the contract, which generally does not exceed one year. We also periodically prepay for future supply.

Since late fiscal 2021, we have been affected by supply chain disruptions and inflationary pressures stemming from the coronavirus pandemic (“COVID-19”), shipping container shortages, weather events, and the changes in global demand. Specifically, we are impacted by the global inflation and shortage of semiconductors and related electronic components,



other materials needed for production, and freight. We are unable to predict the supply chain recovery or the impact to our business.

### **Intellectual Property**

We own or hold licenses to use numerous patents, copyrights, and trademarks on a global basis. Our policy is to protect our competitive position by filing U.S. and international patent applications to protect technology and improvements that we consider important to the development of our business. This will allow us to pursue infringement claims against competitors for protection due to patent violations. Although we own a number of patents and possess rights under others to which we attach importance, we do not believe that our business as a whole is materially dependent upon any such patents or rights. We also own a number of trademarks that we believe are important in connection with the identification of our products and associated goodwill with customers, but no part of our business materially depends on such trademarks. We also rely on nondisclosure agreements with our employees and agents to protect our intellectual property. Despite these intellectual property protections, there can be no assurance a competitor will not copy the functions or features of our products.

### **Seasonality**

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.

Because of the seasonality and volatility in business demand and variety of product types, we may not be able to utilize our capacity efficiently or accurately plan our capacity requirements, which may negatively affect our business and operating results.

### **Working Capital**

For information regarding working capital items, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" in this Form 10-K.

### **Customers**

We have a large and diverse worldwide customer base, ranging from local main street business owners and out-of-home companies to the owners and operators of premier professional sports arenas. Our customers are important to us, and we strive to serve them over the long-term to earn their future business. The loss of one or more customers could have an adverse effect on us. See "Note 3. Segment Reporting" of the Notes to our Consolidated Financial Statements included in this Form 10-K for our primary markets and customers of each business unit.

### **Product Order Backlog**

Backlog represents the dollar value of orders for integrated electronic display systems and related products and services which are expected to be recognized in net sales in the future. Orders are contractually binding purchase commitments from customers. Orders are included in backlog when we are in receipt of an executed contract and any required deposits or security and have not yet been recognized into net sales. 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. Orders and backlog are not measures defined by accounting principles generally accepted in the United States of America ("GAAP"), and our methodology for determining orders and backlog may vary from the methodology used by other companies in determining their orders and backlog amounts.

Order and backlog levels provide management and investors additional details surrounding the results of our business activities in the marketplace and highlight fluctuations caused by seasonality and our large project business. Management uses orders to evaluate market share and performance in the competitive environment. Management uses backlog information for capacity and resource planning. We believe order information is useful to investors because it provides an indication of our market share. We believe backlog information is useful to investors to provide an indication of future revenues.

Our product order backlog as of April 30, 2022 was \$471.6 million as compared to \$250.7 million as of May 1, 2021. This increase in backlog is driven by record order volume and muted conversion to sales due to supply chain challenges. Our customers have also placed orders for future deliveries to secure our manufacturing capacity.

We expect to fulfill the backlog as of April 30, 2022 within the next 24 months. The timing of backlog may be impacted by project delays resulting from parts availability and other constraints stemming from the supply chain disruptions.

### **Government and Other Regulation**

In the United States and other countries, various laws, regulations and ordinances related to our products and controllers restrict the installation of outdoor signs and displays, particularly in the commercial and transportation markets. These laws and regulations impose greater restrictions on electronic displays versus non-electronic displays due to alleged concerns over aesthetics or driver safety. Globally, our products are also subject to various regulations and standards including electromagnetic interference, electromagnetic compatibility, electrical safety, and flammability standards. We design and have our products tested for these regulations; however, these factors may prevent or inhibit us from selling products to some prospective customers in certain geographies.

Our manufacturing facilities and products comply with industry specific requirements, including environmental rules and regulations and safety standards. These requirements include quality, manufacturing process controls, manufacturing documentation, supplier certification of raw materials, and various safety tests. Our production processes require the storage, use and disposal of a variety of hazardous chemicals under applicable laws.

Our global supply chain and sales distribution channels subject us to various trade compliance regulations. These requirements can include certification of country of origin, classification within the various tariff codes and trade agreements, compliance with other specific product or country import/export regulations, and payment of certain import or export tariffs, duties, or taxes.

Our global operations subject us to various laws and regulations, including laws and regulations relating to tax compliance, anti-corruption, data privacy, cybersecurity, governance, and disclosure reporting. These requirements vary and can involve matters and processes such as using resources for related expertise and information systems, records management, policy creation and maintenance, data protection programs, compliance filings, control design and testing, and continued training of employees.

We are subject to regulations restricting the movement and interaction of people and business operations. During unprecedented times, such as during the duration of the COVID-19 pandemic, countries and the U.S. states and/or its localities can issue lock down orders impacting availability of employees, third parties, suppliers, customers, and other services we need to operate our business.

We believe we are in material compliance with government and other regulatory requirements.

### **Competition**

We encounter a wide variety of competitors that vary by product, geographic area, and business unit. Our competitors include both United States and foreign companies which range in size and product offerings. Our competitors may develop lower-cost or lower-featured products, may be willing to charge lower prices to increase their market share, or include different service and controller offerings. Some competitors have more capital, governmental funding, supply change access, and other resources, which may allow them to take advantage of acquisition opportunities or adapt more quickly to changes in customer requirements. Other competitors use sponsorships as a way to win business at a particular location or market. In addition, our products compete with other forms of advertising, such as television, print media and fixed display signs.

We believe that our ability to compete depends upon customer centric product and service quality and features, technical expertise, service breadth, and cost-effective solutions.

## **Research and Development**

Our experience in engineering, process design, and product and service design and development capabilities, and investments made in affiliates are very important factors in continuing to develop, produce, and offer the most up-to-date digital displays and control system solutions desired by the market.

Over the past years, we have invested in our development and our affiliates to increase our differentiated product platforms, advance our software architecture and offerings, support customer requirements, and advance new competitive narrow pixel and micro-electronic technologies.

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.

## **Employees and Human Capital Resource Management**

Our core values of *Honest, Helpful and Humble* support our commitment to diversity, equity and inclusion, which leads to our vision of every person at Daktronics being able to contribute their best every day. We seek to recruit, retain, and develop our existing and future workforce for decades-long engagements to build long-term mutual prosperity. We facilitate company-wide groups and teamwork to inspire a more inclusive culture. We encourage each employee to proactively and continuously build self-awareness, understanding of aspects of diversity, and openness to others' experiences and perspectives.

The safety and well-being of our team are a top priority, and we believe each and every team member plays an essential role in creating a safe and healthy workplace. We provide training for safety measures on the job site and in our facilities. We provide our employees and their families with access to a variety of health programs, including benefits that support their physical and mental health. In response to the COVID-19 pandemic, we implemented changes that we consider to be in the best interest of our employees. We implemented additional safety measures for employees continuing critical on-site work and allowed employees to work from home when able. We believe we have been able to preserve our business continuity without sacrificing our commitment to keeping our employees safe during the COVID-19 pandemic.

As of April 30, 2022, we employed approximately 2,246 full-time employees and 231 part-time and temporary employees. Of these employees, approximately 937 were in manufacturing, 468 were in sales and marketing, 503 were in customer service, 354 were in engineering and 215 were in general and administrative. None of our employees are represented by a collective bargaining agreement. We believe employee relations are good.

## **Item 1A. RISK FACTORS**

The factors that are discussed below, as well as the matters that are generally set forth in this Form 10-K and the documents incorporated by reference herein, could materially and adversely affect the Company's business, results of operations and financial condition.

### **Risks Relating to the COVID-19 Pandemic**

**We face risks related to actual or threatened health epidemics and other outbreaks, including the COVID-19 pandemic, which have and could have a material adverse effect on our operations, liquidity, financial conditions, and financial results.**

A serious global pandemic, including the current pandemic caused by COVID-19 and variants of COVID-19, can adversely impact, shock and weaken the global economy. These impacts can amplify other risk factors and could have a material impact on our operations, liquidity, financial conditions, and financial results.

Pandemic-related risks impacting our business may include increased exposure to: global regulatory, geopolitical, and societal changes; rapid degradation of global economic conditions, creating an increase in the volatility and the timing and

level of orders; supply chain disruptions, material shortages, and increases in the costs of components; changes in labor force availability, which could reduce our ability to operate across our business in development, sales and marketing, production, installation, and ongoing service and support; an increased risk of being subject to contract performance claims if we are unable to deliver according to the terms of our contracts or commitments and cannot claim force majeure to mitigate or eliminate our exposure to such claims; increased geographic work restrictions that could impact our ability to market, sell, manufacture and/or install our products; an increase in our exposure to claims or litigation relating to the pandemic; limitations on our ability to meet the terms of our bank credit agreements that cause restrictions on our ability to access the liquidity under such agreements; reduced access to and an increase in the cost of capital; reduced access to surety bonds or bank guarantees to secure customer orders; volatility and changes in foreign currency rates; delayed timing of collections and/or decreased collectability of receivables and contract assets; and a material reduction to the values of our assets including, but not limited to, inventory, investments in affiliates, deferred tax assets, goodwill, intangibles, and property and equipment.

The impact on our customers and suppliers and the range of governmental and community reactions to the pandemic are uncertain. To the extent that our customers and suppliers are adversely impacted by a pandemic, this could reduce the availability, or result in delays in the delivery of materials or supplies, or result in delays in customer payments and orders, which in turn could materially interrupt our business operations and/or impact our liquidity. Site closures or project delays have occurred and have required increased social distancing and health-related precautions in our factories and many work sites, which may cause additional project delays and additional costs to be incurred. Pandemics could disrupt our operations due to absenteeism by infected or ill employees or other employees who elect not to come to work due to the illness or due to quarantines.

COVID-19 created constraints on supply chain operations and resulted in component part shortages due to global capacity constraints, such as the current global capacity constraint we are facing in the supply of component parts, particularly of semiconductor components. Such a constraint could have caused and has caused lead times for our products to increase. In an effort to halt the outbreak of a pandemic such as COVID-19, governments may place significant restrictions on travel, such as the restrictions placed by the Chinese government on travel within China, leading to extended business closures, including closures at some supplier facilities and our manufacturing facilities. Although most of the restrictions on the operations of our suppliers and on us as a result of COVID-19 have been lifted or eased, we and our suppliers could continue to be disrupted by worker absenteeism, quarantines, office and factory closures, disruptions to ports and other shipping infrastructure, or other travel or health-related restrictions, and such restrictions could spread to other locations if the virus and its variants continues to spread or resurge. If our supply chain operations are adversely affected or are curtailed by the outbreak of diseases such as COVID-19, our supply chain, manufacturing and product shipments will be delayed, which could adversely affect our business, operations and customer relationships. We have sought and may need to continue to seek alternate sources of supply which may be more expensive, unavailable or may result in delays in shipments to us from our supply chain and subsequently to our customers. Further, if our distributors' or end user customers' businesses are similarly affected, they might delay or reduce purchases from us, which could adversely affect our results of operations.

In addition, freight and logistics constraints caused in part by restrictions imposed by governments to combat the COVID-19 pandemic and additionally due to container and carriage shortages and increased fuel prices have resulted in increased costs and constrained available transport for us and our channel partners, all at a time when global demand has increased. If our supply chain operations continue to be adversely affected or are curtailed by the outbreak of diseases such as COVID-19, our supply chain, manufacturing and product shipments will be delayed, which could adversely affect our business, operations and customer relationships.

The extent to which the COVID-19 pandemic or any other pandemic will impact our business and financial results going forward will be dependent on future developments such as the length and severity of the crisis, the potential resurgence of COVID-19 or another pandemic and its variants, future government actions in response to the crisis, the acceptance and effectiveness of the COVID-19 vaccines and the overall impact of the COVID-19 pandemic on the global economy and capital markets, among many other factors, all of which remain highly uncertain and unpredictable. We cannot at this time quantify or forecast the business impact of COVID-19, and there can be no assurance that the COVID-19 pandemic or any other health crisis will not have a material and adverse effect on our business, financial results and financial condition.

## **Risks Related to Our Business**

**If we fail to timely and effectively obtain shipments of raw materials and components from our suppliers or to send shipments of our manufactured product to our customers, our business and operating results could be adversely affected.**

We cannot control all of the various factors that might affect our suppliers' timely and effective delivery of raw materials and components to our manufacturing facilities or the availability of freight capacity for us to deliver products to our customers.

Our utilization of a complex supply chain for raw material and component imports and the global distribution of our products makes us vulnerable to many risks, including, among other things, shortages or delays because of work restrictions for various reasons like COVID-19 restrictions, supply chain implications due to war or other geopolitical impacts on supply chains, risks of damage, destruction or confiscation of products while in transit to and from our manufacturing facilities; organized labor strikes and work stoppages, such as labor disputes or related employee worker unavailability, that could disrupt operations at ports-of-entry; transportation and other delays in shipments as a result of heightened security screening and inspection processes or other port-of-entry limitations or restrictions; unexpected or significant port congestion; lack of freight availability; and freight cost increases. In addition, we may be required to arrange for products to be delivered through airfreight, which is significantly more expensive than standard shipping by sea. We may not be able to obtain sufficient freight capacity on a timely basis and, therefore, may not be able to timely receive shipments of raw materials and components or deliver products to customers.

COVID-19 created constraints on supply chain operations and resulted in component part shortages due to global capacity constraints, such as the current global capacity constraint we are facing in the supply of component parts, particularly of semiconductor components. In addition, transportation availability has disrupted timely of raw material and component shipments and customer shipments. Such a constraint could have caused and has caused lead times for our products to increase.

**Cost inflation in, and shortages of, raw materials, components, and related transportation and tariff costs has and can have a significant impact on our price competitiveness and/or ability to produce our products, which has and could cause harm to our sales, financial condition and results of operations.**

Cost inflation and shortages of any raw materials and components used to manufacture our products has and can occur due to various factors (such as worldwide demand, natural disasters, logistic disruptions, war, and trade regulations).

Electronic and other components and materials used in our products are sometimes in short supply, which may impact our ability to meet customer demand. Transportation costs and availability can fluctuate due to fluctuations in oil prices and other social, economic, and geopolitical factors.

If we experience shortages or increases in the prices we pay for raw materials and components and are unable to pass on those increases to our customers or are unable to manufacture our products at all or on a timely basis, it has and could negatively affect our business, financial condition or results of operations. In addition to increased costs, these factors could delay delivery of products, which may result in the assessment of liquidated damages or other contractual damages that could negatively impact our profits.

During late fiscal 2021, supply chain disruptions began to emerge because of COVID-19, shipping container shortages, winter weather, and changes in global demand. Specifically, we are impacted by the global inflation and shortage of semiconductors and related electronic components, other materials needed for production, and freight. We are unable to predict the supply chain recovery or the impact to our business.

As a result of U.S. Administrative trade actions in 2019, we experienced volatility in supply and increases in the prices of aluminum, electrical, and other components we use in our production. Further trade disputes could make us subject to additional regulatory costs and challenges, affect global economic and market conditions, and contribute to volatility in foreign exchange markets, which we may be unable to effectively manage through our foreign exchange risk management program. We continue to monitor the situation and evaluate ways to minimize these impacts through vendor negotiations, alternative sources, and potential price adjustments. We estimate our financial results were adversely impacted by approximately \$7.1 million, \$2.9 million and \$4.9 million of additional costs for tariffs in fiscal 2022, 2021 and 2020, respectively.

**We depend on a single-source or a limited number of suppliers for our raw materials and components from countries around the world. The loss, an interruption, or a material change in our business relationships with our suppliers has and could cause a disruption in supply and a substantial increase in the costs of such materials. Such changes has and could result in extended lead times or supply changes, which could disrupt or delay our scheduled product deliveries to our end user customers and may result in the loss of sales and end user customers and cause harm to our sales, financial condition, and results of operations.**

Our suppliers 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 a supplier may cause us to alter our business terms, cease doing business with a particular supplier, or change our sourcing practices.

An interruption from our suppliers of raw materials or components could affect our ability to manufacture our products until a new source of supply is located and, therefore, could have a material adverse effect on our business, financial condition or results of operations. Our suppliers may need to allocate available supply, and we may not be able to obtain parts needed for production. Qualifying new suppliers to compensate for such shortages may be time-consuming and costly and may increase the likelihood of errors in design or production.

In order to reduce manufacturing lead times and plan for adequate component supply, from time to time, we may issue purchase orders or prepay for components and products that are non-cancelable and non-returnable. In addition, we may purchase components and products that have extended lead times to ensure adequate supply to support long-term customer demand and mitigate the impact of supply disruptions. If we are unable to use all of the components we have purchased, we may have excess inventory or obsolescence, or increased inventory or carrying costs, which could have an adverse impact on our results of operation or financial condition.

**We may fail to continue to attract, develop and retain personnel throughout our business areas, which could negatively impact our operating results.**

We depend on qualified employees, including experienced and skilled technical personnel, to design, market, fulfill, and serve our customers. Qualified employees can be in high demand and limited in availability. Our future success and operating results will also depend upon our ability to attract, train, motivate and retain qualified personnel to maintain and grow capacity. Although we intend to continue to provide competitive compensation packages to attract and retain qualified personnel, market conditions for pay levels and availability may impact our operations.

**We depend on third parties to complete some of our contracts.**

Depending on a contract's scope of work, we may hire third-party subcontractors to perform on-site installation and service-related activities, hire manufacturers of structures or elements of structures related to on-site installation, hire contract manufacturers for certain product lines, or purchase specialty non-display related system elements from other companies. If we are unable to hire qualified subcontractors, find qualified manufacturers for on-site elements, find qualified contract manufacturers, or purchase specialty non-display system elements, our ability to successfully complete a project could be impaired. If we are not able to locate qualified third party subcontractors or manufacturers, the amount we are required to pay may exceed what we have estimated, and we may suffer losses on these contracts. If the subcontractor or manufacturer fails to perform, we may be required to source these services to other third parties on a delayed basis or on less favorable terms, which could impact contract profitability. There is a risk that we may have disputes with our subcontractors relating to, among other things, the quality and timeliness of work performed, customer concerns about the subcontractor, or faulty workmanship, resulting in claims against us for failure to meet required project specifications and negatively impacting our financial condition and results of operations.

These third parties are subject to fluctuations in global economic cycles and conditions and other business risk factors which may adversely impact their ability to operate their businesses. The performance and financial condition of the third parties may cause us to alter our business terms or to cease doing business with a particular third party or change our sourcing practices.

**We may not be able to utilize our capacity efficiently or accurately plan our capacity requirements, which may negatively affect our business and operating results.**

We increase our production and services capacity and the overhead supporting order fulfillment based on anticipated market demand. Market demand, however, has not always developed as expected or remained at a consistent level. This underutilization risk can potentially decrease our profitability and result in the impairment of certain assets.

The following factors are among those that could complicate capacity planning for market demand:

- changes in the demand for and mix of products that our customers buy;
- our ability to add and train our manufacturing staff in advance of demand;
- the market's pace of technological change;
- variability in our manufacturing or services productivity;
- long lead times for and availability of raw materials and components used in production;
- our ability to engage qualified third parties;
- geography of the order and related shipping methods; and
- long lead times for our plant and equipment expenditures.

**We operate in highly competitive markets and face significant competition and pricing pressures. If we are unable to keep up with the rapidly changing product developments and new technologies or if we cannot compete effectively, we could lose market share and orders, which would negatively impact our results of operations.**

The electronic display industry is characterized by ongoing product improvement, innovations and development. We compete against products produced in foreign countries and the United States. Our competitors may develop lower-cost or lower-featured products, may be willing to charge lower prices to increase their market share, or market new and unique product, service and controller offerings. Some competitors have more capital and other resources, which may allow them to take advantage of acquisition opportunities or adapt more quickly to changes in customer requirements. Other competitors use sponsorships as a way to win business at a particular location or market. In addition, our products compete with other forms of advertising, such as television, print media and fixed display signs. To remain competitive, we must anticipate and respond quickly to provide products and services our customers' needs, enhance our existing products, introduce new products and features, and continue to price our products competitively.

**We enter into fixed-price contracts, which could reduce our profits if actual costs exceed estimated costs.**

Because of the complexity of many of our client contracts, accurately estimating the cost, scope and duration of a particular contract can be a difficult task. Unanticipated costs that exceed our original estimates may not be recoverable under fixed price contracts. Unanticipated cost increases may occur as a result of several factors including, but not limited to: increases in the cost, shortages or non-availability of materials or labor; unanticipated technical problems; required project modifications not initiated by the customer; suppliers' or subcontractors' failure to perform or delay in performing their obligations; logistics disruptions or delays; and capacity constraints. In addition to increased costs, these factors could delay delivery of products, which may result in the assessment of liquidated damages or other contractual damages which would negatively impact our profits.

