

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

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

or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____.
Commission File Number: 0-23246



Daktronics, Inc.
(Exact Name of Registrant as Specified in its Charter)

South Dakota	46-0306862
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
201 Daktronics Drive Brookings, SD	57006
(Address of Principal Executive Offices)	(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

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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's common stock outstanding as of February 24, 2020 was 45,075,748.

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

Table of Contents

	Page
<u>Part I.</u> <u>Financial Information</u>	<u>1</u>
<u>Item 1.</u> <u>Financial Statements (Unaudited)</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets as of February 1, 2020 and April 27, 2019</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended February 1, 2020 and January 26, 2019</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended February 1, 2020 and January 26, 2019</u>	<u>4</u>
<u>Condensed Consolidated Statements of Shareholders' Equity for the Three and Nine Months Ended February 1, 2020 and January 26, 2019</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended February 1, 2020 and January 26, 2019</u>	<u>7</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>21</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>33</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>33</u>
<u>Part II.</u> <u>Other Information</u>	<u>33</u>
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>33</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>33</u>
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>33</u>
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	<u>34</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>34</u>
<u>Item 5.</u> <u>Other Information</u>	<u>34</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>34</u>
<u>Signatures</u>	<u>35</u>
<u>Index to Exhibits</u>	<u>36</u>

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	February 1, 2020	April 27, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 40,316	\$ 35,383
Restricted cash	60	359
Marketable securities	1,727	26,344
Accounts receivable, net	80,143	65,487
Inventories	80,206	78,832
Contract assets	35,242	33,704
Current maturities of long-term receivables	5,208	2,300
Prepaid expenses and other current assets	8,093	8,319
Income tax receivables	203	1,087
Property and equipment and other assets available for sale	1,838	1,858
Total current assets	253,036	253,673
Property and equipment, net	66,368	65,314
Long-term receivables, less current maturities	1,650	1,214
Goodwill	7,934	7,889
Intangibles, net	3,817	4,906
Investment in affiliates and other assets	14,568	5,052
Deferred income taxes	11,352	11,168
TOTAL ASSETS	\$ 358,725	\$ 349,216
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 44,846	\$ 44,873
Contract liabilities	49,870	47,178
Accrued expenses	34,588	32,061
Warranty obligations	9,545	9,492
Income taxes payable	949	468
Total current liabilities	139,798	134,072
Long-term warranty obligations	16,170	14,978
Long-term contract liabilities	10,676	10,053
Other long-term obligations	8,000	1,339
Long-term income taxes payable	576	578
Deferred income taxes	530	533
Total long-term liabilities	35,952	27,481

DAKTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(continued)

(in thousands, except per share data)

(unaudited)

	February 1, 2020	April 27, 2019
SHAREHOLDERS' EQUITY:		
Common Stock, no par value, authorized 115,000,000 shares; 45,722,110 and 45,317,267 shares issued at February 1, 2020 and April 27, 2019, respectively	59,276	57,699
Additional paid-in capital	44,096	42,561
Retained earnings	88,407	93,593
Treasury Stock, at cost, 681,776 and 303,957 shares at February 1, 2020 and April 27, 2019, respectively	(4,163)	(1,834)
Accumulated other comprehensive loss	(4,641)	(4,356)
TOTAL SHAREHOLDERS' EQUITY	182,975	187,663
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 358,725	\$ 349,216

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	February 1, 2020	January 26, 2019	February 1, 2020	January 26, 2019
Net sales	\$ 127,657	\$ 115,069	\$ 482,824	\$ 441,949
Cost of sales	103,175	90,200	372,750	336,076
Gross profit	24,482	24,869	110,074	105,873
Operating expenses:				
Selling	16,552	15,537	51,026	48,040
General and administrative	8,640	8,574	26,698	25,685
Product design and development	8,442	8,280	29,063	26,611
	33,634	32,391	106,787	100,336
Operating (loss) income	(9,152)	(7,522)	3,287	5,537
Nonoperating (expense) income:				
Interest income	233	328	664	713
Interest expense	13	(45)	(53)	(86)
Other income (expense), net	(331)	(203)	(652)	(423)
(Loss) income before income taxes	(9,237)	(7,442)	3,246	5,741
Income tax expense (benefit)	3,497	(4,123)	1,676	(4,120)
Net (loss) income	\$ (12,734)	\$ (3,319)	\$ 1,570	\$ 9,861
Weighted average shares outstanding:				
Basic	45,189	45,018	45,139	44,834
Diluted	45,189	45,018	45,412	45,139
(Loss) earnings per share:				
Basic	\$ (0.28)	\$ (0.07)	\$ 0.03	\$ 0.22
Diluted	\$ (0.28)	\$ (0.07)	\$ 0.03	\$ 0.22

See notes to condensed consolidated financial statements.

DAKTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)
(unaudited)

	Three Months Ended		Nine Months Ended	
	February 1, 2020	January 26, 2019	February 1, 2020	January 26, 2019
Net (loss) income	\$ (12,734)	\$ (3,319)	\$ 1,570	\$ 9,861
Other comprehensive income (loss):				
Cumulative translation adjustments	51	134	(329)	(1,560)
Unrealized gain (loss) on available-for-sale securities, net of tax	—	55	44	48
Total other comprehensive income (loss), net of tax	51	189	(285)	(1,512)
Comprehensive (loss) income	<u>\$ (12,683)</u>	<u>\$ (3,130)</u>	<u>\$ 1,285</u>	<u>\$ 8,349</u>

See notes to condensed consolidated financial statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance as of April 27, 2019	\$ 57,699	\$ 42,561	\$ 93,593	\$ (1,834)	\$ (4,356)	\$ 187,663
Net income	—	—	7,030	—	—	7,030
Cumulative translation adjustments	—	—	—	—	(526)	(526)
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	41	41
Share-based compensation	—	643	—	—	—	643
Employee savings plan activity	779	—	—	—	—	779
Dividends declared (\$0.05 per share)	—	—	(2,250)	—	—	(2,250)
Treasury stock purchase	—	—	—	(1,187)	—	(1,187)
Balance as of August 3, 2019	58,478	43,204	98,373	(3,021)	(4,841)	192,193
Net income	—	—	7,274	—	—	7,274
Cumulative translation adjustments	—	—	—	—	146	146
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	3	3
Share-based compensation	—	541	—	—	—	541
Tax payments related to RSU issuances	—	(199)	—	—	—	(199)
Employee savings plan activity	798	—	—	—	—	798
Dividends declared (\$0.05 per share)	—	—	(2,250)	—	—	(2,250)
Treasury stock purchase	—	—	—	(495)	—	(495)
Balance as of November 2, 2019	59,276	43,546	103,397	(3,516)	(4,692)	198,011
Net loss	—	—	(12,734)	—	—	(12,734)
Cumulative translation adjustments	—	—	—	—	51	51
Share-based compensation	—	550	—	—	—	550
Dividends declared (\$0.05 per share)	—	—	(2,256)	—	—	(2,256)
Treasury stock purchase	—	—	—	(647)	—	(647)
Balance as of February 1, 2020	\$ 59,276	\$ 44,096	\$ 88,407	\$ (4,163)	\$ (4,641)	\$ 182,975

See notes to condensed consolidated financial statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance as of April 28, 2018	\$ 54,731	\$ 40,328	\$ 107,105	\$ (1,834)	\$ (2,714)	\$ 197,616
Net income	—	—	4,574	—	—	4,574
Cumulative translation adjustments	—	—	—	—	(1,139)	(1,139)
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	(13)	(13)
Share-based compensation	—	651	—	—	—	651
Exercise of stock options	57	—	—	—	—	57
Employee savings plan activity	820	—	—	—	—	820
Dividends declared (\$0.07 per share)	—	—	(3,121)	—	—	(3,121)
Balance as of July 28, 2018	55,608	40,979	108,558	(1,834)	(3,866)	199,445
Net income	—	—	8,606	—	—	8,606
Cumulative translation adjustments	—	—	—	—	(555)	(555)
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	6	6
Share-based compensation	—	612	—	—	—	612
Tax payments related to RSU issuances	—	(246)	—	—	—	(246)
Dividends declared (\$0.07 per share)	—	—	(3,131)	—	—	(3,131)
Balance as of October 27, 2018	55,608	41,345	114,033	(1,834)	(4,415)	204,737
Net loss	—	—	(3,319)	—	—	(3,319)
Cumulative translation adjustments	—	—	—	—	134	134
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	55	55
Share-based compensation	—	604	—	—	—	604
Exercise of stock options	1,261	—	—	—	—	1,261
Employee savings plan activity	830	—	—	—	—	830
Dividends declared (\$0.07 per share)	—	—	(3,151)	—	—	(3,151)
Balance as of January 26, 2019	\$ 57,699	\$ 41,949	\$ 107,563	\$ (1,834)	\$ (4,226)	\$ 201,151

See notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	February 1, 2020	January 26, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,570	\$ 9,861
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,197	14,054
Loss on sale of property, equipment and other assets	(6)	(130)
Share-based compensation	1,734	1,867
Contingent consideration adjustment	—	(956)
Equity in loss of affiliate	430	392
Provision for doubtful accounts	(477)	180
Deferred income taxes, net	(223)	(445)
Change in operating assets and liabilities	(10,035)	7,364
Net cash provided by operating activities	6,190	32,187
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(13,646)	(14,081)
Proceeds from sales of property, equipment and other assets	244	255
Purchases of marketable securities	—	(25,337)
Proceeds from sales or maturities of marketable securities	24,665	22,341
Purchases of and loans to equity investment	(1,229)	(854)
Acquisitions, net of cash acquired	—	(2,250)
Net cash provided by (used in) investing activities	10,034	(19,926)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term obligations	(2,140)	(440)
Dividends paid	(6,756)	(9,403)
Proceeds from exercise of stock options	—	1,318
Payments for common shares repurchased	(2,329)	—
Tax payments related to RSU issuances	(199)	(246)
Net cash used in financing activities	(11,424)	(8,771)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(166)	62
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	4,634	3,552
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
Beginning of period	35,742	29,755
End of period	\$ 40,376	\$ 33,307
Supplemental disclosures of cash flow information:		
Cash paid (received) for:		
Interest	\$ 3	\$ 114
Income taxes, net of refunds	460	(1,868)
Supplemental schedule of non-cash investing and financing activities:		
Demonstration equipment transferred to inventory	\$ 10	\$ 97
Purchases of property and equipment included in accounts payable	954	454
Contributions of common stock under the ESPP	1,577	1,650

See notes to condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollar amounts in thousands, except per share data)

(unaudited)

Note 1. Basis of Presentation

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

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

Certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The balance sheet at April 27, 2019, has been derived from the audited financial statements at that date, but it does not include all the information and disclosures required by GAAP for complete financial statements. These financial statements should be read in conjunction with our financial statements and notes thereto for the year ended April 27, 2019, which are contained in our Annual Report on Form 10-K previously filed with the Securities and Exchange Commission ("SEC"). The results of operations for the interim periods presented are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year.

Daktronics, Inc. operates on a 52- or 53-week fiscal year, with our fiscal year ending on the Saturday closest to April 30 of each year. When April 30 falls on a Wednesday, the fiscal year ends on the preceding Saturday. Within each fiscal year, each quarter is comprised of 13-week periods following the beginning of each fiscal year. In each 53-week year, an additional week is added to the first quarter, and each of the last three quarters is comprised of a 13-week period. The fiscal year ended April 27, 2019 consisted of 52 weeks. Fiscal 2020 will be a 53-week year; therefore, the nine months ended February 1, 2020 contains operating results for 40 weeks while the nine months ended January 26, 2019 contains operating results for 39 weeks.

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

	February 1, 2020	January 26, 2019
Cash and cash equivalents	\$ 40,316	\$ 33,281
Restricted cash	60	26
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statement of cash flows	<u>\$ 40,376</u>	<u>\$ 33,307</u>

Recent Accounting Pronouncements

There have been no material changes to our significant accounting policies and estimates as described in our Annual Report on Form 10-K for the fiscal year ended April 27, 2019, other than described in the Accounting Standards Adopted section below.

Accounting Standards Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (that is, lessees and lessors). ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of their classification. ASU 2016-02 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842 (Leases)* and ASU 2018-11, *Leases (Topic 842), Targeted Improvements*, which provide (i) narrow amendments to clarify how to apply certain aspects of the new lease standard, (ii) entities with an additional transition method to adopt the new standard, and (iii) lessors with a practical expedient for separating components of a contract.

We adopted ASU 2016-02 and its related guidance during the first quarter of fiscal 2020 for all agreements existing as of April 28, 2019. We elected the "comparatives under Accounting Standards Codification ("ASC") 840 option" as a transitional method, which allows us to initially apply the new lease requirements at the effective date. Comparative periods were not adjusted and will continue to be reported in accordance with prior lease guidance under ASC 840. We elected the package of practical expedients, which permits us not to reassess our prior conclusions about lease identification, lease classification and initial direct costs. In addition, we have elected the short-term lease recognition whereby we will not recognize operating leases related assets or liabilities for leases with a lease term of less than one year. We have also elected the practical expedient to not separate lease and non-lease components in the lease payments for all asset classes. This adoption did not have an impact on our condensed consolidated statements of operations, shareholders' equity and cash flows, and there was no adjustment to retained earnings. As of April 28, 2019, we recognized a right of use asset for operating leases of \$11,101 and a current and non-current lease liability for operating leases of \$2,745 and \$8,356, respectively. The right of use operating assets are included in the "Investment in affiliates and other assets" line item, the current lease liabilities are included in the "Accrued expenses" line item, and the non-current lease liabilities are included in the "Other long-term obligations" line item in our condensed consolidated balance sheet. See "Note 12. Leases" for more information.