**Backlog may not be indicative of future revenue or profitability.**

Many of our products have long sales, delivery and acceptance cycles. In addition, our backlog is subject to order cancellations and delays. Orders normally contain cancellation provisions to permit our recovery of costs expended as well as a pro-rata portion of the profit. If projects are delayed, revenue recognition can occur over longer periods of time, and projects may remain in backlog for extended periods of time. If we receive relatively large orders in any given quarter, fluctuations in the levels of the quarterly backlog can result because the backlog may reach levels which may not be sustained in subsequent quarters.

**Our results of operations on a quarterly and annual basis have and are likely to continue to fluctuate and be substantially affected by the size and timing of large contract order awards.**

Customer demand and the timing and size of large contracts create volatility in supply chain planning and capacity requirements to fulfill orders. Awards of large contracts and their timing and amounts are difficult to predict, may not be repeatable, and are outside of our control. Market demand has not always developed as expected or remained at a

consistent level. Adjusting supply chain material planning and production and services capacity to meet this varied demand can increase costs. Large contracts or customer awards include projects for college and professional sports facilities markets, the OOH niche, the transportation market, and the large spectacular niche. These projects can have short delivery time frames. Some factors that may cause our operating results to vary due to timing and size of the awards include:

- the timing of orders and related deliveries, including delays or cancellations of orders;
- our ability to obtain raw materials and components timely and at reasonable prices;
- our ability to adjust and utilize production and services capacity;
- our ability to engage third parties to support production and fulfillment;
- new product introductions;
- variations in product mix; and
- customer financial wherewithal and the related economic conditions impacting their business.

Operating results in one or more quarters or a fiscal year may not be indicative of future operating results.

**Our actual results could differ from the estimates and assumptions we make to prepare our financial statements, which could have a material impact on our financial condition and results of operations.**

In connection with the preparation of our financial statements, including the Consolidated Financial Statements included in this Form 10-K, our management is required under GAAP to make estimates and assumptions based on historical experience and other factors. Our most critical accounting estimates are described in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K.

These estimates and assumptions affect the timing of net sales, costs, and profits or losses in applying the principles to contracts with customers under the cost incurred input method; credit losses for accounts receivables and contract assets; the valuation of inventory; estimated amounts for warranty costs; the calculation and valuation of our investments and deferred tax assets; the valuation of our investment in unconsolidated subsidiaries; fair value estimates used in goodwill and long-term assets testing; and estimating the impact of uncertainties in the application of complex tax laws. Although we believe these estimates and assumptions are reasonable under the circumstances, they are subject to significant uncertainties, some of which are beyond our control. If management's estimates and assumptions change or are not correct, our financial condition or results of operation could be adversely affected.

**Unanticipated warranty and other costs for defective products could adversely affect our financial condition, results of operations and reputation.**

We provide warranties on our products with terms varying from one to 10 years. In addition, we offer extended warranties. These warranties require us to repair or replace faulty products and meet certain performance standards, among other customary warranty provisions. Although we continually monitor our warranty claims and accrue a liability for estimated warranty costs, unanticipated claims could have a material adverse impact on our financial results. In some cases, we may be able to subrogate a claim back to a subcontractor or supplier if the subcontractor or supplier supplied the defective product or performed the service, but this may not always be possible. In addition, the need to repair or replace products with design and manufacturing defects could adversely affect our reputation. Remediation of a claim may take time and could result in lost or deferred revenue, lead to costly warranty expenses, and have a material adverse impact on our financial condition and operating results.

**The terms and conditions of our credit facilities impose restrictions on our operations, and if we default on our credit facilities, it could have a material adverse effect on our results of operations and financial condition and make us vulnerable to adverse economic or industry conditions and cause liquidity issues.**

The terms and conditions of our credit facilities impose restrictions limiting our ability to incur debt, contingent liabilities, lease obligations or liens; make a substantial change of ownership; or acquire or purchase a business or its assets. Our credit facilities also impose certain financial covenants on us which restrict the level of cash dividends and capital expenditures. A breach of any of these covenants could result in an event of default under our credit facilities. Upon the occurrence of an event of default, the lender could elect to declare any and all amounts outstanding under such facilities to be immediately due and payable and terminate all commitments to extend further credit. For additional information on financing agreements, see "Note 7. Financing Agreements" of the Notes to our Consolidated Financial Statements included in this Form 10-K.



For the foreseeable future, it is anticipated that our cash on hand, marketable securities, cash provided by operating activities, and borrowings under our existing credit facilities should provide sufficient funds to finance our capital expenditures and working capital needs and otherwise meet operating expenses and debt service requirements. However, if additional capital is required or we are unable to renew our existing credit facilities at all or on a timely basis, there can be no assurance we will be able to obtain such capital when needed or on satisfactory terms. Also, market conditions can negatively impact our customers' ability to fund their projects and can impact our vendors, suppliers, and subcontractors and may not allow them to meet their obligations to us.

**Unanticipated events resulting in credit losses to us could have a material adverse impact on our financial results.**

Significant portions of our sales are to customers who place large orders for custom products. We closely monitor the creditworthiness of our customers and have not, to date, experienced significant credit losses. We mitigate our exposure to credit risk, to some extent, by requiring deposits, payments prior to shipment, progress payments, payment bonds and letters of credit. However, because some of our exposure to credit losses is outside of our control, unanticipated events resulting in credit losses could have a material adverse impact on our operating results.

**If we became unable to obtain adequate surety bonding or letters of credit, it could adversely affect our ability to bid on new work, which could have a material adverse effect on our future revenue and business prospects.**

In line with industry practice, we are often required to provide performance and surety bonds to customers and may be required to provide letters of credit. These bonds and letters of credit provide credit support for the client if we fail to perform our obligations under the contract. If security is required for a project and we are unable to obtain a bond or letter of credit on terms acceptable to us and our client, we may not be able to pursue that project. In addition, bonding may be more difficult to obtain in the future or may be available only at significant additional cost as a result of general conditions that affect the insurance and bonding markets.

**We may be unable to protect our intellectual property rights effectively, or we may infringe upon the intellectual property rights of others, either of which may have a material adverse effect on our operating results and financial condition.**

We rely on a variety of intellectual property rights we use in our products and services. We may not be able to successfully preserve our intellectual property rights in the future, and these rights could be invalidated, circumvented or challenged. In particular, the laws of certain countries in which our products are sold do not protect our products and intellectual property rights to the same extent as the laws of the United States. If litigation is necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others, such litigation could result in substantial costs and diversion of resources even if we ultimately prevail.

In addition, intellectual property rights of others also have an impact on our ability to offer some of our products and services for specific uses or at competitive prices. Competitors' patents or other intellectual property may limit our ability to offer products or services to our customers. Any infringement or claimed infringement by us of the intellectual property rights of others could result in litigation and adversely affect our ability to continue to provide, or could increase the cost of providing, products and services.

**Geopolitical issues, conflicts and other global events could adversely affect our results of operations and financial condition.**

Our business is subject to global political issues and conflicts. Such political issues and conflicts could have a material adverse effect on our results of operations and financial condition if they escalate into geographies in which we do business or obtain materials for production. In addition, changes in and adverse actions by various governments could have a material adverse effect on our results of operations and financial condition. For example, the recent and continuing conflict arising from the invasion of Ukraine by Russia could adversely impact macroeconomic conditions, give rise to regional instability and result in heightened economic tariffs, sanctions and import-export restrictions from the U.S. and the international community in a manner that adversely affects our Company, including to the extent that any such actions cause material business interruptions or restrict our ability in this region to conduct business with certain suppliers or vendors. Additionally, such conflict or sanctions may significantly devalue various global currencies and have a negative impact on economies in geographies in which we do business.

**Weakened global economic or recessionary conditions may adversely affect our industry, business and results of operations.**

Our overall performance depends in part on worldwide economic conditions. The United States and other key international economies have experienced downturns and recessions, including the COVID-19 related downturn, from time to time during which economic activity was impacted by falling demand for a variety of goods and services; restricted credit; poor liquidity; reduced corporate profitability; volatility in credit, equity and foreign exchange markets; increased unemployment; bankruptcies; and overall uncertainty with respect to the economy. These conditions affect consumer and entertainment spending and could adversely affect our customers' ability or willingness to purchase our products, delay prospective customers' purchasing decisions, reduce the value of their contracts, or affect attrition rates, all of which could adversely affect our operating results.

**Unexpected events, including natural disasters and pandemics, may increase our cost of doing business or disrupt our operations.**

The occurrence of one or more unexpected events, including war, terrorist acts, pandemics, fires, tornadoes, floods, severe weather and natural disasters in the United States or in other countries in which we operate may disrupt our operations as well as the operations of our customers. Such events could create additional uncertainties, forcing customers to reduce, delay, or cancel already planned projects. These events could result in damage to, and a complete or partial closure of, one or more of our manufacturing facilities, which could make it difficult to supply our customers with product and provide our employees with work, thereby adversely affecting our business, operating results or financial condition.

**Our global operations expose us to global regulatory, geopolitical, economic and social changes and add additional risks and uncertainties which can harm our business, operating results, and financial condition.**

Our United States and foreign operations, sales, earnings, and strategies for profitable growth can be adversely affected by global conditions and compliance with global regulations and governmental orders. Global conditions include political developments; economic changes; unfavorable trading policies; difficulties in staffing and managing global operations; changes in foreign and domestic governmental regulations or requirements, treaty and trade relationships; the imposition of government orders that differ among jurisdictions, including mandatory closures, work-from-home and lock-down orders and social distancing protocols, or other restrictions related to the COVID-19 pandemic; changes in monetary and fiscal policies; changes in laws and regulations; or other activities of the United States and other foreign governments, agencies, and similar organizations. These conditions include, but are not limited to, changes in a country's or region's economic or political conditions; pricing and marketing of products; local labor conditions and regulations; reduced protection of intellectual property rights; changes in the regulatory or legal environment; lack of well-developed legal systems; restrictions and foreign exchange rate fluctuations; and burdensome taxes and tariffs and other trade regulations or barriers. Other exposures and uncertainties that exist include changing social conditions and attitudes, terrorism, or political hostilities and war. Other difficulties of global operations include staffing and managing our various locations, including logistical and communication challenges. The likelihood of such occurrences and their overall effect on us vary greatly from country to country and are not predictable.

**Our future results may be affected by compliance risks related to United States and other countries' anti-bribery and anti-corruption laws, trade controls, economic sanctions, and similar laws and regulations. Our failure to comply with these laws and regulations could subject us to civil, criminal and administrative proceedings or penalties and harm our reputation.**

Doing business on a worldwide basis requires us to comply with the laws and regulations of the United States government and various foreign jurisdictions. These laws and regulations place restrictions on our operations, trade practices, partners, customers, and investments.

In particular, we and our operations are subject to U.S. and foreign anti-corruption and trade control laws and regulations, such as the United States Foreign Corrupt Practices Act (the "FCPA"); the United Kingdom Bribery Act (the "Bribery Act"); and export controls and economic sanctions programs, including those administered by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"), the State Department's Directorate of Defense Trade Controls (the "DDTC"), and the Bureau of Industry and Security of the U.S. Department of Commerce.

As part of our business, we deal with state-owned business enterprises, the employees of which are considered to be foreign officials for purposes of the FCPA's prohibition on United States companies from engaging in bribery, providing

anything of value, or making other prohibited payments to foreign officials for the purpose of obtaining or retaining business, and other similar regulations in other areas of the world. In addition, the provisions of the Bribery Act apply to the bribery of foreign officials and to transactions with individuals that a government does not employ. The FCPA also requires us to maintain specific record-keeping standards and adequate internal accounting controls. In addition, we are subject to similar requirements in other countries. Some of the international locations in which we do business lack a developed legal system and have higher than normal levels of corruption. Our expansion outside of the United States, and our development of new partnerships and joint venture relations worldwide, could increase the risk of violation of the FCPA, OFAC, the Bribery Act or similar laws and regulations.

As an exporter, we must comply with various laws and regulations relating to the export of products and technology from the U.S. and other countries having jurisdiction over our operations and trade sanctions against embargoed countries and destinations administered by OFAC. Before shipping certain items, we must obtain an export license or verify that license exemptions are available. Any failures to comply with these laws and regulations could result in fines, adverse publicity, and restrictions on our ability to export our products. Repeat failures could carry more significant penalties.

Bribery, corruption, and trade laws and regulations, and the enforcement thereof, are increasing in frequency, complexity and severity on a global basis. Violations of anti-corruption, anti-bribery and trade control laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment, and could harm our reputation, create negative shareholder sentiment and affect our share value. We have established policies and procedures with the intention of providing reasonable assurance of compliance with these laws and regulations and trained our employees to comply with these laws and regulations. However, our employees, contractors, agents and licensees involved in our international operations may take actions in violation of such policies. If our employees, agents, distributors, suppliers and other third parties with whom we do business violate anti-bribery, anti-corruption or similar laws and regulations, we may incur severe fines, penalties and reputational damage. Additionally, there can be no assurance that our policies and procedures will effectively prevent us from violating these regulations in every transaction in which we may engage or provide a defense to any alleged violation. In particular, we may be held liable for the actions that our partners take inside or outside of the United States even though we are not aware of such actions or our partners may not be subject to these laws. Such a violation, even if our policies prohibit it, could have an adverse effect on our reputation, business, financial condition and results of operations. In addition, various state and municipal governments, universities and other investors maintain prohibitions or restrictions on investments in companies that do business with sanctioned countries, persons and entities, which could adversely affect our reputation, business, financial condition and results of operations.

**Global tax law changes may adversely affect our business, financial condition and results of operations.**

We are subject to the income tax laws of the United States and its various state and local governments as well as several foreign tax jurisdictions. Our future income taxes could be materially adversely affected by changes in the amount or mix of earnings amongst countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax rates or the interpretation of tax rules and regulations in jurisdictions in which we do business, changes in tax laws, or the outcome of income tax audits and any related litigation. The U.S. Tax Cuts and Jobs Act of 2017 is one such example of legislation that has impacted our effective tax rate.

Further changes in the tax laws of the United States and foreign jurisdictions could arise, including additional tax reform in the United States and the base erosion and profit shifting project undertaken by the Organization for Economic Co-operation and Development (“OECD”). Both the United States tax reform and the OECD proposed recommendations, in some cases, would make substantial changes to numerous long-standing tax positions and principles. These contemplated changes could increase tax uncertainty and may adversely affect our business, financial condition and results of operations.

**Acquisitions, partial investments, and divestitures pose financial, management and other risks and challenges.**

We routinely explore investing in or acquiring other businesses and related assets to complement or enhance our business strategies. These investments are often made to increase customer relations and market base, expand geographically, or obtain technological advances to support our solution portfolio. Periodically, we may also consider disposing of these businesses, partial investments, assets, or other lines of business.

The financial, management and other risks and challenges associated with these activities include, but are not limited to, the following:

- diversion of management attention;
- difficulty with integrating acquired businesses;
- adverse impact on overall profitability if the expanded operations do not achieve the strategic benefits forecasted;
- potential loss or adverse relationship with or a change of key employees, customers, or suppliers of the acquired business;
- inability to effectively manage our expanded operations;
- difficulty with the integration of different corporate cultures;
- personnel issues;
- increased expenses;
- assumption of unknown liabilities and indemnification obligations;
- potential disputes with the buyers or sellers;
- the time involved in evaluating or modifying the financial systems of an acquired business and the establishment of appropriate internal controls; and
- incorrect estimates made in the accounting for the transaction that cause misstatements of acquisition assets and liabilities.

There can be no assurance that we will engage in any acquisitions or divestitures or that we will be able to do so on terms that will result in any expected benefits.

Our financial results are impacted negatively or positively from our proportionate share of our affiliates financial performance. Any reduction or impairment of the value of an investment and related acquired assets, goodwill, or investments in affiliates would result in charges against earnings, which would adversely affect our results of operations in future periods.

**If goodwill or other intangible assets in connection with our acquisitions become impaired, we could take significant non-cash charges against earnings.**

We have pursued and will continue to seek potential acquisitions to complement and expand our existing businesses, increase our revenues and profitability, and expand our markets. As a result of prior acquisitions, we have goodwill and intangible assets recorded in our consolidated balance sheets as described in "Note 4. Goodwill and Intangible Assets" of the Notes to our Consolidated Financial Statements included in this Form 10-K.

Goodwill represents the purchase price paid in excess of the fair value of net tangible and intangible assets acquired in a business combination. Goodwill is not amortized and remains in our consolidated balance sheets indefinitely unless there is an impairment or a sale of a portion of the business. Under current accounting guidelines, we must assess, at least annually, whether the value of goodwill and other intangible assets has been impaired. Any reduction or impairment of the value of goodwill or other intangible assets will result in charges against earnings, which would adversely affect our results of operations in future periods.

We had no impairments in fiscal 2022, 2021, and 2020.

**Our data systems could fail, or their security could be compromised, causing a material adverse effect on our business.**

We rely heavily on digital technologies for the successful operation of our business, for the support of our controller offerings, and for the collection and retention of business data. Any failure of our digital systems, or any breach of our systems' security measures, could adversely affect our operations, at least until our data can be restored and/or the breaches remediated. Despite the security measures we have in place, our facilities and systems and those of our third-party service providers may be vulnerable to cybersecurity breaches, acts of vandalism, computer viruses, misplaced or lost data, programming issues, and/or human errors or other similar events. Any misappropriation, loss or other unauthorized disclosure of confidential or personally identifiable information, whether by us or by our third-party service providers, could adversely affect our business and operations. We could face significant fines and penalties under various global laws revolving around data loss, lack of adequate data protection or lack of required reporting. Any disruption in our digital technologies could affect our business and operations, causing potentially significant expenses to recover and modify the

data systems, to reimburse customers' losses, and to investigate and remediate any vulnerabilities, which could severely damage our reputation with customers, suppliers, employees and investors and expose us to risk of litigation and liability.

**Regulation in the areas of privacy, data protection and information security could increase our costs and affect or limit our business opportunities and how we collect or use personal information.**

As privacy, data protection and information security laws, including data localization laws, are interpreted and applied, compliance costs may increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place. In recent years, there have been increasing regulatory enforcement and litigation activities in the areas of privacy, data protection and information security in the U.S. and in various countries in which we operate.

In addition, state and federal legislators and/or regulators in the U.S. and other countries in which we operate are increasingly adopting or revising privacy, data protection and information security laws that potentially could have significant impact on our current and planned privacy, data protection and information security-related practices; our collection, use, sharing, retention and safeguarding of consumer and/or employee information; and some of our current or planned business activities. New legislation or regulation could increase our costs of compliance and business operations and could reduce revenues from certain business initiatives. Moreover, the application of existing or new laws to existing technology and practices can be uncertain and may lead to additional compliance risk and cost.

Compliance with current or future privacy, data protection and information security laws relating to consumer and/or employee data, including the General Data Protection Regulation in the European Union and similar laws in other regions of the world, including the United States, could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could materially and adversely affect our results of operations. Our failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory and/or governmental investigations and/or actions, litigation, fines, sanctions, ongoing regulatory monitoring, customer attrition, customer indemnity claims, decreases in the use or acceptance of our products and services, and damage to our reputation and our brand.

**We may fail to continue to attract, develop and retain key management personnel, which could negatively impact our operating results.**

We depend on the performance of our senior executives and key employees, including experienced and skilled technical personnel. The loss of any of our senior executives could negatively impact our operating results and ability to execute our business strategy. Our future success will also depend upon our ability to attract, train, motivate and retain qualified personnel.

Although we intend to continue to provide competitive compensation packages to attract and retain key personnel, some of our competitors for these employees have greater resources and more experience, making it difficult for us to compete successfully for key personnel. If we cannot attract and retain sufficiently qualified technical employees for our research and development and manufacturing operations, we may be unable to achieve the synergies expected from mergers and acquisitions or to develop and commercialize new products or new applications for existing products. Furthermore, possible shortages of key personnel, including engineers, could require us to pay more to hire and retain key personnel, thereby increasing our costs.

**The outcome of pending and future claims, investigations or litigation can have a material adverse impact on our business, financial condition, and results of operations.**

We are involved from time to time in a variety of litigation, investigations, inquires or similar matters arising in our business. Litigation, investigations and regulatory proceedings are subject to inherent uncertainties, and unfavorable rulings and outcomes can and do occur. Pending or future claims against us could result in professional liability, product liability, criminal liability, warranty obligations, indemnity claims, or other liabilities to the extent we are not insured against a loss or our insurance fails to provide adequate coverage. Also, a well-publicized actual or perceived threat of litigation could adversely affect our reputation and reduce the demand for our products. See "Note 16. Commitments and Contingencies" of the Notes to our Consolidated Financial Statements included in this Form 10-K for further information on litigation obligations.

**Our business involves the use of hazardous materials, and we must comply with environmental, health and safety laws and regulations, which can be expensive and restrict how we do business.**

Our business involves the blending, controlled storage, use and disposal of hazardous materials. We and our suppliers are subject to federal, state, local and foreign laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous materials. Although we believe the safety procedures we utilize for handling and disposing of these materials comply with the standards prescribed by these laws and regulations, we cannot eliminate the risk of accidental contamination or injury from these materials. In the event of an accident, local, state, federal or foreign authorities may curtail the use of these materials and interrupt our business operations. If we are subject to any liability as a result of activities involving hazardous materials, our business, financial condition and results of operations may be adversely affected, and our reputation may be harmed.

**If our internal control over financial reporting is found to be ineffective, our financial statements may not be fairly stated, raising concerns for investors and potentially adversely affecting our stock price.**

Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to evaluate and determine the effectiveness of our internal controls over financial reporting. We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations as a public company. We may encounter problems or delays in completing the review and evaluation, implementing improvements, or receiving a positive attestation from our independent registered public accounting firm. In addition, our assessment of internal controls may identify deficiencies in our internal controls over financial reporting or other matters which may raise concerns for investors and adversely affect our stock price.

**Insurance coverage can be difficult or expensive to obtain, and our failure to obtain adequate insurance coverage could adversely affect our financial condition or results of operations.**

We maintain insurance both as a corporate risk management strategy and to satisfy the requirements of many of our contracts with customers. As the costs and availability of insurance change, we may decide not to be covered against certain losses where, in the judgment of management, the insurance is not warranted due to the cost or availability of coverage or the remoteness of the perceived risk. We cannot provide assurance that all necessary or appropriate insurances will be available, cover every type of loss incurred, or be able to be economically secured. For example, some insurers limit coverages, increase premium costs or increase deductibles when global catastrophic events occur. As part of our corporate risk management strategy, we monitor and place our coverages with financially strong insurers, layer our risk with multiple insurers, and seek advice on the amount, breadth and type of insurance coverages to protect our interests. We also contractually require subcontractors and others working on our behalf to carry common insurance coverages for the types of work they perform to mitigate any risk of our loss. Our failure to obtain adequate insurance coverage could adversely affect our financial condition or results of operations.

**We have been required to conduct a good faith reasonable country of origin analysis on our use of “conflict minerals”, which has imposed and may impose additional costs on us and could raise reputational challenges and other risks.**

The SEC has promulgated rules in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding disclosure of the use of certain minerals, known as conflict minerals, mined from the Democratic Republic of the Congo and adjoining countries. As required, we have filed annual Forms SD with the SEC since 2014 reporting our work performed to gain information on the source of conflict minerals we use. We incur costs associated with complying with these disclosure requirements. As we continue our due diligence, we may face reputational challenges if we continue to be unable to verify the origins of all conflict minerals used in our products. We may also encounter challenges in our efforts to satisfy customers that may require all of the components of products purchased to be certified as conflict free. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier.

#### **Risks Related to an Investment in Our Common Stock**

**The protections we have adopted and to which we are subject may discourage takeover offers favored by our shareholders.**

Our articles of incorporation, by-laws and other corporate governance documents and the South Dakota Business Corporation Act ("SD Act") contain provisions that could have an anti-takeover effect and discourage, delay or prevent a

change in control or an acquisition that many shareholders may find attractive. These provisions make it more difficult for our shareholders to take some corporate actions and include provisions relating to:

- the ability of our Board of Directors, without shareholder approval, to authorize and issue shares of stock with voting, liquidation, dividend and other rights and preferences that are superior to our common stock;
- the classification of our Board of Directors, which effectively prevents shareholders from electing a majority of the directors at any one meeting of shareholders;
- the adoption of a shareholder rights agreement providing for the exercise of junior participating preferred stock purchase rights when a person becomes the beneficial owner of 20 percent or more of our outstanding common stock and upon the occurrence of certain similar events (subject to certain exceptions);
- under the SD Act, limitations on the voting rights of shares acquired in specified types of acquisitions and restrictions on specified types of business combinations; and
- under the SD Act, prohibitions against engaging in a “business combination” with an “interested shareholder” for a period of four years after the date of the transaction in which the person became an interested shareholder unless the business combination is approved.

These provisions may deny shareholders the receipt of a premium on their common stock, which in turn may have a depressive effect on the market price of our common stock.

**Our common stock has at times been thinly traded, which may result in low liquidity and price volatility.**

The daily trading volume of our common stock has at times been relatively low. If this were to occur in the future, the liquidity and appreciation of our common stock may not meet our shareholders’ expectations, and the price at which our stock trades may be volatile. The market price of our common stock could be adversely impacted as a result of sales by existing shareholders of a large number of shares of common stock in the market or by the perception such sales could cause.

**Significant changes in the market price of our common stock could result in securities litigation claims against us.**

The market price of our common stock has fluctuated and will likely continue to fluctuate. In the past, companies that have experienced significant changes in the market price of their stock have been subject to securities litigation claims. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management’s attention from other business concerns, which could harm our business.

Additionally, if we fail to meet or exceed the expectations of securities analysts and investors, or if one or more of the securities analysts who cover us adversely change their recommendation regarding our stock, the market price of our common stock could decline. Moreover, our stock price may be based on expectations, estimates and forecasts of our future performance that may be unrealistic or that may not be met. Further, our stock price may fluctuate based on reporting by the financial media, including television, radio, press reports and blogs.

**There can be no assurance that we will pay dividends on our common stock.**

Our Board of Directors approved regular dividends from fiscal 2006 until March 2020. The declaration, amount and timing of such dividends are determined by our Board of Directors at its discretion. Such determinations are subject to capital availability, compliance with all respective laws and our agreements applicable to the declaration and payment of cash dividends, our strategic investment cash needs, our business outlook and other factors balancing our long-term needs of our business and the interests of our shareholders.

Our ability to pay dividends will depend upon, among other factors, our cash balances and potential future capital requirements for strategic transactions, including acquisitions, results of operations, financial condition and other factors that our Board of Directors may deem relevant. A reduction in or elimination of our dividend payments and/or our dividend program could have a material negative effect on our stock price.

On April 1, 2020, our Board of Directors announced the suspension of dividends for the foreseeable future. We believe these measures still are necessary to help preserve our ability to borrow for liquidity needs and help us to be well positioned when the COVID-19 pandemic passes and economies recover.

**Our executive officers, directors and principal shareholders have the ability to significantly influence all matters submitted to our shareholders for approval.**

Co-founder Dr. Aelred Kurtenbach served as our Chairman of the Board until September 3, 2014. Dr. Aelred Kurtenbach's family members currently serve as executive officers of the Company. His son, Mr. Reece Kurtenbach, serves as our Chairman of the Board and Chief Executive Officer and two other children serve as our Vice President of Human Resources and as our Vice President of Manufacturing. Together, these individuals, in the aggregate, beneficially owned 9.8 percent of our outstanding common stock as of June 2, 2022, assuming the exercise by them of all of their options that were currently exercisable or that vest within 60 days of June 2, 2022. Our other executive officers and directors, in the aggregate, beneficially owned an additional 4.0 percent of our outstanding common stock as of June 2, 2022, assuming the exercise by them of all of their options currently exercisable or that vest within 60 days of June 2, 2022. Although this does not represent a majority of our outstanding common stock, if these shareholders were to choose to act together, they would be able to significantly influence all matters submitted to our shareholders for approval, as well as our management and affairs. For example, these persons, if they choose to act together, could significantly influence the election of directors and the approval of any merger, consolidation, sale of all or substantially all of our assets or other business combination or reorganization requiring shareholder approval. This concentration of voting power could delay or prevent an acquisition of us on terms that other shareholders may desire. The interests of this group of shareholders may not always coincide with the interests of other shareholders, and they may act in a manner that advances their best interests and not necessarily those of other shareholders, including seeking a premium value for their common stock, that might affect the prevailing market price for our common stock.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

Our principal properties include space for manufacturing products, designing and testing new developments or processes, and employee collaboration space. Our properties are generally aligned with our business segments; however, we manufacture the same products across our manufacturing facilities to efficiently utilize capacity and reduce costs. We consider all our properties to be both suitable and adequate to meet our requirements for the foreseeable future.

Our principal properties consist of the following:

<b>Facilities</b>	<b>Owned or Leased</b>	<b>Square Footage</b>	<b>Facility Activities</b>
Brookings, SD, USA	Owned	765,000	Corporate Office, Manufacturing, Sales, Service
Redwood Falls, MN, USA	Owned	151,000	Manufacturing, Sales, Service, Office
Ennistymon, Ireland	Owned	62,000	Manufacturing, Sales, Service, Office
Sioux Falls, SD, USA	Leased	277,000	Manufacturing, Sales, Service, Office
Shanghai, China	Leased	152,000	Manufacturing, Sales, Service, Office

We also utilize sales and service offices located throughout the United States, Canada, Europe, and the Asia-Pacific region. These spaces are generally small leased offices used for sales related activities. See "Note 9. Leases" of the Notes to our Consolidated Financial Statements included in this Form 10-K for further information on lease obligations.

**Item 3. LEGAL PROCEEDINGS**

We are involved in a variety of legal actions relating to various matters during the normal course of business. Although we are unable to predict the ultimate outcome of these legal actions, it is the opinion of management that the disposition of these matters, taken as a whole, will not have a material adverse effect on our financial condition or results of operations. See "Note 16. Commitments and Contingencies" of the Notes to our Consolidated Financial Statements included in this Form 10-K for further information on any legal proceedings and claims.



#### Item 4. MINE SAFETY DISCLOSURES

Not applicable.

#### PART II

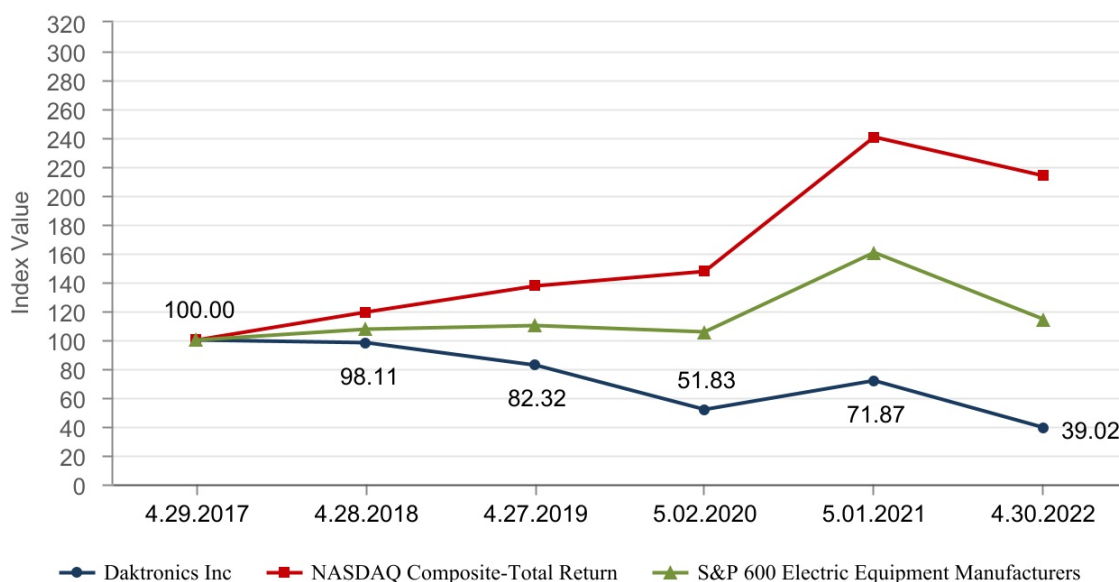
#### Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

##### Stock Performance

Our common stock is quoted on The Nasdaq Global Select Market under the ticker symbol DAKT. Daily market activity, along with quoted prices and other trading information, are readily available for our common stock on numerous websites including [www.nasdaq.com](http://www.nasdaq.com). As of June 2, 2022, we had 948 shareholders of record.

The following graph shows changes during the period from April 29, 2017 to April 30, 2022 in the value of \$100 invested in: (1) our common stock; (2) The Nasdaq Composite; and (3) the Standard and Poor's 600 Index for Electronic Equipment Manufacturers. The values of each investment as of the dates indicated are based on share prices plus any cash dividends, with the dividends reinvested on the date they were paid. The calculations exclude trading commissions and taxes.

**Comparison of 5 Year Cumulative Total Return  
Assumes Initial Investment of \$100  
April 2022**



##### Share Repurchases

On June 17, 2016, our Board of Directors approved a stock repurchase program under which Daktronics may purchase up to \$40 million of its outstanding shares of common stock. Under this program, we may repurchase shares from time to time in open market transactions and in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The repurchase program does not require the repurchase of a specific number of shares and may be terminated at any time. In April 2020, the Board suspended the program. On December 2, 2021, the Board of Directors of Daktronics voted to reauthorize the stock repurchase program. During fiscal 2021, we had no repurchases of shares of our outstanding common stock. During fiscal 2022 and 2020, we repurchased 0.6 million and 1.0 million, respectively, shares of common stock at a total cost of \$3.2 million and \$5.6 million, respectively. As of April 30, 2022, we had \$29.4 million of remaining capacity under our current share repurchase program.

The following table provides information about share repurchases of common stock during the fourth quarter of fiscal 2022:

<b>Period</b>	<b>Total number of shares purchased</b>	<b>Average price paid per share (including fees)</b>	<b>Total number of shares purchased as part of publicly announced plans or programs</b>	<b>Approximate dollar value of shares may yet be purchased under the share repurchase program (1)</b>
January 30, 2022 - February 26, 2022	—	—	—	\$ 29,539,079
February 27, 2022 - March 26, 2022	40,919	\$ 4.50	40,919	29,354,956
March 27, 2022 - April 30, 2022	—	—	—	29,354,956
<b>Total</b>	<b>40,919</b>		<b>40,919</b>	

(1) The share repurchases described in the above table were made pursuant to the \$40.0 million share repurchase program authorized by the Board of Directors on June 17, 2016 and reinstated on December 2, 2021.

Repurchases of shares are treated as dividends under the South Dakota Business Corporation Act (which is codified as Chapter 47-1A to the South Dakota statutes), so our repurchases of shares could be affected by the limitations imposed on dividends in our credit facility, as further described in "Note 7. Financing Agreements" of the Notes to our Consolidated Financial Statements included in this Form 10-K.

**Item 6.** *[Reserved]*

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

The following discussion provides our highlights and commentary related to factors impacting our financial conditions and further describes the results of operations. The most significant risks and uncertainties are discussed in "Item 1A. Risk Factors."

This discussion should be read in conjunction with the accompanying Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in this Form 10-K.

### ***Management's Discussion and Analysis - Fiscal 2021 compared to Fiscal 2020***

The comparison of fiscal 2021 with fiscal 2020, including the results of operations and liquidity, can be found in the "Management's Discussion and Analysis" section of our Annual Report on [Form 10-K](#) for fiscal 2021, which comparison is incorporated by reference herein.

## **EXECUTIVE OVERVIEW**

Our mission is to be a 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 and earn new and replacement business as our products have a finite lifetime. See "Note 3. Segment Reporting" of the Notes to our Consolidated Financial Statements included in this Form 10-K 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 manufacturing costs and the selling prices of our products impact profitability. Due to volatility in our supply chain and labor conditions, our manufacturing costs and selling prices of our products have increased during the 2022 fiscal year and may continue to increase for some time into the future. Our competitors outside the U.S. are impacted differently by the global trade environment allowing them to avoid tariff costs and have access to parts supplies and lower costs of doing business, which may allow them to maintain lower prices 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.

Competitors' offerings, actions and reactions also can vary and change over time or in certain customer situations. Projects with multimillion-dollar revenue potential attract 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:** Impacts to and changes in global economic conditions are expected as the world economies recover from and react to the COVID-19 pandemic, adjust to changing supply chain conditions and disruptions, and react to the evolving war and geopolitical environment.

Supply chain disruptions continue as a result of several factors, including the pandemic lockdowns, shipping container shortages, labor shortages, war and other conflicts, and changes in global demand. We are specifically impacted by the global shortage of semiconductors and related electronic components. Our production schedules were disrupted because of supply shortages, and we experienced increased input costs in many areas including material, commodity, freight, and tariff costs. Personnel spend also increased throughout the 2022 fiscal year.

We have responded to input cost increases by increasing pricing, and we began quoting at the new price levels across the business areas in the third quarter of fiscal 2022. Certain areas will see additional increases at the beginning of fiscal 2023. We also use pricing policies and opportunity evaluations across markets to manage price levels. We will continue to monitor our supply chains and our marketplaces and adapt our pricing methodologies as we see appropriate.

Although we cannot predict the length or severity of these conditions, we expect continued disruptions in obtaining material, commodities, labor, and freight availability and an increase in inflation. We also expect impacts to the global economic conditions in reaction to the evolving war and geopolitical environment. Due to longer planning horizons and volatility in supply chains, we plan to carry higher quantities of inventory and anticipate changes in the timing of payments from our customers as we work through different disruptions and fulfill our backlog, all likely creating a consumption of cash. We are also planning additional cash use for capital spending to grow our manufacturing capacity.

All of these conditions have and will continue to cause volatility in our cash flow, pricing, order volumes, lead-times, competitiveness, revenue cycles, and production costs, and it is likely these conditions will have some negative impact in fiscal 2023. However, the full impact to our financial condition, results of operations and cash flows cannot be determined at this time.

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

*Commercial Business Unit:* Our customers who rely on advertising revenues for Out-of-Home ("OOH") advertising or who rely on customer foot-traffic to drive sales are beginning to increase their capital spending through the COVID-19 economic recovery. Businesses 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.

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-LED designs.
- Increasing use of LED technologies replacing signage previously using 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.
- New market adoption and expansion for use of LED in government and military and corporate campuses.
- 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:* During fiscal year 2022, as the restrictions on gathering started to decrease, more customers chose to invest or upgrade current audiovisual systems in their locations. Some live events customers took advantage of the downtime during the COVID-19 pandemic to build new or renovate existing arenas and sport stadiums. This created large orders being booked during fiscal year 2022 that are expected to be recognized as sales in future fiscal years.

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 drive 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 are upgrading their equipment as the pandemic eases and advertising revenue is available.

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.
- Certain display requirements for sporting events.

*Transportation Business Unit:* Daktronics has experienced governmental agencies placing orders as a way to spend their allocated budgets for their fiscal years. In addition, the *Infrastructure Investment and Jobs Act* signed into law in November 2021, is expected to have a positive impact on all segments of United States transportation terminals and public transit facilities.

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

- 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.
- Expanded use of 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:* As most restrictions on gathering are reduced across geographies, more customers are choosing to invest in their digital needs.

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

- 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.
- Continued 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.
- Increasing interest in spectacles, which include very large and sometimes highly customized displays as part of entertainment venues such as casinos, shopping centers, cruise ships and city-center locations.
- New market adoption and expansion of use of LED in government and military and corporate campuses.
- 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.
- Our product and service offerings, including additional micro-LED offerings which remain the most integrated and comprehensive offerings in the industry.
- Growing our reseller channels to promote our products and gain market share.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") are based upon, and should be read in conjunction with, our Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in this Form 10-K, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these 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. Although our significant accounting policies are described in "Note 1. Nature of Business and Summary of Significant Accounting Policies" of the Notes to our Consolidated Financial Statements included in this Form 10-K, the following discussion is intended to highlight and describe those accounting policies that are especially critical to the preparation of our consolidated financial statements.

A critical accounting policy is defined as a policy that is both very important to the portrayal of a company's financial condition and results and requires management's most difficult, subjective or complex judgments. We regularly review our critical accounting policies and evaluate them based on these factors. We believe the estimation process for uniquely configured contracts and warranties are most material and critical. These areas contain estimates with a reasonable

likelihood to change, and those changes could have a material impact on our financial condition and reported results of operations. The estimation processes for these areas are also difficult, subjective and use complex judgments. Our critical accounting estimates are based on historical experience; on our interpretation of GAAP, current laws and regulations; 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.

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

We may have multiple performance obligations in these types of contracts; however, a majority are treated as a combined single performance obligation. In our judgment, this accounting treatment is most appropriate because the substantial part of our promise to our customer is to provide significant integration services and incorporate individual goods and services into a combined output or system. Often times the system is customized or significantly modified to the customer's desired configurations and location, and the interrelated goods and services provide utility to the customer as a package. See "Note 1. Nature of Business and Summary of Significant Accounting Policies" of the Notes to our Consolidated Financial Statements included in this Form 10-K for further information on our revenue recognition policies.

*Warranties.* We have recognized an accrued liability for warranty obligations equal to our estimate of the actual costs to be incurred in connection with our performance under contractual warranties. Warranty estimates include the cost of direct material and labor estimates to repair products over their warranty coverage period. Generally, estimates are based on historical experience considering known or expected changes. If we would become aware of an increase in our estimated warranty costs, additional accruals may become necessary, resulting in an increase in cost of sales. Although prior estimates have been materially correct, estimates for warranty liabilities can change based on actual versus estimated defect rates over the lifetime of the warranty coverage, a difference in actual to estimated costs to conduct repairs for the components and related labor needed, and other site related actual to estimated cost changes.

As of April 30, 2022 and May 1, 2021, we had approximately \$28.9 million and \$26.0 million accrued for these warranty obligations, respectively. Due to the difficulty in estimating probable costs related to certain warranty obligations, there is a reasonable likelihood that the ultimate remaining costs to remediate the warranty claims could differ materially from the recorded accrued liabilities. See "Note 16. Commitments and Contingencies" of the Notes to our Consolidated Financial Statements included in this Form 10-K for further information on warranties.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

For a summary of recently issued accounting pronouncements and the effects those pronouncements have on our financial results, refer to "Note 1. Nature of Business and Summary of Significant Accounting Policies" of the Notes to our Consolidated Financial Statements included elsewhere in this Form 10-K.

## **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.

## Net Sales

The following table shows information regarding net sales for the fiscal years ended April 30, 2022 and May 1, 2021:

<i>(in thousands)</i>	Year Ended			
	April 30, 2022	May 1, 2021	Dollar Change	Percent Change
<b>Net Sales:</b>				
Commercial	\$ 154,211	\$ 127,300	\$ 26,911	21.1 %
Live Events	199,106	143,049	56,057	39.2
High School Park and Recreation	111,816	91,557	20,259	22.1
Transportation	62,707	58,284	4,423	7.6
International	83,130	61,843	21,287	34.4
	<u>\$ 610,970</u>	<u>\$ 482,033</u>	<u>\$ 128,937</u>	<u>26.7 %</u>
<b>Orders:</b>				
Commercial	\$ 192,917	\$ 138,878	\$ 54,039	38.9 %
Live Events	313,940	157,177	156,763	99.7
High School Park and Recreation	156,305	94,292	62,013	65.8
Transportation	77,993	49,696	28,297	56.9
International	104,916	75,841	29,075	38.3
	<u>\$ 846,071</u>	<u>\$ 515,884</u>	<u>\$ 330,187</u>	<u>64.0 %</u>

### *Fiscal Year 2022 as compared to Fiscal Year 2021*

During fiscal year 2022, sales and orders increased, as demand was up across all markets compared to fiscal 2021 as the world economies recovered from the economic downturn caused by the COVID-19 pandemic. We reached record order levels because of the recovery, multi-million dollar orders for sport facilities, and bulk orders for OOH displays. These orders are in the Live Events, Commercial, and International business segments.

Net sales during fiscal year 2022 increased due to the conversion of the higher order volume. Throughout the year however, material supply and labor shortages created an increase in lead times, extending the timing of converting some orders to sales.

*Commercial:* The increase in net sales for fiscal 2022 compared to fiscal 2021 was primarily due to an increase in OOH niche and spectaculars orders. Fiscal 2021 had an overall low market activity in these two particular niches due to the pandemic, and their recovery was strong.

The increase in orders for fiscal 2022 compared to fiscal 2021 was primarily due to overall higher market activity in all commercial niches.

We continue to see increased adoption of video solutions in our Commercial business unit marketplace. Depending on the duration of the current economic conditions, we see opportunities for orders and sales over the coming years in our OOH, on-premise, and spectacular focused niches due to replacement cycles, expansion of dynamic messaging systems usage, releases of new solutions, additional distribution methods, and increased market size due to the decline of digital pricing over the years as well as the desire for higher resolution technology. Due to a number of factors, such as the discretionary nature of customers committing to a system, economic dependencies, regulatory environments, competitive factors, and supply chain constraints, it is difficult to predict orders and net sales for fiscal 2023. We expect growth in the Commercial business unit over the long-term, assuming favorable economic conditions and our success in counteracting competitive pressures.

*Live Events:* The increase in net sales and orders for fiscal 2022 compared to fiscal 2021 was primarily due to high demand for upgraded or new solutions for arenas, university venues, and sports stadiums. This increase was due to the economic recovery from the COVID-19 pandemic, several large projects including in the bowl and other immersive displays through

the sports facilities, and replacement orders due to systems' ages. Bookings of large multi-million dollar projects also contributed to the order increases and a record order year for Live Events.

We continue to see ongoing interest from venues at all levels in increasing the size and capabilities of their display systems and in the usage of dynamic messaging systems throughout their facilities in our Live Events business unit marketplace. A number of factors, such as the discretionary nature of customers committing to upgrade systems, long replacement cycles, the limited number of large custom projects, competitive factors, and the uncertainty of the overall impact of supply chain constraints, make forecasting fiscal 2023 orders and net sales difficult. We expect this business unit's size to remain stable over the long-term, assuming favorable economic condition, and success in maintaining market share by counteracting competitive pressures.

*High School Park and Recreation:* The increase in net sales and orders for fiscal 2022 compared to fiscal 2021 was primarily due to higher market activity as schools are upgrading to video equipment systems and have COVID-19 related funding to invest in their facilities.

We expect larger video systems and our classic scoring and message centers to remain in demand in fiscal 2023, primarily in high school facilities, which benefit from our sports marketing services that generate advertising revenue to fund the display systems and because of schools' desire to communicate with students and parents using these systems. Some growth is also expected for regulatory requirements of certain display types for sports events. Several factors, such as the potential reduction in the availability of advertising revenues, the discretionary nature of customers committing to upgrade systems, replacement cycles, competitive factors, and the uncertainty of the overall impact of supply chain constraints, make forecasting fiscal 2023 orders and net sales difficult. We expect growth in this business unit over the long-term, assuming favorable economic conditions.

*Transportation:* The increase in net sales and orders for fiscal 2022 compared to fiscal 2021 was primarily due to pent up demand from fiscal 2021 for Intelligent Transportation Systems ("ITS") which had been delayed due to the COVID-19 pandemic.

Several factors, such as transportation funding, the competitive environment, customer delivery changes, and the uncertainty of the impacts of supply chain constraints, make forecasting orders and net sales difficult for fiscal 2023. However, the stability of long-term federal transportation funding and the number of capital projects for highways and public transit that include dynamic message signs and for advertising and wayfinding use in public transport and airport terminals continue to rise. We expect continued growth in this business unit over the long-term, assuming favorable economic conditions and continued transportation funding.

*International:* The increase in net sales and orders for fiscal 2022 compared to fiscal 2021 was primarily due to the economic recovery from the COVID-19 pandemic in OOH, transportation, and sport stadium projects.

We expect demand for larger video systems for commercial and sports applications, indoor and outdoor OOH applications, and transportation applications to remain strong over the long-term. Macroeconomic factors, the discretionary nature of customers committing to new systems or replacements, the pace of market growth, and the uncertainty of the impacts of the supply chain constraints, may impact order bookings and timing, making it difficult to predict order and sales levels for fiscal 2023. For the long-term, we believe the International business unit has the potential for sales growth as we penetrate markets with our established sales networks to increase our International market share, continue to enhance our tailored portfolio of product and control solution offerings, invest in additional distribution methods, and expect the trend of increased use and adoption of our technology globally to continue.



**Gross Profit and Contribution Margin**

<i>(in thousands)</i>	Year Ended			
	April 30, 2022		May 1, 2021	
	Amount	As a Percent of Net Sales	Amount	As a Percent of Net Sales
<b>Gross Profit:</b>				
Commercial	\$ 31,851	20.7 %	\$ 33,072	26.0 %
Live Events	21,787	10.9	24,397	17.1
High School Park and Recreation	35,477	31.7	31,472	34.4
Transportation	18,172	29.0	20,329	34.9
International	9,410	11.3	11,313	18.3
	<u>\$ 116,697</u>	<u>19.1 %</u>	<u>\$ 120,583</u>	<u>25.0 %</u>

*Fiscal Year 2022 as compared to Fiscal Year 2021*

The decline in gross profit percentage in fiscal 2022 is primarily related to the ongoing supply chain disruptions and inflationary challenges in materials, freight, tariff, and personnel related costs; the difference in sales mix between periods; other factors experienced during fiscal 2021 which had a positive impact on fiscal 2021 margins; and an increase in warranty expense in fiscal 2022. Total warranty expense as a percent of sales increased to 1.9 percent for fiscal 2022 as compared to 1.4 percent during fiscal 2021.

Factors impacting the gross profit in fiscal 2021 included the positive \$2.1 million litigation claim reversal in the High School Park and Recreation business unit and \$1.8 million of COVID relief governmental subsidies offset by \$2.8 million of severance costs to reduce our workforce to adjust to the impacts of the COVID-19 pandemic. In addition, we earned a higher rate of gross profit on our service agreements in fiscal 2021 due to reduced stand ready services conducted during the year because of the pandemic. During fiscal year 2022, we had more large project sales which generally have lower gross profit because of their competitive nature.

It is difficult to project gross profit levels for fiscal 2023 because of the uncertainty regarding the level of sales, the sales mix, price strategy and timing of sales generation, the COVID-19 impact, potential inflation and the availability of materials, labor, and freight, and the competitive factors in our business. We are focused on improving our gross profit margins as we execute our strategies for improved profitability, which include selectively increasing pricing, releasing new product designs to lower overall costs of the product; improving reliability to reduce warranty expenses; expanding our global capacity and planning; meeting customer solution expectations; and continued improvements in operational effectiveness in manufacturing, installation, and service delivery areas. Cost reductions made during the pandemic vary in permanency and may not be sustainable in future periods as orders and sales volumes recover.

<i>(in thousands)</i>	Year Ended					
	April 30, 2022			May 1, 2021		
	Amount	As a Percent of Net Sales	Dollar Change	Percent Change	Amount	As a Percent of Net Sales
<b>Contribution Margin:</b>						
Commercial	\$ 16,073	10.4 %	\$ (2,903)	(15.3)%	\$ 18,976	14.9 %
Live Events	11,903	6.0	(3,295)	(21.7)	15,198	10.6
High School Park and Recreation	23,587	21.1	2,178	10.2	21,409	23.4
Transportation	14,553	23.2	(2,695)	(15.6)	17,248	29.6
International	(494)	(0.6)	403	(44.9)	(897)	(1.5)
	<u>\$ 65,622</u>	<u>10.7 %</u>	<u>\$ (6,312)</u>	<u>(8.8)%</u>	<u>\$ 71,934</u>	<u>14.9 %</u>

*Fiscal Year 2022 as compared to Fiscal Year 2021*

*Contribution margin* is a non-GAAP measure and consists of gross profit less selling expenses. Selling expenses consist primarily of personnel related costs, travel and entertainment expenses, marketing related expenses (show rooms, product demonstration, depreciation and maintenance, conventions and trade show expenses), customer relationship management/marketing systems, bad debt expenses, third-party commissions, and other expenses.

Contribution margin in fiscal 2022 was impacted by the previously discussed sales levels and impacts on gross profit, as well as a 5.0% increase in selling expenses in fiscal 2022 compared to fiscal 2021.

Since the beginning of fiscal 2022, we have adjusted our sales and marketing activities and staffing levels to achieve current and expected future sales levels. During fiscal 2021, we had lowered overall staffing and furloughed employees to achieve lower operating costs to align with the uncertainties created by the COVID-19 pandemic. These fiscal 2021 savings were partially offset by a \$1.4 million increase in bad debt expenses.

Reconciliation from non-GAAP contribution margin to operating income (loss) GAAP measure is as follows:

<i>(in thousands)</i>	Year Ended					
	April 30, 2022				May 1, 2021	
	Amount	As a Percent of Net Sales	Dollar Change	Percent Change	Amount	As a Percent of Net Sales
Contribution margin	\$ 65,622	10.7 %	\$ (6,312)	(8.8)%	\$ 71,934	14.9 %
General and administrative	32,563	5.3	4,583	16.4	27,980	5.8
Product design and development	29,013	4.7	2,167	8.1	26,846	5.6
Operating income	\$ 4,046	0.7 %	\$ (13,062)	(76.4)%	\$ 17,108	3.5 %

*Fiscal Year 2022 as compared to Fiscal Year 2021*

General and administrative expenses for fiscal 2022 increased as compared to the same period one year ago primarily due to increases in personnel related expenses.

We expect general and administrative expenses to increase for fiscal 2023 as compared to fiscal 2022 as labor rates continue to rise and further increase in personnel may be needed to keep up with the increased demand.

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 fiscal 2022 increased as compared to fiscal 2021 primarily due to an increase in personnel related expenses.

We expect product design and development expenses to increase for fiscal 2023 as compared to fiscal 2022 due to continued increases in labor costs. We will continue to actively invest in new technologies.

## Other Income and Expenses

(in thousands)	Year Ended					
	April 30, 2022			May 1, 2021		
	Amount	As a Percent of Net Sales	Dollar Change	Percent Change	Amount	As a Percent of Net Sales
Interest income (expense), net	\$ 171	— %	\$ 236	(363.1)%	\$ (65)	— %
Other expense, net	\$ (3,109)	(0.5)%	\$ (126)	4.2 %	\$ (2,983)	(0.6)%

Fiscal Year 2022 as compared to Fiscal Year 2021

The change in interest (expense) income, net for fiscal 2022 as compared to fiscal 2021 was primarily due to the change in investment levels and interest expense for our drawings on the line of credit.

*Other expense, net:* The change in other income and expense, net for fiscal 2022 as compared to fiscal 2021, was primarily due to a \$0.6 million increase in losses from affiliates accounted for under the equity method of accounting.

## Income Taxes

Our effective tax rate was approximately 46.6 percent for fiscal year 2022. The effective income tax rate for fiscal 2022 was impacted due to tax benefits from permanent tax credits offset by valuation allowances as well as other various permanent tax adjustments and state taxes with additional expense for prior year provision to return adjustments.

Our fiscal 2021 effective tax rate was approximately 22.3 percent resulting from the tax benefit of permanent tax credits and previous year provision to return adjustments offset by valuation allowances as well as other various permanent tax adjustments and state taxes.

Our consolidated effective tax rate is impacted by the statutory income tax rates applicable to each of the jurisdictions in which we operate. Due to various factors, and because we operate in multiple state and foreign jurisdictions, our effective tax rate is subject to fluctuation. See "Note 12. Income Taxes" of the Notes to our Consolidated Financial Statements included in this Form 10-K for further information.

## LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	Year Ended		
	April 30, 2022	May 1, 2021	Dollar Change
<b>Net cash (used in) provided by:</b>			
Operating activities	\$ (27,035)	\$ 66,212	\$ (93,247)
Investing activities	(31,384)	(10,221)	(21,163)
Financing activities	(3,576)	(15,585)	12,009
Effect of exchange rate changes on cash	(399)	(416)	17
Net (decrease) increase in cash, cash equivalents and restricted cash	\$ (62,394)	\$ 39,990	\$ (102,384)

Cash decreased by \$62.4 million in fiscal 2022 as compared to an increase of \$40.0 million in fiscal 2021. Operating assets and liabilities decreased cash flow by \$45.4 million during fiscal 2022 as the business expanded compared to a \$31.7 million increase in cash flow during fiscal 2021 as the business contracted and management conserved the Company's cash.

*Net cash used in operating activities:* Net cash used in operating activities was \$27.0 million for fiscal 2022 compared to \$66.2 million net cash provided by operating activities in fiscal 2021. The \$93.2 million decrease in cash from operating activities was primarily the result of changes in net operating assets and liabilities and a decrease of \$10.3 million in net

income. For specific quantitative changes in operating assets and liabilities, see "Note 13. Cash Flow Information" of the Notes to our Consolidated Financial Statements included in this Form 10-K.

*Net cash used in investing activities:* Net cash used in investing activities totaled \$31.4 million for fiscal 2022 compared to \$10.2 million in fiscal 2021. Purchases of property and equipment totaled \$20.4 million in fiscal 2022 compared to \$7.9 million in fiscal 2021. Proceeds from the sales of property and equipment totaled \$0.9 million in fiscal 2022 compared to \$3.2 million in fiscal 2021. Purchase of marketable securities totaled \$4.0 million in fiscal 2022 compared to no purchases of marketable securities in fiscal 2021.

*Net cash used in financing activities:* Net cash used in financing activities was \$3.6 million for fiscal 2022 compared to \$15.6 million in fiscal 2021. During fiscal 2021, we paid \$15.0 million on notes payable. During fiscal 2021, there were no share repurchases compared to \$3.2 million of share repurchases in fiscal 2022.

*Other Liquidity and Capital Resources Discussion:* The timing and amounts of working capital changes, profitability, capital spending, investments in affiliates, repurchases of stock and dividend payments impact our liquidity.

Working capital was \$103.9 million at April 30, 2022 and \$118.4 million at May 1, 2021. 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 expect to use cash in operations as our business returns and exceeds pre-pandemic levels.

We had \$7.1 million of retainage on long-term contracts included in receivables and contract assets as of April 30, 2022, which has an impact on our liquidity. We expect to collect these amounts within one year.

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 work, and our customer would call upon the bond for payment, the surety company would subrogate its loss to Daktronics. At April 30, 2022, we had \$88.3 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 projected capital expenditures to be approximately \$30 million for fiscal 2023. 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.

The Board of Directors authorized reinstatement of the share repurchase program in December of 2021. Shares may be repurchased from time to time in open market purchases, private transactions or other transactions. The timing, volume, and nature of share repurchases will be at the sole discretion of management and will be dependent on market conditions, applicable securities laws and other factors, and share repurchases may be suspended or discontinued at any time.

The Board of Directors suspended dividends during fiscal 2020 as part of our cash conservation measures through the pandemic. The timing and future reinstatement of dividends is at the discretion of the Board of Directors. Future dividends are also impacted by the limitations imposed in our credit facility.

We believe the audiovisual industry fundamentals will drive long-term growth for our business; however, for the near-term outlook, we expect to continue to have disruptions from our supply chain and logistics. Due to longer planning horizons and volatility in supply chains, we plan to carry higher quantities of inventory and anticipate changes in the timing of payments from our customers as we work through different disruptions and fulfill backlog. We also plan to use cash for capital spending to grow our manufacturing capacity. When cash is needed, we expect to use borrowings under our bank credit agreement. As of April 30, 2022, we were in compliance with all applicable bank loan covenants. For additional information on financing agreements, see "Note 7. Financing Agreements" of the Notes to our Consolidated Financial Statements included in this Form 10-K.

## **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Foreign Currency Exchange Rates**

Our results of operations could be affected by factors such as changes in foreign currency rates or weak economic conditions in foreign markets. We derive net sales in U.S. dollars and other currencies including Canadian dollars, Euros, Chinese renminbi, British pounds, Australian dollars, or other currencies. For fiscal 2022, 15.9 percent of net sales were derived in currencies other than U.S. dollars. We incur expenses in currencies other than U.S. dollars relating to specific contracts with customers and for our operations outside the U.S.

If we believe currency risk in any foreign location or with respect to specific sales or purchase transaction is significant, we utilize foreign exchange hedging contracts to manage our exposure to the currency fluctuations. The notional amount of the foreign currency agreements as of April 30, 2022 was \$11.3 million, and all contracts mature within ten months. These contracts are marked to market each balance sheet date and are not designated as hedges. See "Note 15. Derivative Financial Instruments" of the Notes to our Consolidated Financial Statements included in this Form 10-K for further details. We estimate that a 10 percent change in all foreign exchange rates would impact our reported income before taxes by approximately \$0.8 million. This sensitivity analysis disregards the possibilities that rates can move in opposite directions and that losses from one geographic area may be offset by gains from another geographic area.

Over the long term, net sales to international markets are expected to increase as a percentage of total net sales and, consequently, a greater portion of our business could be denominated in foreign currencies. As a result, operating results may become more subject to fluctuations based upon changes in the exchange rates of certain currencies in relation to the U.S. dollar. To the extent we engage in international sales denominated in U.S. dollars, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. This effect is also impacted by sources of raw materials from international sources and costs of our sales, service, and manufacturing locations outside the U.S.

We will continue to monitor and minimize our exposure to currency fluctuations and, when appropriate, use financial hedging techniques to minimize the effect of these fluctuations. However, exchange rate fluctuations as well as differing economic conditions, changes in political climates, and other rules and regulations could adversely affect our ability to effectively hedge exchange rate fluctuations in the future.

We have foreign currency cash accounts to operate our global business. These accounts are impacted by changes in foreign currency rates. Of our \$17.1 million in cash balances at April 30, 2022, \$11.7 million were denominated in U.S. dollars, of which \$3.9 million were held by our foreign subsidiaries. As of April 30, 2022, we had an additional \$5.4 million in cash balances denominated in foreign currencies, of which \$4.7 million were maintained in accounts of our foreign subsidiaries.

### **Interest Rate Risks**

Our exposure to market risks relate primarily to changes in interest rates on cash and marketable securities. We do not expect our income or cash flows to be significantly impacted by interest rates.

### **Commodity Risk**

We are dependent on basic raw materials, sub-assemblies, components, and other supplies used in our production operations. Our financial results have been and could continue to be affected by changes in the availability, prices, and global tariff regulation of these materials. Some of these materials are sourced from one or a limited number of suppliers in countries around the world. Some of these materials are also key source materials for our competitors and for other technology companies. Some of these materials are sourced outside of the countries in which we manufacture our products and are subject to transportation delays. Any of these factors may cause a sudden increase in costs and/or limited or unavailable supplies. As a result, we may not be able to acquire key production materials on a timely basis, which could adversely impact our ability to produce products and satisfy incoming sales orders on a timely basis. Our sourcing and material groups work to implement strategies to monitor and mitigate these risks. Periodically, we enter into pricing agreements or purchasing contracts under which we agree to purchase a minimum amount of product in exchange for guaranteed price terms over the length of the contract, which generally does not exceed one year. Over the years, we have been impacted by the factors noted. During late fiscal 2021 and through fiscal 2022, supply chain disruptions began to emerge because of the COVID-19 pandemic, shipping container shortages, and the changes in global demand. Specifically, we are impacted by the global inflation and shortage of semiconductors and related electronic components, other materials needed for production, and freight. We are unable to predict the supply chain recovery or the impact to our business.

## Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Daktronics, Inc.

#### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Daktronics, Inc and subsidiaries (the "Company") as of April 30, 2022 and May 1, 2021, the related consolidated statements of operations, comprehensive (loss) income, shareholders' equity, and cash flows, for each of the three years in the period ended April 30, 2022, and the related notes (collectively referred to as the "financial statements"). We have also audited the Company's internal control over financial reporting as of April 30, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of April 30, 2022 and May 1, 2021, and the results of its operations and its cash flows for each of the three years in the period ended April 30, 2022, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 30, 2022, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

#### Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

#### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### ***Revenue Recognition – Uniquely Configured Contracts — Refer to Notes 1 and 2 to the financial statements***

##### *Critical Audit Matter Description*

The Company recognizes revenue as its contractual performance obligations are satisfied, which may be at a point in time or over time. Certain of the Company's contracts are for the delivery, installation, and integration of uniquely configured audio-visual communication systems. Revenue for these uniquely configured systems is recognized over time using the cost incurred input method. This input method requires management to make estimates of the costs that will ultimately be incurred at the completion of each contract. Revenue is recognized based on the transaction price and the percentage of cost incurred as of the balance sheet date in relation to the total estimated inputs at completion.

We identified revenue associated with uniquely configured contracts as a critical audit matter because of the significant judgments necessary for management to estimate total costs to be incurred to recognize revenue under these contracts. Changes in estimated costs could have a significant impact on the timing and amount of revenue recognized. This required an increased level of auditor judgment due to the complexity of uniquely configured contracts and extent of effort when performing audit procedures to audit management's estimate of total costs and evaluating the reasonableness of the underlying estimates.

##### *How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to estimates of total cost used to recognize revenue for uniquely configured contracts included the following, among others:

- We tested the effectiveness of controls over uniquely configured contracts, including management's controls over the estimates of total costs.
- We selected a sample of uniquely configured contracts and performed the following:
  - Compared costs incurred to date to the costs management estimated to be incurred to date.
  - Evaluated management's ability to achieve the estimates of total cost by performing corroborating inquiries with the Company's project managers and engineers, and compared the estimates to management's work plans, engineering specifications, and supplier contracts.
  - Confirmed contractual terms with third parties.
  - Tested the mathematical accuracy of management's estimate of total costs.
- We evaluated management's ability to accurately estimate total costs by comparing actual costs to management's historical estimates for uniquely configured contracts that have been fulfilled.

/s/ Deloitte & Touche LLP

Minneapolis, Minnesota  
June 16, 2022

We have served as the Company's auditor since 2017.



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

	April 30, 2022	May 1, 2021
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 17,143	\$ 77,590
Restricted cash	865	2,812
Marketable securities	4,020	—
Accounts receivable, net	101,099	67,808
Inventories	134,392	74,356
Contract assets	41,687	32,799
Current maturities of long-term receivables	2,798	1,462
Prepaid expenses and other current assets	14,963	7,445
Income tax receivables	603	731
Total current assets	317,570	265,003
Property and equipment, net	66,765	58,682
Long-term receivables, less current maturities	1,490	1,635
Goodwill	7,927	8,414
Intangibles, net	1,472	2,083
Investment in affiliates and other assets	32,321	27,403
Deferred income taxes	13,331	11,944
<b>TOTAL ASSETS</b>	<b>\$ 440,876</b>	<b>\$ 375,164</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 76,313	\$ 40,251
Contract liabilities	90,393	64,495
Accrued expenses	34,959	30,672
Warranty obligations	11,621	10,464
Income taxes payable	408	738
Total current liabilities	213,694	146,620
Long-term warranty obligations	17,257	15,496
Long-term contract liabilities	10,998	10,720
Other long-term obligations	6,599	7,816
Long-term income tax payable	477	548
Deferred income taxes	287	410
Total long-term liabilities	35,618	34,990
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred Shares, no par value, authorized 50,000 shares; no shares issued and outstanding	—	—
Common stock, no par value, authorized 115,000,000 shares; 46,733,544 and 46,264,576 shares issued at April 30, 2022 and May 1, 2021, respectively	61,794	60,575
Additional paid-in capital	48,372	46,595
Retained earnings	96,608	96,016
Treasury stock, at cost, 1,907,445 and 1,297,409 shares at April 30, 2022 and May 1, 2021, respectively	(10,285)	(7,297)
Accumulated other comprehensive loss	(4,925)	(2,335)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>191,564</b>	<b>193,554</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 440,876</b>	<b>\$ 375,164</b>

See notes to consolidated financial statements.

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

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
Net sales	\$ 610,970	\$ 482,033	\$ 608,932
Cost of sales	494,273	361,450	470,232
<b>Gross profit</b>	<b>116,697</b>	<b>120,583</b>	<b>138,700</b>
Operating expenses:			
Selling	51,075	48,649	65,902
General and administrative	32,563	27,980	35,193
Product design and development	29,013	26,846	37,772
	<u>112,651</u>	<u>103,475</u>	<u>138,867</u>
<b>Operating income (loss)</b>	<b>4,046</b>	<b>17,108</b>	<b>(167)</b>
Nonoperating income (expense):			
Interest income (expense), net	171	(65)	699
Other expense, net	(3,109)	(2,983)	(541)
<b>Income (loss) before income taxes</b>	<b>1,108</b>	<b>14,060</b>	<b>(9)</b>
Income tax expense (benefit)	516	3,134	(500)
<b>Net income</b>	<b>\$ 592</b>	<b>\$ 10,926</b>	<b>\$ 491</b>
Weighted average shares outstanding:			
Basic	45,188	44,989	45,031
Diluted	45,326	45,202	45,316
Earnings per share:			
Basic	\$ 0.01	\$ 0.24	\$ 0.01
Diluted	\$ 0.01	\$ 0.24	\$ 0.01

See notes to consolidated financial statements.

**DAKTRONICS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME**  
(in thousands)

	<b>Year Ended</b>		
	<b>April 30, 2022</b>	<b>May 1, 2021</b>	<b>May 2, 2020</b>
Net income	\$ 592	\$ 10,926	\$ 491
Other comprehensive (loss) income:			
Cumulative translation adjustments	(2,556)	2,942	(965)
Unrealized (loss) gain on available-for-sale securities, net of tax	(34)	—	44
Total other comprehensive (loss) income, net of tax	(2,590)	2,942	(921)
Comprehensive (loss) income	<u>\$ (1,998)</u>	<u>\$ 13,868</u>	<u>\$ (430)</u>

See notes to consolidated financial statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
<b>Balance as of April 27, 2019:</b>	\$ 57,699	\$ 42,561	\$ 93,593	\$ (1,834)	\$ (4,356)	\$ 187,663
Net income	—	—	491	—	—	491
Cumulative translation adjustments	—	—	—	—	(965)	(965)
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	44	44
Share-based compensation	—	2,265	—	—	—	2,265
Tax payments related to RSU issuances	—	(199)	—	—	—	(199)
Employee savings plan activity	2,311	—	—	—	—	2,311
Dividends paid (\$0.20 per share)	—	—	(8,994)	—	—	(8,994)
Treasury stock purchase	—	—	—	(5,636)	—	(5,636)
<b>Balance as of May 2, 2020:</b>	<b>60,010</b>	<b>44,627</b>	<b>85,090</b>	<b>(7,470)</b>	<b>(5,277)</b>	<b>176,980</b>
Net income	—	—	10,926	—	—	10,926
Cumulative translation adjustments	—	—	—	—	2,942	2,942
Share-based compensation	—	2,067	—	—	—	2,067
Tax payments related to RSU issuances	—	(125)	—	—	—	(125)
Employee savings plan activity	565	—	—	—	—	565
Treasury stock reissued	—	26	—	173	—	199
<b>Balance as of May 1, 2021:</b>	<b>60,575</b>	<b>46,595</b>	<b>96,016</b>	<b>(7,297)</b>	<b>(2,335)</b>	<b>193,554</b>
Net income	—	—	592	—	—	592
Cumulative translation adjustments	—	—	—	—	(2,556)	(2,556)
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	(34)	(34)
Share-based compensation	—	1,973	—	—	—	1,973
Exercise of stock options	8	—	—	—	—	8
Tax payments related to RSU issuances	—	(200)	—	—	—	(200)
Employee savings plan activity	1,211	—	—	—	—	1,211
Treasury stock purchase	—	—	—	(3,184)	—	(3,184)
Treasury stock reissued	—	4	—	196	—	200
<b>Balance as of April 30, 2022:</b>	<b>\$ 61,794</b>	<b>\$ 48,372</b>	<b>\$ 96,608</b>	<b>\$ (10,285)</b>	<b>\$ (4,925)</b>	<b>\$ 191,564</b>

See notes to consolidated financial statements.

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

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 592	\$ 10,926	\$ 491
Adjustments to reconcile net income to net cash (used) provided by operating activities:			
Depreciation and amortization	15,394	17,077	17,718
Gain on sale of property, equipment and other assets	(743)	(572)	(35)
Share-based compensation	1,973	2,067	2,265
Equity in loss of affiliates	2,970	2,370	741
Provision for doubtful accounts, net of recovery	(286)	1,299	(99)
Deferred income taxes, net	(1,555)	1,314	(2,183)
Change in operating assets and liabilities	(45,380)	31,731	(8,090)
<b>Net cash (used)/provided by operating activities</b>	<b>(27,035)</b>	<b>66,212</b>	<b>10,808</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property and equipment	(20,376)	(7,891)	(18,091)
Proceeds from sales of property, equipment and other assets	885	3,184	322
Purchases of marketable securities	(4,045)	—	—
Proceeds from sales or maturities of marketable securities	—	1,230	25,162
Purchases of and loans to equity investees	(7,848)	(6,744)	(11,664)
<b>Net cash used in investing activities</b>	<b>(31,384)</b>	<b>(10,221)</b>	<b>(4,271)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Borrowings on notes payable	46,801	—	15,000
Payments on notes payable	(46,801)	(15,000)	—
Principal payments on long-term obligations	(200)	(460)	(2,149)
Dividends paid	—	—	(8,994)
Proceeds from exercise of stock options	8	—	—
Payments for common shares repurchased	(3,184)	—	(5,636)
Tax payments related to RSU issuances	(200)	(125)	(199)
<b>Net cash used in financing activities</b>	<b>(3,576)</b>	<b>(15,585)</b>	<b>(1,978)</b>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(399)	(416)	111
NET (DECREASE)/ INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(62,394)	39,990	4,670
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH:</b>			
Beginning of period	80,402	40,412	35,742
End of period	\$ 18,008	\$ 80,402	\$ 40,412

See notes to consolidated financial statements.

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

**Note 1. Nature of Business and Summary of Significant Accounting Policies**

**Nature of business:** Daktronics, Inc. and its subsidiaries are engaged principally in the design, market, and manufacture of a wide range of integrated electronic display systems and related products which are sold in a variety of markets throughout the world and the rendering of related maintenance and professional services. Our products are designed primarily to inform and entertain people through the communication of content.

**Fiscal year:** We operate 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 years ended April 30, 2022 and May 1, 2021 contained operating results for 52 weeks, while the fiscal year ended May 2, 2020 contained operating results for 53 weeks.

**Principles of consolidation:** The consolidated financial statements include Daktronics, Inc. and its subsidiaries. All intercompany accounts and transactions are eliminated in consolidation.

**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 affiliates' 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. 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 our investments in affiliates accounted for under the equity method was \$16,916 and \$19,887 as of April 30, 2022 and May 1, 2021 respectively. Our proportional share of the respective affiliates' earnings or losses is included in the "Other (expense) income, net" line item in our consolidated statements of operations. For the fiscal years 2022, 2021 and 2020, our share of the losses of our affiliates was \$2,970, \$2,370 and \$741, respectively. During fiscal 2022, we purchased \$7,488 of convertible notes ("Notes") which are included in the "Investment in affiliates and other assets" and "Current maturities of long-term receivables" line items in our consolidated balance sheet. There were no convertible notes as of May 1, 2021.

We purchased services for research and development activities from our equity method investees. The total of these related party transactions for fiscal year 2022, 2021 and 2020 was \$1,520, \$460, and \$1,113, respectively, which is included in the "Product design and development" line item in our consolidated statement of operations, and for fiscal 2022, \$296 of this remains unpaid and is included in the "Accounts payable" line item in our consolidated balance sheet. Fiscal 2021 had \$470 unpaid and included in the "Accounts payable" line item in our consolidated balance sheet.

Summarized financial information for equity method investments consist of the following:

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
<b>Balance sheet data:</b>			
Current assets	\$ 6,672	\$ 7,534	\$ 10,593
Non-current assets	4,491	4,637	4,266
Current liabilities	13,938	2,807	2,755
Non-current liabilities	1,738	1,793	4,086
<b>Income statement data:</b>			
Net loss	\$ (11,928)	\$ (13,436)	\$ (1,383)

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; the reported amounts of revenues and expenses during the reporting period; and our ability to continue as a going concern. Due to the inherent uncertainty involved in making estimates, actual results in future periods may differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the estimated total costs on uniquely configured contracts and estimated costs to be incurred for product warranties and income taxes. Estimation processes are also used in inventory valuation and determining, the allowance for doubtful accounts, share-based compensation, goodwill impairment, and extended warranty and product maintenance agreements. Changes in estimates are reflected in the periods in which they become known.

**Cash and cash equivalents:** All highly liquid investments with maturities of three months or less at the date of purchase are considered to be cash equivalents and consist primarily of government repurchase agreements, savings accounts and money market accounts that are carried at cost, which approximates fair value. We maintain our cash in bank deposit accounts, the balances of which at times may exceed federally insured limits. We have not experienced any losses in such accounts.

**Restricted cash:** Restricted cash consists of cash and cash equivalents held in bank deposit accounts to secure issuances of foreign bank guarantees.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the totals of the same amounts shown in the consolidated statements of cash flows. Restricted cash consists of cash and cash equivalents held in bank deposit accounts to secure issuances of foreign bank guarantees.

	April 30, 2022	May 1, 2021	May 2, 2020
Cash and cash equivalents	\$ 17,143	\$ 77,590	\$ 40,398
Restricted cash	865	2,812	14
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	<u>\$ 18,008</u>	<u>\$ 80,402</u>	<u>\$ 40,412</u>

**Inventories:** In accordance with ASC 330, *Inventory*, our inventories are stated at the lower of cost (first-in, first-out method) and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Cost is measured as the price of the components and allocated expenses for production or betterment of the inventory item. When we estimate net realizable value to be lower than cost, any necessary adjustments are charged to cost of sales in that period. In determining net realizable value, we review various factors such as current inventory levels, forecasted demand, costs of completion, and technological obsolescence.

**Allowance for doubtful accounts:** We make estimates regarding the collectability of our accounts receivable, long-term receivables, contract assets and other receivables. In evaluating the adequacy of our allowance for doubtful accounts, we analyze specific balances, customer creditworthiness, changes in customer payment cycles, and current economic trends. If

the financial condition of any customer were to deteriorate, resulting in an impairment of its ability to make payments, additional allowances may be required. We charge off receivables at such time it is determined collection will not occur in accordance with ASC 310, *Receivables*.

**Revenue recognition:** Our accounting policies and estimates are in accordance with ASC 606, *Revenue from Contracts with Customers*, and are as follows:

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

Pre-contract costs are generally expensed as incurred, unless they are directly associated with an anticipated contract and recoverability from that contract is probable. Pre-contract costs directly associated with anticipated contracts expected to be recoverable include \$117 and \$492 as of April 30, 2022 and May 1, 2021, respectively. These are included in the "Inventories" line item in our consolidated balance sheets.

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

Our contracts can contain multiple components of transaction price. We evaluate each contract for these components and include fixed consideration, variable consideration, financing components, and non-cash consideration and exclude consideration payable to a customer and sales taxes in the transaction price. When we are responsible for site installations which include subcontracted work, we maintain the contractual responsibilities and risks and include the consideration for these services in the transaction price. When our contract contains variable consideration, including return rights, discounts, claims, unpriced change orders, and liquidated damages, we estimate the transaction price using the expected value (i.e., the sum of the probability-weighted amount) or the most likely amount method, whichever is expected to better predict revenue for that contract situation. We also constrain the revenue to the extent that it is probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. We consider the following factors in determining revenue associated with variable consideration: (a) the contract or other evidence providing the legal basis, (b) additional costs caused by unforeseen circumstances, (c) evidence supporting the claim, and (d) historical evidence and patterns of customers. We adjust the contract price for the effects of a significant financing component if we expect, at contract inception, that the period between when we transfer goods and services to a customer will exceed one year from the time the customer pays and represents financing. If the payment structures exceed a year but are structured to account for risks with a contract or correspond to payments on milestones or are scheduled for performance, we do not adjust the contract price for a financing component. See "Note 6. Receivables" for amounts recorded in long-term receivables.

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

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



Significant judgments and estimates are used in our revenue policies. In order to assure appropriate and consistent revenue recognition, we regularly evaluate available project related information and update estimates accordingly. We maintain internal policies and procedures to provide guidance for those involved in recording revenue. We monitor for changes in our business sales practices and customer interactions to capture the appropriate types of performance obligations and adjust for any change in control terms and conditions.

Our material performance obligation types include:

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

We may have multiple performance obligations in these types of contracts; however, a majority are treated as a combined single performance obligation. In our judgment, this accounting treatment is most appropriate because the substantial part of our promise to customers is to provide significant integration services and incorporate individual goods and services into a combined output or system. Often times, the system is customized or significantly modified to the customer's desired configurations and location, and the interrelated goods and services provide utility to the customer as a package.

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

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

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

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

Revenue is recognized at a point in time when control passes, or over time as services are performed. When fulfilling limited configuration performance obligations, we are typically able to redirect the video displays or scoring, messaging, or audio equipment to another customer without incurring significant economic losses.

Therefore, we have an alternative use for the performance obligation and recognize revenue upon our substantial completion and at the point in time we estimate control has transferred to the customer. When limited configured single performance obligations are more service-type (i.e., installation and integration services), we recognize revenue over time using the cost-to-cost input method, which is the most faithful depiction of the customer obtaining control and benefits from the work performed.

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

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

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

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

*Long-term receivables and advertising rights:* We occasionally sell and install our products at facilities in exchange for the rights to sell or to retain future advertising revenues. For these transactions, we recognize revenue equal to the amount of the present value of the future advertising payments if enough advertising is sold to obtain normal margins on the contract, and we record the related receivable in long-term receivables. We recognize imputed interest as earned.

Property and equipment: In accordance with ASC 360, *Property, Plant, and Equipment*, property and equipment are stated at cost and depreciated principally on the straight-line method over the following estimated useful lives:

	<b>Years</b>
Buildings and improvements	5 - 40
Machinery and equipment	5 - 7
Office furniture and equipment	3 - 5
Computer software and hardware	3 - 5
Equipment held for rental	2 - 7
Demonstration equipment	3 - 5
Transportation equipment	5 - 7

Leasehold improvements are depreciated over the lesser of the useful life of the asset or the term of the lease.

**Impairment of Long-Lived Assets:** In accordance with ASC 360, *Property, Plant, and Equipment*, we assess long-lived tangible assets and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value. We recognize an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining useful life of that asset.

Our impairment loss calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including forecasting useful lives of the assets and selecting the discount rate that reflects the risk inherent in future cash flows.

**Goodwill and Other Intangible Assets:** We account for goodwill and other intangible assets with indefinite lives in accordance with ASC 350, *Goodwill and Other*. Under these provisions, goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates an impairment or a decline in value may have occurred.

A qualitative assessment may be used to first determine whether it is "more likely than not" that the fair value of a reporting unit is less its carrying value. Based on this assessment, if it is determined that is more likely than not that impairment has occurred, a quantitative analysis will be performed. The quantitative assessment uses an income approach to estimate the fair value of each reporting unit. The income approach is based on the projected cash flows, which are discounted to their present value using discount rates which consider the timing and risk of the forecasted cash flows. Fair value is estimated using internally developed forecasts and assumptions and takes into account management plans, business trends, and market and economic conditions. If the quantitative assessment of good impairment fails, an impairment loss equal to the amount that a reporting unit's carrying value exceeds its fair value will be recognized.

We completed our annual impairment analysis during the third quarter of fiscal 2022, utilizing a quantitative approach. Based on the outcome of that analysis, goodwill was not impaired.

**Foreign currency translation:** We follow the provisions of ASC 830, *Foreign Currency Matters*. Our foreign subsidiaries use the local currency of their respective countries as their functional currency. The assets and liabilities of foreign operations are translated at the exchange rates in effect at the balance sheet date. The operating results of foreign operations are translated at weighted average exchange rates. The related translation gains or losses are reported as a separate component of shareholders' equity in accumulated other comprehensive loss.

**Income taxes:** We account for income taxes in accordance with ASC 740, *Income Taxes*. We record a tax provision for anticipated tax consequences of the reported results of operations. Deferred tax assets and liabilities are measured using currently enacted tax rates and statutory tax rates applicable to the years in which we expect these temporary differences will affect taxable income. These assets and liabilities are analyzed regularly, and we assess the likelihood that deferred tax assets will be recoverable from future taxable income. When necessary, a valuation allowance is established if it is more likely than not the deferred tax asset will not be realized. We report the net deferred tax asset and liability as a long-term asset or liability. Net deferred assets or liabilities are calculated by combining them based on their jurisdiction.

In addition, because we operate in multiple income tax jurisdictions both within the United States and internationally, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our financial condition and operating results. See "Note 12. Income Taxes" for further information.

**Comprehensive income (loss):** We follow the provisions of ASC 220, *Reporting Comprehensive Income*, which establishes standards for reporting and displaying comprehensive income and its components, and disclose these components in the consolidated statements of comprehensive income. Comprehensive (loss) income reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For us, comprehensive income represents net income adjusted for cumulative foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. The foreign currency translation adjustment included in the

comprehensive income (loss) calculation has not been tax affected, as the investments in foreign affiliates are deemed to be permanent.

**Product design and development:** We follow the provisions of ASC 730, *Research and Development*, which states all expenses related to product design and development are charged to operations as incurred. Our product design and development activities include the enhancement of existing products and technologies and the development of new products and technologies.

**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 shares of common stock or resulted in the issuance of shares 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 fiscal years ended April 30, 2022, May 1, 2021 and May 2, 2020:

	Net income	Shares	Per share income
<b>For the year ended April 30, 2022:</b>			
Basic earnings per share	\$ 592	45,188	\$ 0.01
Dilution associated with stock compensation plans	—	138	—
Diluted earnings per share	\$ 592	45,326	\$ 0.01
<b>For the year ended May 1, 2021:</b>			
Basic earnings per share	\$ 10,926	44,989	\$ 0.24
Dilution associated with stock compensation plans	—	213	—
Diluted earnings per share	\$ 10,926	45,202	\$ 0.24
<b>For the year ended May 2, 2020:</b>			
Basic earnings per share	\$ 491	45,031	\$ 0.01
Dilution associated with stock compensation plans	—	285	—
Diluted earnings per share	\$ 491	45,316	\$ 0.01

Options outstanding to purchase 1,846, 2,262 and 2,198 shares of common stock with a weighted average exercise price of \$9.15, \$9.11 and \$9.95 for the fiscal years ended April 30, 2022, May 1, 2021 and May 2, 2020, respectively, were not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

**Share-based compensation:** We account for share-based compensation in accordance with ASC 718, *Compensation-Stock Compensation*. Under the fair value recognition provisions of ASC 718, we measure share-based compensation cost at the grant date based on the fair value of the award and recognize the compensation expense over the requisite service period, which is the vesting period. See "Note 10. Shareholders' Equity and Share-Based Compensation" for additional information and the assumptions we use to calculate the fair value of share-based employee compensation.

### Other Business Developments

Impacts to and changes in global economic conditions are expected as the world economies recover from the COVID-19 pandemic, adjust to supply chain conditions and disruptions, and react to the evolving war and geopolitical environment. Our ability to fund operations and capital expenditures in the future will be dependent on our ability to generate cash flow from operations in these conditions, to maintain or improve margins, and to use funds from our credit facility or other funding sources.

We anticipate needing to utilize a portion of our line of credit which was recently extended to April 2025 to help with our continued investment in capacity to meet our expanding demand. We believe it is probable our existing cash balances and future actions will be sufficient to fund our normal business operations over the next twelve months from the date of this filing.

We received governmental wage subsidies from various governmental programs related to COVID-19 implications of \$293 and \$1,757 during the fiscal years 2022 and 2021, respectively and recorded the subsidies as a reduction of compensation expense, most of it is included in the "Costs of sales" line item in our consolidated statements of operations. We also have elected to defer payments of the employer portion of social security taxes during the payroll tax deferral period, which ended on December 31, 2020. As of April 30, 2022, the total amount of such deferral was \$2,633, which is included in the "Accrued expenses" line item in our consolidated balance sheet. Per the terms of the deferral program, the total amount is due on December 31, 2022.

## Recent Accounting Pronouncements

### *Accounting Standards Adopted*

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-03, *Measurement of Credit Losses on Financial Instruments*, which provides guidance regarding the measurement and recognition of credit impairment for certain financial assets. ASU 2016-03 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, ASU 2016-03 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. We adopted ASU 2016-03 and its related guidance during the first quarter of fiscal 2021, and the adoption did not have a material impact on our 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:

	<b>Year Ended</b>	
	<b>April 30, 2022</b>	<b>May 1, 2021</b>
<b>Balance as of Balance at beginning of year</b>	\$ 3,942	\$ 2,828
Charged to costs and expenses	2,083	3,318
Deductions (1)	(3,271)	(2,204)
<b>Balance as of Balance at end of year</b>	<u>\$ 2,754</u>	<u>\$ 3,942</u>

(1) Includes account collections and write offs

There have been no significant ASUs issued that we adopted during the fiscal year ended April 30, 2022.

### *Accounting Standards Not Yet Adopted*

In November 2021, FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities About Government Assistance* ("ASU 2021-10"), which requires business entities to disclose information about transactions with a government that are accounted for by applying a grant or contribution model by analogy. For transactions covered by ASU 2021-10, the new standard requires the disclosure of information about the nature of the transaction, including significant terms and conditions, as well as the amounts and specific financial statement line items affected by the transaction. ASU 2021-10 is effective for annual periods beginning after December 15, 2021, which for us is the first quarter of fiscal 2023. Early adoption is permitted. The Company does not expect the adoption of ASU 2021-10 to have a material impact on future disclosures.

## Note 2. 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:

<b>Fiscal Year 2022</b>							
	<b>Commercial</b>	<b>Live Events</b>	<b>High School Park and Recreation</b>	<b>Transportation</b>	<b>International</b>	<b>Total</b>	
<b>Type of performance obligation</b>							
Unique configuration	\$ 20,849	\$ 144,095	\$ 20,175	\$ 38,843	\$ 32,658	\$ 256,620	
Limited configuration	118,308	30,181	88,162	21,370	43,029	301,050	
Service and other	15,054	24,830	3,479	2,494	7,443	53,300	
	<u>\$ 154,211</u>	<u>\$ 199,106</u>	<u>\$ 111,816</u>	<u>\$ 62,707</u>	<u>\$ 83,130</u>	<u>\$ 610,970</u>	
<b>Timing of revenue recognition</b>							
Goods/services transferred at a point in time	\$ 120,776	\$ 37,229	\$ 82,678	\$ 22,088	\$ 45,036	\$ 307,807	
Goods/services transferred over time	33,435	161,877	29,138	40,619	38,094	303,163	
	<u>\$ 154,211</u>	<u>\$ 199,106</u>	<u>\$ 111,816</u>	<u>\$ 62,707</u>	<u>\$ 83,130</u>	<u>\$ 610,970</u>	

<b>Fiscal Year 2021</b>							
	<b>Commercial</b>	<b>Live Events</b>	<b>High School Park and Recreation</b>	<b>Transportation</b>	<b>International</b>	<b>Total</b>	
<b>Type of performance obligation</b>							
Unique configuration	\$ 16,535	\$ 104,682	\$ 22,258	\$ 36,398	\$ 22,266	\$ 202,139	
Limited configuration	96,420	18,679	66,697	19,690	32,583	234,069	
Service and other	14,345	19,688	2,602	2,196	6,994	45,825	
	<u>\$ 127,300</u>	<u>\$ 143,049</u>	<u>\$ 91,557</u>	<u>\$ 58,284</u>	<u>\$ 61,843</u>	<u>\$ 482,033</u>	
<b>Timing of revenue recognition</b>							
Goods/services transferred at a point in time	\$ 98,243	\$ 23,906	\$ 60,859	\$ 20,180	\$ 34,388	\$ 237,576	
Goods/services transferred over time	29,057	119,143	30,698	38,104	27,455	244,457	
	<u>\$ 127,300</u>	<u>\$ 143,049</u>	<u>\$ 91,557</u>	<u>\$ 58,284</u>	<u>\$ 61,843</u>	<u>\$ 482,033</u>	

**Fiscal Year 2020**

	Commercial	Live Events	High School Park and Recreation	Transportation	International	Total
<b>Type of performance obligation</b>						
Unique configuration	\$ 35,212	\$ 140,044	\$ 19,176	\$ 43,519	\$ 40,454	\$ 278,405
Limited configuration	102,847	31,897	74,266	24,588	45,626	279,224
Service and other	14,568	24,650	2,972	2,032	7,081	51,303
	<u>\$ 152,627</u>	<u>\$ 196,591</u>	<u>\$ 96,414</u>	<u>\$ 70,139</u>	<u>\$ 93,161</u>	<u>\$ 608,932</u>
<b>Timing of revenue recognition</b>						
Goods/services transferred at a point in time	\$ 105,096	\$ 39,521	\$ 68,582	\$ 25,157	\$ 47,345	\$ 285,701
Goods/services transferred over time	47,531	157,070	27,832	44,982	45,816	323,231
	<u>\$ 152,627</u>	<u>\$ 196,591</u>	<u>\$ 96,414</u>	<u>\$ 70,139</u>	<u>\$ 93,161</u>	<u>\$ 608,932</u>

See "Note 3. 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 balances and changes in our contract assets and liabilities:

	April 30, 2022	May 1, 2021
Contract assets	\$ 41,687	\$ 32,799
Contract liabilities - current	90,393	64,495
Contract liabilities - non-current	10,998	10,720

The changes in our contract assets and contract liabilities from May 1, 2021 to April 30, 2022 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 fiscal 2022.

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". Changes in unearned service-type warranty contracts, net were as follows:

	April 30, 2022	May 1, 2021
Balance at beginning of year	\$ 24,590	\$ 24,490
New contracts sold	42,619	35,623
Less: reductions for revenue recognized	(40,614)	(36,723)
Foreign currency translation and other	(249)	1,200
Balance at end of year	<u>\$ 26,346</u>	<u>\$ 24,590</u>

As of April 30, 2022 and May 1, 2021, 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 consolidated balance sheets.

During fiscal 2022, we recognized revenue of \$53,241 related to our contract liabilities as of May 1, 2021.

Remaining performance obligations

As of April 30, 2022, the aggregate amount of the transaction price allocated to the remaining performance obligations was \$533,340. We expect approximately \$452,289 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 April 30, 2022 are \$471,589 and \$61,751, 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 3. 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. 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. Our CODM evaluates segment performance according to the GAAP measure of gross profit.

Our Commercial business unit primarily consists of sales of our integrated video display systems, digital billboards, Galaxy<sup>®</sup> and Fuelight<sup>™</sup> product lines, and dynamic messaging systems to resellers (primarily sign companies), out-of-home ("OOH") companies, national retailers, quick-serve restaurants, casinos, shopping centers, cruise ships, commercial building owners, and petroleum retailers. Our Live Events business unit primarily consists of sales of integrated scoring and video display systems to college and professional sports facilities and convention centers and sales of our mobile display technology to video rental organizations and other live events type venues. Our High School Park and Recreation business unit primarily consists of sales of scoring systems, Galaxy<sup>®</sup> displays and video display systems to primary and secondary education facilities and resellers (primarily sign companies). Our Transportation business unit primarily consists of sales of intelligent transportation systems dynamic messaging signs for road management, mass transit, and aviation applications and other electronic signage for advertising and way-finding needs, which includes our Vanguard<sup>®</sup> and Galaxy<sup>®</sup> product lines and other intelligent transportation systems dynamic message signs, to governmental transportation departments, transportation industry contractors, airlines and other transportation related customers. Our International business unit consists of sales of all product lines outside the United States and Canada. In our International business unit, we focus on product lines related to integrated scoring and video display systems for sports and commercial applications, OOH advertising products, architectural lighting, and transportation related products for sale outside of the United States and Canada to the related type of company, including sports and commercial business facilities, OOH companies, and governmental transportation agencies.

Assets are not allocated to the segments. Depreciation and amortization are allocated to each segment based on various financial measures; however, some depreciation and amortization are corporate in nature and remain unallocated. Our segments follow the same accounting policies as those described in "Note 1. Nature of Business and Summary of Significant Accounting Policies." Some expenses or services are not directly allocable to a sale or segment or the resources and related expenses are shared across business segment areas. These expenses are allocated using estimates and allocation methodologies based on financial measures and professional judgment. Shared or unabsorbed manufacturing costs are allocated to the business unit benefiting most from that manufacturing location's production capabilities. Shared or unabsorbed costs of domestic field sales and services infrastructure, including most field administrative staff, are allocated to the Commercial, Live Events, High School Park and Recreation, and Transportation business units based on cost of sales. Shared manufacturing, buildings and utilities, and procurement costs are allocated based on payroll dollars, square footage and various other financial measures in the segment analysis.

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



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

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
<b>Net sales:</b>			
Commercial	\$ 154,211	\$ 127,300	\$ 152,627
Live Events	199,106	143,049	196,591
High School Park and Recreation	111,816	91,557	96,414
Transportation	62,707	58,284	70,139
International	83,130	61,843	93,161
<b>Total company net sales</b>	<b>610,970</b>	<b>482,033</b>	<b>608,932</b>
<b>Gross profit:</b>			
Commercial	31,851	33,072	29,246
Live Events	21,787	24,397	39,518
High School Park and Recreation	35,477	31,472	28,874
Transportation	18,172	20,329	23,910
International	9,410	11,313	17,152
	<b>116,697</b>	<b>120,583</b>	<b>138,700</b>
<b>Operating expenses</b>			
Selling	51,075	48,649	65,902
General and administrative	32,563	27,980	35,193
Product design and development	29,013	26,846	37,772
	<b>112,651</b>	<b>103,475</b>	<b>138,867</b>
<b>Operating income (loss)</b>	<b>4,046</b>	<b>17,108</b>	<b>(167)</b>
<b>Nonoperating income (expense):</b>			
Interest income (expense), net	171	(65)	699
Other expense, net	(3,109)	(2,983)	(541)
<b>Income (loss) before income taxes</b>	<b>\$ 1,108</b>	<b>\$ 14,060</b>	<b>\$ (9)</b>
<b>Depreciation and amortization:</b>			
Commercial	\$ 2,677	\$ 3,037	\$ 3,682
Live Events	5,238	5,798	5,605
High School Park and Recreation	1,420	1,942	2,025
Transportation	551	979	1,029
International	2,796	2,887	2,460
Unallocated corporate depreciation	2,712	2,434	2,917
	<b>\$ 15,394</b>	<b>\$ 17,077</b>	<b>\$ 17,718</b>

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:

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
<b>Net sales:</b>			
United States	\$ 513,740	\$ 413,211	\$ 504,931
Outside United States	97,230	68,822	104,001
	<u>\$ 610,970</u>	<u>\$ 482,033</u>	<u>\$ 608,932</u>
<b>Property and equipment, net of accumulated depreciation:</b>			
United States	\$ 58,643	\$ 50,130	\$ 58,422
Outside United States	8,122	8,552	9,062
	<u>\$ 66,765</u>	<u>\$ 58,682</u>	<u>\$ 67,484</u>

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 and limited-source suppliers that could limit our supply or cause delays in obtaining raw material and components needed in manufacturing.

#### Note 4. Goodwill and Intangible Assets

##### Goodwill

The changes in the carrying amount of goodwill related to each reportable segment for the fiscal year ended April 30, 2022 were as follows:

	Live Events	Commercial	Transportation	International	Total
<b>Balance as of May 1, 2021:</b>	\$ 2,313	\$ 3,464	\$ 84	\$ 2,553	\$ 8,414
Foreign currency translation	(17)	(115)	(16)	(339)	(487)
<b>Balance as of April 30, 2022:</b>	<u>\$ 2,296</u>	<u>\$ 3,349</u>	<u>\$ 68</u>	<u>\$ 2,214</u>	<u>\$ 7,927</u>

We perform an analysis of goodwill on an annual basis and test 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 and concluded no goodwill impairment existed for fiscal years 2022, 2021, and 2020.

## Intangible Assets

The following table summarizes intangible assets, net, as of April 30, 2022 and May 1, 2021:

	April 30, 2022			
	Weighted Average Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Registered trademarks	20.0	\$ 639	\$ 233	\$ 406
Software	3.0	2,984	2,984	—
Customer relationships	10.0	2,853	1,787	1,066
Other	1.0	101	101	—
<b>Total</b>	<b>7.6</b>	<b>\$ 6,577</b>	<b>\$ 5,105</b>	<b>\$ 1,472</b>

	May 1, 2021			
	Weighted Average Life (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Registered trademarks	19.4	\$ 738	\$ 246	\$ 492
Software	3.0	6,606	6,412	194
Customer relationships	10.0	2,984	1,588	1,396
Other	1.5	132	131	1
<b>Total</b>	<b>6.1</b>	<b>\$ 10,460</b>	<b>\$ 8,377</b>	<b>\$ 2,083</b>

In the fiscal years 2022, 2021, and 2020, amortization expense was \$504, \$1,502, and \$1,498, respectively. Amortization expenses are included primarily in product design and development and selling expense in the consolidated statements of operations. Intangible assets are written off when fully amortized.

As of April 30, 2022, amortization expenses for future periods were estimated to be as follows:

Fiscal years ending	Amount
2023	\$ 300
2024	300
2025	300
2026	266
2027	36
Thereafter	270
<b>Total expected amortization expense</b>	<b>\$ 1,472</b>

## Note 5. Selected Financial Statement Data

Inventories consisted of the following:

	April 30, 2022	May 1, 2021
Raw materials	\$ 71,410	\$ 29,913
Work-in-process	14,238	9,948
Finished goods	48,744	34,495
	<b>\$ 134,392</b>	<b>\$ 74,356</b>

Property and equipment, net consisted of the following:

	April 30, 2022	May 1, 2021
Land	\$ 1,899	\$ 1,924
Buildings	69,170	69,608
Machinery and equipment	110,079	98,451
Office furniture and equipment	4,098	4,103
Computer software and hardware	46,922	44,851
Construction in Process	5,792	—
Demonstration equipment	7,260	7,186
Transportation equipment	7,065	7,264
	<u>252,285</u>	<u>233,387</u>
Less accumulated depreciation	185,520	174,705
	<u>\$ 66,765</u>	<u>\$ 58,682</u>

Our depreciation expense was \$14,890, \$15,575, and \$16,230 for the fiscal years 2022, 2021, and 2020, respectively.

Accrued expenses consisted of the following:

	April 30, 2022	May 1, 2021
Compensation	\$ 15,944	\$ 13,079
Taxes, other than income taxes	6,741	5,888
Accrued employee benefits	3,227	2,174
Operating lease liabilities	2,309	1,881
Short-term accrued expenses	6,738	7,455
Acquisition-related contingency consideration	—	195
	<u>\$ 34,959</u>	<u>\$ 30,672</u>

Other (expense) income, net consisted of the following:

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
Foreign currency transaction (losses) gains	\$ (227)	\$ (675)	\$ 207
Equity in losses of affiliates	(2,970)	(2,370)	(741)
Other	88	62	(7)
	<u>\$ (3,109)</u>	<u>\$ (2,983)</u>	<u>\$ (541)</u>

#### Note 6. 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 \$2,754 and \$3,942 at April 30, 2022 and May 1, 2021, respectively. Included in accounts receivable as of April 30, 2022 and May 1, 2021 was \$1,834 and \$660, 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 \$4,288 and \$3,097 as of April 30, 2022 and May 1, 2021, respectively. Contract receivables bearing annual interest rates of 0.0 to 9.0 percent are due in varying annual installments through November 2025. The face value of long-term receivables was \$4,364 as of April 30, 2022 and \$3,438 as of May 1, 2021.

#### **Note 7. Financing Agreements**

We have a credit agreement with a bank which provides for a \$35,000, line of credit and allows up to \$20,000 for commercial and standby letters of credit. The bank has a security interest in certain assets located in the United States. The interest rate on the line of credit ranges from the secured overnight financing rate ("SOFR") plus 75 basis points to SOFR plus 125 basis points depending on certain ratios. The line of credit was renewed on April 29, 2022, and the maturity date of our credit agreement and related revolving bank note is April 29, 2025.

The credit agreement and amendments to the credit agreement require us to be in compliance with certain financial ratios, including a covenant to maintain the ratio of interest-bearing debt to earnings before income taxes, depreciation, and amortization of less than 2.5, and other covenants. The credit agreement and amendments to the credit agreement also contain customary events of default, including the failure to comply with covenants, the failure to pay or discharge material judgments and taxes, bankruptcy, the failure to pay loans and fees, and experiencing a change of control. The occurrence of an event of default by us would permit the lenders to terminate their commitments and accelerate repayment of the loans, foreclose on the collateral for the loans, and require collateralization of outstanding letters of credit.

As of April 30, 2022, there were no advances under the loan portion of the line of credit, and the balance of the letters of credit outstanding was approximately \$4,669. As of April 30, 2022, \$30,331 of the credit facility was available for borrowing.

As of April 30, 2022, we had \$715 of bank guarantees or other financial instruments for display installations issued by another bank and secured by a restricted cash deposit. If we are unable to meet the terms of the arrangement, the bank would subrogate its loss by drawing on the secured cash deposit.

#### **Note 8. 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.

In April 2020, the Board had suspended the program. On December 2, 2021, the Board of Directors of Daktronics voted to reauthorize the stock repurchase program.

During fiscal 2021, we had no repurchases of shares of our outstanding common stock. During fiscal 2022 and 2020, we repurchased 641 and 1,039, respectively, shares of common stock at a total cost of \$3,184 and \$5,636, respectively. As of April 30, 2022, we had \$29,355 of remaining capacity under our current share repurchase program.

#### **Note 9. Leases**

We lease facilities and various equipment to manufacture products and provide employee collaboration space and tools. These are all classified as operating leases and have initial lease terms ranging from one to five years. These operating leases do not contain material residual value guarantees or material restrictive covenants. Our lease for our facility in Sioux Falls, South Dakota has a purchase option. We do not have any financing leases.

We determine if an arrangement is a lease at the inception of the lease. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Right-of-use assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As we are generally not able to determine the rate implicit in our leases, we use the incremental borrowing rate based on the information available at the commencement date in determining the present value of future lease payments. The

operating lease right-of-use asset includes any prepaid lease payments and initial direct costs and excludes any lease incentives and impairments. Some of our leases include options to extend the term, which is only included in the right-of-use assets and lease liability calculation when it is reasonably certain that we will exercise that option. We have lease agreements with lease and non-lease components, and we have elected to account for all asset classes as a single lease component. Our operating leases also typically require payment of real estate taxes, insurance, and common area maintenance. These components comprise the majority of our variable lease cost and are excluded from the present value of our lease obligations. In instances where they are fixed, they are included due to our election to combine lease and non-lease components. Our total variable lease costs are immaterial.

Operating lease cost is recognized on a straight-line basis over the lease term, and short-term lease cost is recognized when paid. During fiscal 2022, the amount of the operating lease cost included in cost of sales and operating expenses in the consolidated statements of operations was \$2,425 and \$870, respectively, as compared to \$2,241 and \$977, respectively, in fiscal year 2021; and \$2,325 and \$1,116, respectively, in fiscal year 2020. Operating lease cost includes short-term leases, which are immaterial.

As of April 30, 2022, the weighted average remaining lease term and discount rate related to operating leases was 3.6 years and 2.4 percent as compared to 4.7 years and 3.3 percent as of May 1, 2021.

Supplemental unaudited cash flow information related to operating leases were as follows:

	Year Ended	
	April 30, 2022	May 1, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ 2,680	\$ 2,752

Future minimum operating lease payments as of, and subsequent to, April 30, 2022 under ASC 842 are as follows:

Fiscal years ending	Operating Leases(1)
2023	\$ 2,489
2024	2,285
2025	1,632
2026	807
2027	667
Thereafter	—
Total lease payments	7,880
Less imputed interest	(417)
Total lease liabilities	\$ 7,463

(1) Includes \$3,556 to extend the term of the lease for our Sioux Falls, South Dakota manufacturing facility.

**Note 10. Shareholders' Equity and Share-Based Compensation**

Authorized shares types and shareholder rights plan: Our 120,000 authorized shares consist of 115,000 shares of common stock, 50 shares of Series A Junior Participating Preferred Stock, and 4,950 shares of “undesignated stock.” Our Board of Directors has the power to authorize and issue any or all of the shares of undesignated stock without shareholder approval, including the authority to establish the rights and preferences of the undesignated stock.

Each outstanding share of our common stock includes one preferred share purchase right. Each right entitles the registered holder of our common stock to purchase from us one one-thousandth of one share of our Series A Junior Participating Preferred Stock at an initial exercise price of \$20 per right, subject to adjustment and the terms of the shareholder rights agreement under which the dividend was declared and paid. The rights become exercisable immediately after the earlier of (i) 10 business days following a public announcement that a person or group has acquired beneficial ownership of 20

percent or more of our outstanding common shares (subject to certain exceptions) or (ii) 10 business days following the commencement or announcement of an intention to make a tender offer or exchange offer for our common shares, the consummation of which would result in the beneficial ownership by a person or group of 20 percent or more of our outstanding common shares. The rights expire on November 19, 2024, which date may be extended by our Board of Directors subject to certain additional conditions.

**Stock incentive plans:** During fiscal 2021, we established the Daktronics, Inc. 2020 Stock Incentive Plan ("2020 Plan") and ceased granting options under the 2015 Stock Incentive Plan ("2015 Plan"). The 2020 Plan provides for the issuance of stock-based awards, including stock options, restricted stock, restricted stock units and deferred stock, to employees, directors and consultants. Stock options issued to employees under the 2015 Plan and 2020 Plan generally have a 10-year life, an exercise price equal to the closing market value on the grant date and a five-year annual vesting period. Stock options granted to independent directors under these plans have a seven-year life and an exercise price equal to the closing market value on the date of grant. Stock options granted to independent directors vest in one year, provided that the directors remain on the Board. The restricted stock granted to independent directors vests in one year, provided that the directors remain on the Board. Restricted stock units are granted to employees and have a five-year annual vesting period. As with stock options, restricted stock and restricted stock unit ownership cannot be transferred during the vesting period.

At April 30, 2022, the aggregate number of shares available for future grants under the 2020 Plan for stock options and restricted stock awards was 2,456 shares. Shares of common stock subject to all stock awards granted under the 2020 Plan are counted as one share of stock for each share of stock subject to the award. Although the 2015 Plan remains in effect for options outstanding that were granted under the 2015 Plan until the earlier of the exercise of the options or their expiration or termination without being exercised, no new options can be granted under the 2015 Plan.

**Restricted stock and restricted stock units:** We issue restricted stock to our non-employee directors and restricted stock units to employees. Restricted stock issued to non-employee directors are participating securities and receive dividends prior to vesting. Unvested restricted stock will terminate and be forfeited upon termination of employment or service. The fair value of restricted stock and our restricted stock unit awards are measured on the grant date based on the market value of our common stock. The related compensation expense as calculated under ASC 718, net of estimated forfeitures, is recognized over the applicable vesting period. Unrecognized compensation expense related to the restricted stock and restricted stock unit awards was approximately \$1,772 at April 30, 2022, which is expected to be recognized over a weighted-average period of 2.71 years. The total fair value of restricted stock vested was \$1,203, \$1,293, and \$1,415 in fiscal years 2022, 2021, and 2020, respectively.

A summary of non-vested restricted stock and restricted stock units for fiscal years 2022, 2021, and 2020 is as follows:

	Year Ended					
	April 30, 2022		May 1, 2021		May 2, 2020	
	Number of Nonvested Shares	Weighted Average Grant Date Fair Value Per Share	Number of Nonvested Shares	Weighted Average Grant Date Fair Value Per Share	Number of Nonvested Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of year	480	\$ 5.62	449	\$ 7.16	444	\$ 7.58
Granted	214	5.66	223	3.92	186	7.03
Vested	(213)	5.58	(176)	7.27	(173)	8.10
Forfeited	(12)	5.64	(16)	7.00	(8)	7.37
Outstanding at end of year	<u>469</u>	<u>\$ 5.65</u>	<u>480</u>	<u>\$ 5.62</u>	<u>449</u>	<u>\$ 7.16</u>

*Stock Options:* We issue incentive stock options to our employees and non-qualified stock options to our independent directors. A summary of stock option activity under our 2015 Plan and 2020 Plan during the fiscal year ended April 30, 2022 is as follows:

	Stock Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at May 1, 2021	2,227	\$ 8.53	4.83	\$ 843
Granted	223	5.66	—	—
Canceled or forfeited	(341)	9.17	—	—
Exercised	(2)	4.11	—	2
Outstanding at April 30, 2022	2,107	\$ 8.13	4.98	\$ —
Shares vested and expected to vest	2,075	\$ 8.17	4.92	\$ —
Exercisable at April 30, 2022	1,371	\$ 9.47	3.26	\$ —

The aggregate intrinsic value of stock options represents the difference between the exercise price of stock options and the fair market value of the underlying common stock for all in-the-money options. We define in-the-money options at April 30, 2022 as options having exercise prices lower than the \$3.35 per share market price of our common stock on that date. There were no shares exercisable that were in-the-money options at April 30, 2022. The total intrinsic value of options exercised during fiscal years 2022, 2021, and 2020 was \$2, \$0, and \$0, respectively. The total fair value of stock options vested was \$465, \$451, and \$566 for fiscal years 2022, 2021, and 2020, respectively.

We estimate the fair value of stock options granted using the Black-Scholes option valuation model. We recognize the fair value of the stock options on a straight-line basis as compensation expense. All options are recognized over the requisite service periods of the awards, which are generally the vesting periods.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. ASC 718 requires us to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards expected to vest. The following factors are the significant assumptions used in the computation of the fair value of options:

*Expected life.* The expected life of options granted represents the period of time they are expected to be outstanding. We estimate the expected life of options granted based on historical exercise patterns, which we believe are representative of future behavior. We have examined our historical pattern of option exercises in an effort to determine if there were any discernible patterns of activity based on certain demographic characteristics. Demographic characteristics tested included age, salary level, job level and geographic location. We have determined there were no meaningful differences in option exercise activity based on the demographic characteristics tested.

*Expected volatility.* We estimate the volatility of our common stock at the date of grant based on historical volatility consistent with ASC 718 and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 107, *Share-Based Payments*.

*Risk-free interest rate.* The rate is based on the U.S. Treasury zero-coupon yield curve on the grant date for a term similar to the expected life of the options.

*Dividend yield.* We use an expected dividend yield consistent with our historical dividend yield pattern.



The following table provides the weighted-average fair value of options granted and the related assumptions used in the Black-Scholes model:

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
Fair value of options granted	\$ 2.43	\$ 1.71	\$ 1.99
Risk-free interest rate	1.07 %	0.43 %	1.51 %
Expected dividend rate	— %	— %	3.50 %
Expected volatility	40.60 %	40.53 %	37.55 %
Expected life of option (in years)	6.94	6.94	6.94

*Employee stock purchase plan:* We have an employee stock purchase plan (“ESPP”), which enables employees after six months of continuous employment to elect, in advance and semi-annually, to contribute up to 15 percent of their compensation, subject to certain limitations, toward the purchase of our common stock at a purchase price equal to 85 percent of the lower of the fair market value of the common stock on the first or last day of the participation period. The ESPP requires participants to hold any shares purchased under the ESPP for a minimum period of one year after the date of purchase. Compensation expense recognized on shares issued under our ESPP is based on the value of a traded option to purchase shares of our stock at a 15 percent discount to the stock price. The total number of shares reserved under the ESPP is 4,000. The number of shares of common stock issued under the ESPP totaled 310, 170, and 453 shares in fiscal 2022, 2021, and 2020, respectively. The number of shares of common stock reserved for future employee purchases under the ESPP totaled 705 shares at April 30, 2022. The ESPP is intended to qualify under Section 423 of the Internal Revenue Code of 1986 (the “Code”).

*Total share-based compensation expense:* As of April 30, 2022, there was \$2,862 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all equity compensation plans. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. We expect to recognize the cost over a weighted-average period of 2.71 years.

The following table presents a summary of the share-based compensation expense by equity type as follows:

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
Stock options	\$ 458	\$ 450	\$ 492
Restricted stock and stock units	1,159	1,203	1,341
Employee stock purchase plans	356	414	432
	<u>\$ 1,973</u>	<u>\$ 2,067</u>	<u>\$ 2,265</u>

A summary of the share-based compensation expense for stock options, restricted stock, restricted stock units and shares issued under the ESPP for fiscal years 2022, 2021, and 2020 is as follows:

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
Cost of sales	\$ 434	\$ 472	\$ 514
Selling	472	484	572
General and administrative	656	678	717
Product design and development	411	433	462
	<u>\$ 1,973</u>	<u>\$ 2,067</u>	<u>\$ 2,265</u>

We received \$8 in cash from option exercises under all share-based payment arrangements for the fiscal year ended April 30, 2022. The tax (expense) benefit related to non-qualified options and restricted stock units under all share-based payment arrangements totaled (\$47), (\$70), and (\$92) for fiscal years 2022, 2021, and 2020, respectively.

#### Note 11. Retirement Benefits

We sponsor a 401(k) savings plan providing benefits for substantially all United States-based employees of Daktronics, Inc. and its subsidiaries, subject to certain Internal Revenue Service ("IRS") limits. We made matching cash contributions equal to 50 percent of the employee's qualifying contribution up to six percent of such employee's compensation; however, we eliminated our matching contribution as one of our cost savings initiatives for fiscal 2021. These benefits were reinstated for fiscal 2022. Employees are eligible to participate in the 401(k) savings plan the first day of the calendar month following completion of 30 days of continuous service if they have attained the age of 21. We contributed \$2,573, \$0 and \$2,917 for matches to the plan for fiscal years 2022, 2021, and 2020, respectively.

#### Note 12. Income Taxes

The following tables reflect the significant components of our income tax provision. The pretax income (loss) attributable to domestic and foreign operations was as follows:

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
Domestic	\$ (2,696)	\$ 10,413	\$ (4,187)
Foreign	3,804	3,647	4,178
Income (loss) before income taxes	<u>\$ 1,108</u>	<u>\$ 14,060</u>	<u>\$ (9)</u>

Income tax expense (benefit) consisted of the following:

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
<b>Current:</b>			
Federal	\$ 644	\$ 507	\$ 625
State	452	422	297
Foreign	975	891	761
<b>Deferred:</b>			
Federal	(1,020)	1,216	(2,028)
State	(476)	59	(321)
Foreign	(59)	39	166
	<u>\$ 516</u>	<u>\$ 3,134</u>	<u>\$ (500)</u>

The reconciliation of the provision (benefit) for income taxes and the amount computed by applying the federal statutory rate to income (loss) before income taxes is as follows:

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
Computed income tax expense (benefit) at federal statutory rates	\$ 233	\$ 2,953	\$ (2)
Change in uncertain tax positions	(71)	(34)	4
Research and development tax credit	(382)	(1,047)	(1,621)
Other, net	(227)	403	(241)
Change in valuation allowances	609	402	482
GILTI	(14)	(156)	149
Base Erosion Anti-Abuse Tax (BEAT)	12	(285)	301
Stock compensation	150	355	318
Meals and entertainment	67	49	305
Dividends paid to retirement plan	—	—	(111)
State taxes, net of federal benefit	139	494	(84)
	<u>\$ 516</u>	<u>\$ 3,134</u>	<u>\$ (500)</u>

The effective income tax rate for fiscal 2022 was impacted by tax benefits from permanent tax credits offset by valuation allowances as well as other various permanent tax adjustments and state taxes with additional expense for prior year provision to return adjustments.

During fiscal 2021, our effective income tax rate was impacted due to tax benefits from permanent tax credits and prior year provision to return adjustments offset by valuation allowances as well as other various permanent tax adjustments and state taxes.

During fiscal 2020, our effective income tax rate was impacted due to a tax benefit of permanent tax credits reduced by a valuation allowance placed on equity investments in proportion to a small pre-tax book loss which results in an abnormal tax rate.

The components of the net deferred tax assets were as follows:

	April 30, 2022	May 1, 2021
<b>Deferred tax assets:</b>		
Accrued warranty obligations	\$ 7,117	\$ 6,293
Vacation accrual	1,618	1,222
Deferred maintenance revenue	272	398
Allowance for excess and obsolete inventory	2,316	1,776
Equity compensation	276	324
Allowance for doubtful accounts	528	829
Inventory capitalization	1,278	583
Accrued compensation and benefits	1,019	1,707
Unrealized loss on foreign currency exchange	—	85
Net operating loss carry forwards	729	856
Research and development tax credit carry forwards	396	516
Lease accounting - lease liability	1,918	1,572
Other	2,296	1,513
Total deferred tax assets	19,763	17,674
Valuation allowance	(2,452)	(1,732)
Net deferred tax assets	17,311	15,942
<b>Deferred tax liabilities:</b>		
Property and equipment	(1,693)	(2,373)
Lease accounting - right of use asset	(1,907)	(1,580)
Prepaid expenses	(428)	(337)
Intangible assets	—	(69)
Unrealized gain on foreign currency exchange	(180)	—
Other	(59)	(49)
Total deferred tax liabilities	(4,267)	(4,408)
Net deferred tax asset	\$ 13,044	\$ 11,534

The classification of the net deferred tax assets in the accompanying consolidated balance sheets is:

	April 30, 2022	May 1, 2021
Non-current assets	\$ 13,331	\$ 11,944
Non-current liabilities	(287)	(410)
	\$ 13,044	\$ 11,534

The summary of changes in the amounts related to unrecognized uncertain tax benefits are:

	April 30, 2022	May 1, 2021
<b>Balance at beginning of year</b>	\$ 548	\$ 582
Gross increases related to prior period tax positions	17	21
Gross decreases related to prior period tax positions	(54)	(1)
Gross increases related to current period tax positions	116	84
Lapse of statute of limitations	(150)	(138)
<b>Balance at end of year</b>	<u>\$ 477</u>	<u>\$ 548</u>

All of our unrecognized tax benefits would have an impact on the effective tax rate if recognized. It is reasonably possible that the amount of unrecognized tax benefits could change due to one or more of the following events occurring in the next 12 months: expiring statutes, audit activity, tax payments, or competent authority proceedings. A statute of limitations relating to \$166 of the unrecognized tax benefits (including interest) expires in the next 12 months. The benefit will be recognized if the statute lapses with no further action taken by regulators. Additionally, we recognized the release of \$150 in unrecognized tax benefits related to the lapse of a statute of limitations in fiscal 2022.

Interest and penalties incurred associated with uncertain tax positions are included in the "Income tax expense" line item in our consolidated statements of operations. Accrued interest and penalties are included in the related tax liability line item in our consolidated balance sheets of \$38 and \$38 as of April 30, 2022 and May 1, 2021, respectively.

As of April 30, 2022, we had foreign net operating loss ("NOL") carryforwards of approximately \$3,460 primarily related to our operations in Belgium and Ireland, which have indefinite lives. A deferred tax asset has been recorded for all NOL carryforwards totaling approximately \$723. However, due to uncertainty in future taxable income, a valuation allowance totaling approximately \$581 has been recorded. If sufficient evidence of our ability to generate future taxable income in the jurisdictions in which we currently maintain a valuation allowance causes us to determine that our deferred tax assets are more likely than not realizable, we would release our valuation allowance, which would result in an income tax benefit being recorded in our consolidated statements of operations.

*Additional tax information:*

We are subject to U.S. federal income tax as well as income taxes of multiple state and foreign jurisdictions. Fiscal years 2019, 2020 and 2021 remain open to federal tax examinations, and fiscal years 2018, 2019, 2020 and 2021 remain open for 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 2011. 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 consolidated statement of operations.

As of April 30, 2022, we had no deferred tax liability recognized relating to our investment in foreign subsidiaries where the earnings have been indefinitely reinvested. The Tax Act of 2017 generally eliminates U.S. federal income taxes on dividends from foreign subsidiaries, and, as a result, the accumulated undistributed earnings would be subject only to other taxes, such as withholding taxes and state income taxes, on the distribution of such earnings. No additional withholding or income taxes have been provided for any remaining undistributed foreign earnings not subject to the one-time deemed repatriation tax, as it is our intention for these amounts to continue to be indefinitely reinvested in foreign operations in all of our non-U.S. jurisdictions.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 global pandemic. The CARES Act includes provisions such as: a deferral of the employer portion of certain payroll taxes, refundable payroll tax credits, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, technical corrections to tax depreciation methods for qualified improvement property, and permitting NOL carryforwards incurred in tax years 2018, 2019, and 2020 (our fiscal years 2019, 2020, and 2021) to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. Subsequently to the CARES Act, the Consolidated Appropriations Act ("CAA") of 2021 was signed into law on December 27, 2020, expanding and extending rules pertaining to payroll tax credits outlined in the CARES Act. Additionally, the American Rescue Plan Act of 2021 ("ARPA") was signed into law on March 11, 2021, further extending the payroll tax credits with

slight modifications. We continue to evaluate the specific rules, guidance, and procedures allowed by the provisions of the CARES Act, CAA and ARPA. Some of these provisions do not apply to our income tax results; however, we are currently participating in the payment deferral of the employer portion of certain payroll taxes.

### Note 13. Cash Flow Information

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

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
<b>(Increase) decrease:</b>			
Account receivable	\$ (33,876)	\$ 4,864	\$ (7,461)
Long-term receivables	(440)	1,737	(1,173)
Inventories	(61,159)	13,900	(8,347)
Contract assets	(9,545)	3,080	(1,931)
Prepaid expenses and other current assets	(7,661)	2,450	(1,403)
Income taxes receivables	121	(148)	533
Investment in affiliates and other assets	(357)	744	(3,137)
<b>Increase (decrease):</b>			
Accounts payable	33,002	(7,081)	2,377
Contract liabilities	27,398	12,628	4,548
Accrued expenses	6,354	(2,936)	6,745
Warranty obligations	1,160	696	273
Long-term warranty obligations	1,764	(367)	883
Income taxes payable	(379)	(173)	390
Long-term marketing obligations and other payables	(1,762)	2,337	(387)
	<u>\$ (45,380)</u>	<u>\$ 31,731</u>	<u>\$ (8,090)</u>

Supplemental disclosures of cash flow information consisted of the following:

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
<b>Cash payments for:</b>			
Interest	\$ 16	\$ 264	\$ 46
Income taxes, net of refunds	1,951	2,557	977

Supplemental schedule of non-cash investing and financing activities consisted of the following:

	Year Ended		
	April 30, 2022	May 1, 2021	May 2, 2020
Demonstration equipment transferred to inventory	\$ 53	\$ 56	\$ 10
Purchases of property and equipment included in accounts payable	4,177	667	1,951
Contributions of common stock under the ESPP	1,211	565	2,311

**Note 14. Fair Value Measurement**

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

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

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

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

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

The following table sets forth by Level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis at April 30, 2022 and May 1, 2021 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.

	<b>Fair Value Measurements</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Balance as of April 30, 2022:</b>				
Cash and cash equivalents	\$ 17,143	\$ —	\$ —	\$ 17,143
Restricted cash	865	—	—	865
Available-for-sale securities:				
US Government Securities	3,486	—	—	3,486
US Government Sponsored entities	—	534	—	534
Derivatives - asset position	—	934	—	934
Derivatives - liability position	—	(311)	—	(311)
	<u>\$ 21,494</u>	<u>\$ 1,157</u>	<u>\$ —</u>	<u>\$ 22,651</u>
<b>Balance as of May 1, 2021:</b>				
Cash and cash equivalents	\$ 77,590	\$ —	\$ —	\$ 77,590
Restricted cash	2,812	—	—	2,812
Derivatives - asset position	—	4	—	4
Derivatives - liability position	—	(261)	—	(261)
Acquisition-related contingent consideration	—	—	(363)	(363)
	<u>\$ 80,402</u>	<u>\$ (257)</u>	<u>\$ (363)</u>	<u>\$ 79,782</u>

A roll forward of the Level 3 contingent liabilities, both short- and long-term, for the fiscal year ended April 30, 2022 is as follows:

Acquisition-related contingent consideration as of May 1, 2021	\$	363
Additions		33
Settlements		(400)
Interest		4
Acquisition-related contingent consideration as of April 30, 2022	\$	—

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

*Cash and cash equivalents:* Consists of cash on hand in bank deposits and highly liquid investments, primarily money market accounts. The fair value was measured using quoted market prices in active markets. The carrying amount approximates fair value.

*Restricted cash:* Consists of cash and cash equivalents held in bank deposit accounts to secure issuances of foreign bank guarantees. The fair value of restricted cash was measured using quoted market prices in active markets. The carrying amount approximates fair value.

*Derivatives – currency forward contracts:* Consists of currency forward contracts trading with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The fair value of these securities was measured based on a valuation from a third-party bank. See "Note 15. Derivative Financial Instruments" for more information regarding our derivatives.

*Contingent liabilities:* Consists of the fair value of liabilities measured on expected future payments relating to business acquisitions if conditions are met. The contingent liabilities were calculated by estimating the discounted present value of expected future payments as of the acquisition date and subsequently at the end of each reporting period. The fair value measurement is based on significant unobservable inputs as of May 1, 2021. There were no contingent liabilities as of April 30, 2022.

*Non-recurring measurements:* The fair value measurement standard also applies to certain non-financial assets and liabilities measured at fair value on a nonrecurring basis. Certain long-lived assets such as goodwill, intangible assets and property and equipment are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

*Other measurements using fair value:* Some of our financial instruments, such as accounts receivable, long-term receivables, prepaid expense and other assets, contract assets and liabilities, accounts payable, warranty obligations, and other long-term obligations are reflected in the consolidated balance sheets at carrying value, which approximates fair value due to their short-term nature.

#### **Note 15. 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 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 April 30, 2022 and May 1, 2021, 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 consolidated statements of operations.



The foreign currency exchange contracts in aggregated notional amounts in place to exchange U.S. dollars at April 30, 2022 and May 1, 2021 were as follows:

	April 30, 2022		May 1, 2021	
	U.S. Dollars	Foreign Currency	U.S. Dollars	Foreign Currency
<b>Foreign Currency Exchange Forward Contracts:</b>				
U.S. Dollars/Australian Dollars	—	—	2,410	3,464
U.S. Dollars/Canadian Dollars	942	1,189	—	—
U.S. Dollars/British Pounds	1,774	1,345	418	300
U.S. Dollars/Euros	8,575	7,513	—	—

As of April 30, 2022, there was an asset and liability of \$934 and \$311, respectively, and as of May 1, 2021, there was an asset and liability of \$4 and \$261, 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 April 30, 2022, all contracts mature within ten months.

#### Note 16. Commitments and Contingencies

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

As of May 2, 2020, we recorded a \$2,072 reserve for the probable and reasonably estimated cost to settle a patent litigation claim, which was included in the "Accrued expenses" line item in our consolidated balance sheets and "Cost of Sales" in consolidated statement of operations. During fiscal 2021, an appellate court ruled in our favor on this matter. Since we no longer estimate we have a probable loss, we recorded a credit to the "Cost of sales" line item in our consolidated statement of operations and removed the liability from our consolidated balance sheet during fiscal 2021.

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:* See "Note 1. Nature of Business and Summary of Significant Accounting Policies" for more information regarding warranties.

Changes in our warranty obligation for the fiscal years ended April 30, 2022 and May 1, 2021 consisted of the following:

	April 30, 2022	May 1, 2021
Beginning accrued warranty obligations	\$ 25,960	\$ 25,624
Warranties issued during the period	9,748	8,539
Settlements made during the period	(7,503)	(5,718)
Changes in accrued warranty obligations for pre-existing warranties during the period, including expirations	673	(2,485)
Ending accrued warranty obligations	\$ 28,878	\$ 25,960

*Performance guarantees:* We have entered into standby letters of credit, bank guarantees and surety bonds with financial institutions relating to the guarantee of our future performance on contracts, primarily construction-type contracts. As of April 30, 2022, we had outstanding letters of credit, bank guarantees and surety bonds in the amount of \$4,669, \$715 and \$88,323, 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 April 30, 2022, 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 April 30, 2022, we were obligated under the following unconditional purchase commitments:

<b>Fiscal years ending</b>	<b>Amount</b>
2023	\$ 4,389
2024	1,686
2025	113
2026	40
2027	—
	<u>\$ 6,228</u>

#### **Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

#### **Item 9A. CONTROLS AND PROCEDURES**

##### *Evaluation of Disclosure Controls and Procedures*

Management of our Company is responsible for establishing and maintaining effective disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. As of April 30, 2022, an evaluation was performed, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of April 30, 2022, our disclosure controls and procedures were effective at the reasonable assurance level to ensure information required to be disclosed in this Annual Report on Form 10-K was recorded, processed, summarized and reported within the time period required by the SEC's rules and forms and accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

##### *Changes in Internal Control Over Financial Reporting*

During the quarter ended April 30, 2022, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

##### *Management's Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with the accounting principles generally accepted in the United States. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on our evaluation under the framework in Internal Control—Integrated Framework, our management concluded our internal control over financial reporting was effective as of April 30, 2022.

Our internal control over financial reporting as of April 30, 2022 has been audited by Deloitte & Touche, LLP, our independent registered public accounting firm, as stated in their report, which is included in this Annual Report on Form 10-K.

By /s/ Reece A. Kurtenbach

Reece A. Kurtenbach  
Chief Executive Officer  
June 16, 2022

By /s/ Sheila M. Anderson

Sheila M. Anderson  
Chief Financial Officer  
June 16, 2022

#### **Item 9B. OTHER INFORMATION**

None.

#### **Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

None.

### **PART III.**

#### **Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item 10 will be included under the captions “Proposal One - Election of Directors” and “Corporate Governance” in our Proxy Statement for our 2022 annual meeting of shareholders (“Proxy Statement”) to be filed within 120 days after our most recent fiscal year-end. Any information concerning the compliance of our officers, directors and 10 percent shareholders with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the information to be contained in the Proxy Statement under the caption “Delinquent Section 16(a) Reports.” The information regarding Audit Committee members and “Audit Committee Financial Experts” is incorporated by reference to the information to be contained in the Proxy Statement under the caption “Corporate Governance—Committees of the Board of Directors.” The information regarding our Code of Conduct is incorporated by reference to the information to be contained in the Proxy Statement under the heading “Corporate Governance – Code of Conduct.”

#### **Item 11. EXECUTIVE COMPENSATION**

Information regarding the compensation of our directors and officers for the fiscal year ended April 30, 2022 will be in the Proxy Statement under the heading “Proposal One - Election of Directors” and “Executive Compensation” and is incorporated herein by reference.

We maintain a Code of Conduct which applies to all employees, officers and directors. Included in the Code of Conduct are ethics provisions that apply to our Chief Executive Officer, Chief Financial Officer and all other financial and accounting management employees. A copy of our Code of Conduct can be obtained from our website at [www.daktronics.com](http://www.daktronics.com) on the Investor Relations page and will be made available free of charge to any shareholder upon request. Information on or available through our website is not part of this Form 10-K. We intend to disclose any waivers from, or amendments to, the Code of Conduct by posting a description of such waiver or amendment on our Internet website. However, to date, we have not granted a waiver from the Code of Conduct.

#### **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The security ownership of certain beneficial owners and management will be contained in the Proxy Statement under the heading “Security Ownership of Certain Beneficial Owners and Management” and “Executive Compensation - Securities Authorized for Issuance Under Equity Compensation Plans” and is incorporated herein by reference.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Information required by this item is incorporated by reference from the sections entitled “Proposal One – Election of Directors – Independent Directors” and “Corporate Governance - Compensation Committee Interlocks and Insider Participation” that will be contained in our Proxy Statement. There were no related party transactions in fiscal 2022.

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information regarding our principal accountant will be contained in the Proxy Statement under the heading “Proposal Three - Ratification of Appointment of Independent Registered Public Accounting Firm” and is incorporated herein by reference.

**PART IV.**

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)(1) Financial Statements

Our financial statements, a description of which follows, are contained in Part II, Item 8:

[Report of Independent Registered Public Accounting Firm - Deloitte & Touche LLP](#)

[Consolidated Balance Sheets as of April 30, 2022 and May 1, 2021](#)

[Consolidated Statements of Operations for each of the three fiscal years ended April 30, 2022, May 1, 2021 and May 2, 2020](#)

[Consolidated Statements of Comprehensive Income \(Loss\) for each of the three fiscal years ended April 30, 2022, May 1, 2021 and May 2, 2020](#)

[Consolidated Statements of Shareholders' Equity for each of the three fiscal years ended April 30, 2022, May 1, 2021 and May 2, 2020](#)

[Consolidated Statements of Cash Flows for each of the three fiscal years ended April 30, 2022, May 1, 2021 and May 2, 2020](#)

[Notes to the Consolidated Financial Statements](#)

(2) Schedules

Other schedules are omitted because they are not required or are not applicable or because the required information is included in the financial statements listed above.

(3) 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 Quarterly 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 Form of Stock Certificate Evidencing Common Stock, without par value, of the Company (Incorporated by reference to Exhibit 4.1 filed with our Amendment No. 1 to the Registration Statement on Form S-1 on January 12, 1994 as Commission File No. 33-72466).\*\*
- 4.2 [Rights Agreement dated as November 16, 2018 between Daktronics, Inc. and Equiniti Trust Company, as Rights Agent \(Incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K of Daktronics, Inc. filed on November 16, 2018\).](#)
- 4.3 [First Amendment to Rights Agreement dated as of November 19, 2021 between Daktronics, Inc. and Equiniti Trust Company, as Rights Agent \(Incorporated by reference to Exhibit 4.2 of the Current report on Form 8-K of Daktronics, Inc. filed on November 19, 2021\).](#)
- 4.3 [Daktronics, Inc. 2007 Incentive Stock Plan \(Incorporated by reference to Exhibit 10.1 filed with our Quarterly Report on Form 10-Q on August 20, 2007\).\\*](#)
- 4.4 [Daktronics, Inc. 2015 Incentive Stock Plan \("2015 Plan"\) \(Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A filed on July 14, 2015\).\\*](#)
- 4.5 [Daktronics, Inc. 2020 Incentive Stock Plan \("2020 Plan"\) \(Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A filed on July 16, 2020\).\\*](#)
- 4.6 [Form of Restricted Stock Award Agreement under the 2020 Plan \(Incorporated by reference to Exhibit 10.2 filed with our Current Report on Form 8-K on September 3, 2020\).\\*](#)
- 4.7 [Form of Non-Qualified Stock Option Agreement Terms and Conditions under the 2020 Plan \(Incorporated by reference to Exhibit 10.3 filed with our Current Report on Form 8-K on September 3, 2020\).\\*](#)
- 4.8 [Form of Incentive Stock Option Terms and Conditions under the 2020 Plan \(Incorporated by reference to Exhibit 10.4 filed with our Current Report on Form 8-K on September 3, 2020\).\\*](#)
- 4.9 [Form of Restricted Stock Unit Terms and Conditions under the 2020 Plan \(Incorporated by reference to Exhibit 10.5 filed with our Current Report on Form 8-K on September 3, 2020\).\\*](#)

- 4.10 Description of the Registrant’s Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 (Incorporated by reference to Exhibit 4(vi) filed with our Annual Report on Form 10-K filed on June 12, 2020).
- 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 (Incorporated by reference to Exhibit 10.4 filed with our Quarterly Report on Form 10-Q on August 28, 2020).
- 10.5 Fourth Amendment to Credit Agreement dated as of March 11, 2021 by and between the Company and U.S. Bank National Association (Incorporated by reference to Exhibit 10.5 filed with our Annual Report on Form 10-K on June 11, 2021).
- 10.6 Fifth Amendment to Credit Agreement dated as of April 29, 2022 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 on April 29, 2022).
- 10.7 Security Agreement dated as of August 28, 2020 by and between the Company and U.S. Bank National Association (Incorporated by reference to Exhibit 10.5 filed with our Current Report on Form 10-Q of Daktronics, Inc. filed on August 28, 2020).
- 21.1 Subsidiaries of the Company. <sup>(1)</sup>
- 23.1 Consent of Deloitte & Touche LLP. <sup>(1)</sup>
- 24 Power of Attorney. <sup>(1)</sup>
- 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. <sup>(1)</sup>
- 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. <sup>(1)</sup>
- 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). <sup>(1)</sup>
- 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). <sup>(1)</sup>
- 101 The following financial information from our Annual Report on Form 10-K for the fiscal year ended May 1, 2021, formatted in Extensible Business Reporting Language (iXBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements. <sup>(1)</sup>
- 104 Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101)

(1) Filed herewith electronically.

\*\* Paper Filing

\* Indicates a management contract or compensatory plan or arrangement

ADFLOW<sup>®</sup>, AJT Systems<sup>®</sup>, All Sport<sup>®</sup>, Daktronics<sup>®</sup>, D<sup>®</sup>, DakStats<sup>®</sup>, Data Display<sup>®</sup>, DataTime<sup>®</sup>, Fuelight<sup>™</sup>, Fuelink<sup>™</sup>, Galaxy<sup>®</sup>, GalaxyPro<sup>™</sup>, Go Digital<sup>®</sup>, Keyframe<sup>®</sup>, Liveticker<sup>®</sup>, Matside<sup>®</sup>, OmniSport<sup>®</sup>, ProAd<sup>®</sup>, ProPixel<sup>®</sup>, ProRail<sup>®</sup>, ProStar<sup>®</sup>, Sportsound<sup>®</sup>, Statvision<sup>®</sup>, Tuff Sport<sup>®</sup>, Uniview<sup>®</sup>, Vanguard<sup>®</sup>, Venus<sup>®</sup>, Visiconn<sup>®</sup>, V-Tour<sup>®</sup>, V-Link<sup>®</sup>, and Web-Sync<sup>®</sup> are trademarks of Daktronics, Inc. All other trademarks referenced are the intellectual property of their respective companies.

**Item 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, on June 10, 2022.

### DAKTRONICS, INC.

By: /s/ Reece A. Kurtenbach

Chief Executive Officer and President  
(Principal Executive Officer)

By: /s/ Sheila M. Anderson

Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>By /s/ Shereta Williams</u> Shereta Williams	Director	June 16, 2022
<u>By /s/ Lance D. Bultena</u> Lance D. Bultena	Director	June 16, 2022
<u>By /s/ Dr. José-Marie Griffiths</u> Dr. José-Marie Griffiths	Director	June 16, 2022
<u>By /s/ Reece A. Kurtenbach</u> Reece A. Kurtenbach	Director	June 16, 2022
<u>By /s/ James B. Morgan</u> James B. Morgan	Director	June 16, 2022
<u>By /s/ John P. Friel</u> John P. Friel	Director	June 16, 2022
<u>By /s/ Kevin P. McDermott</u> Kevin P. McDermott	Director	June 16, 2022



**Subsidiaries of Company**

<b>Name of Subsidiary</b>	<b>Jurisdiction of Incorporation</b>
Daktronics Canada, Inc.	Canada
Daktronics, GmbH	Germany
Daktronics UK, Ltd.	Great Britain
Daktronics Shanghai Co., Ltd.	Peoples Republic of China
Daktronics France SARL	France
Daktronics Australia Pty Ltd.	Australia
Daktronics Installation, Inc.	South Dakota
Daktronics Japan, Inc.	Japan
Daktronics HK Limited	Hong Kong
Daktronics (International) Limited	Macau
Daktronics Singapore Pte. Ltd.	Singapore
Daktronics Spain S.L.	Spain
Daktronics Belgium N.V.	Belgium
Daktronics Ireland Co. Ltd.	Ireland
Daktronics Ireland Holdings Ltd.	Ireland

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-54006 and 333-221901 on Form S-3 and Registration Statement Nos. 333-100842, 333-109962, 333-146768, 333-169568, 333-206750, 333-221862, 333-227580 and 333-248591 on Form S-8 of our report dated June 16, 2022, relating to the financial statements of Daktronics, Inc. and subsidiaries and the effectiveness of Daktronics, Inc. and its subsidiaries' internal control over financial reporting appearing in this Annual Report on Form 10-K for the year ended April 30, 2022.

/s/ Deloitte & Touche LLP

Minneapolis, MN  
June 16, 2022

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints each of Reece A. Kurtenbach and Sheila M. Anderson, with full power to each act without the other, as his or her true and lawful attorney-in-fact and agent, with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Daktronics, Inc. (the "Company") for the Company's fiscal year ended April 30, 2022, and any or all amendments to said Annual Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and to file the same with such other authorities as necessary, granting unto each such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each such attorney-in-fact and agent, or his substitute, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, this Power of Attorney has been signed by the following persons on the dates indicated below their names.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>By /s/ Shereta Williams</u> Shereta Williams	Director	June 16, 2022
<u>By /s/ Lance D. Bultena</u> Lance D. Bultena	Director	June 16, 2022
<u>By /s/ Dr. José-Marie Griffiths</u> Dr. José-Marie Griffiths	Director	June 16, 2022
<u>By /s/ Reece A. Kurtenbach</u> Reece A. Kurtenbach	Director	June 16, 2022
<u>By /s/ James B. Morgan</u> James B. Morgan	Director	June 16, 2022
<u>By /s/ John P. Friel</u> John P. Friel	Director	June 16, 2022
<u>By /s/ Kevin P. McDermott</u> Kevin P. McDermott	Director	June 16, 2022

**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 annual report on Form 10-K for the year ended April 30, 2022 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 fiscal 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 financial 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

June 16, 2022

**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, Sheila M. Anderson , certify that:

1. I have reviewed this annual report on Form 10-K for the year ended April 30, 2022 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 fiscal 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 financial 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

June 16, 2022

**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 Annual Report on Form 10-K of Daktronics, Inc. (the "Company") for the annual period ended April 30, 2022 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

June 16, 2022

**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 Annual Report on Form 10-K of Daktronics, Inc. (the "Company") for the annual period ended April 30, 2022 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  
June 16, 2022