Accounting Standards Not Yet Adopted

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

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which provides guidance regarding the measurement and recognition of credit impairment for certain financial assets. ASU 2016-13 is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted, and will require adoption on a modified retrospective basis. We are currently evaluating the effect that adopting ASU 2016-13, including all subsequent amendments and improvements to ASC Topic 326 issued by FASB, will have on our condensed consolidated financial statements and related disclosures.

Note 2. Investments in Affiliates

Investments in affiliates over which we have significant influence are accounted for under the equity method of accounting in accordance with the provisions of ASC 323, *Investments – Equity Method and Joint Ventures*. Investments in affiliates over which we do not have the ability to exert significant influence over the affiliate's operating and financing activities are accounted for under the cost method of accounting 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.

The aggregate amount of investments accounted for under the equity method was \$3,268 and \$3,657 at February 1, 2020 and April 27, 2019, respectively. The equity method requires us to report our share of losses up to our equity investment amount. Cash paid for investments in affiliates and loans to affiliates are included in the "Purchases of and loans to equity investment" line item in our condensed consolidated statements of cash flows. Our proportional share of the respective affiliates' earnings or losses is included in the "Other income (expense), net" line item in our condensed consolidated statements of operations. For the nine months ended February 1, 2020 and January 26, 2019, our share of the losses of our affiliates was \$430 and \$392, respectively.

Note 3. Earnings Per Share ("EPS")

We follow the provisions of ASC 260, *Earnings Per Share*, where basic EPS is computed by dividing income attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution which may occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock which share in our earnings.

The following is a reconciliation of the net (loss) income and common share amounts used in the calculation of basic and diluted EPS for the three and nine months ended February 1, 2020 and January 26, 2019:

	<u>Net (loss) income</u>	<u>Shares</u>	<u>Per share (loss) income</u>
For the three months ended February 1, 2020			
Basic (loss) earnings per share	\$ (12,734)	45,189	\$ (0.28)
Dilution associated with stock compensation plans	—	—	—
Diluted (loss) earnings per share	<u>\$ (12,734)</u>	<u>45,189</u>	<u>\$ (0.28)</u>
For the three months ended January 26, 2019			
Basic (loss) earnings per share	\$ (3,319)	45,018	\$ (0.07)
Dilution associated with stock compensation plans	—	—	—
Diluted (loss) earnings per share	<u>\$ (3,319)</u>	<u>45,018</u>	<u>\$ (0.07)</u>
For the nine months ended February 1, 2020			
Basic earnings per share	\$ 1,570	45,139	\$ 0.03
Dilution associated with stock compensation plans	—	273	—
Diluted earnings per share	<u>\$ 1,570</u>	<u>45,412</u>	<u>\$ 0.03</u>
For the nine months ended January 26, 2019			
Basic earnings per share	\$ 9,861	44,834	\$ 0.22
Dilution associated with stock compensation plans	—	305	—
Diluted earnings per share	<u>\$ 9,861</u>	<u>45,139</u>	<u>\$ 0.22</u>

Options outstanding to purchase 2,193 shares of common stock with a weighted average exercise price of \$9.92 for the three months ended February 1, 2020 and 2,308 shares of common stock with a weighted average exercise price of \$9.98 for the three months ended January 26, 2019 were not included in the computation of diluted (loss) earnings per share because the effects would be anti-dilutive.

Options outstanding to purchase 2,223 shares of common stock with a weighted average exercise price of \$9.95 for the nine months ended February 1, 2020 and 2,328 shares of common stock with a weighted average exercise price of \$9.98 for the nine months ended January 26, 2019 were not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

Note 4. Revenue Recognition

Disaggregation of revenue

In accordance with ASC 606-10-50, we disaggregate revenue from contracts with customers by the type of performance obligation and the timing of revenue recognition. We determine that disaggregating revenue in these categories achieves the disclosure objective to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors and to enable users of financial statements to understand the relationship to each reportable segment.

The following table presents our disaggregation of revenue by segments:

Three Months Ended February 1, 2020

	High School Park and Recreation						
	Commercial	Live Events	Transportation	International	Total		
Type of performance obligation							
Unique configuration	\$ 7,209	\$ 27,459	\$ 1,511	\$ 7,857	\$ 9,195	\$ 53,231	
Limited configuration	26,304	6,436	12,422	5,580	10,609	61,351	
Service and other	3,367	6,676	842	479	1,711	13,075	
	<u>\$ 36,880</u>	<u>\$ 40,571</u>	<u>\$ 14,775</u>	<u>\$ 13,916</u>	<u>\$ 21,515</u>	<u>\$ 127,657</u>	
Timing of revenue recognition							
Goods/services transferred at a point in time	\$ 26,555	\$ 8,614	\$ 11,080	\$ 5,683	\$ 11,008	\$ 62,940	
Goods/services transferred over time	10,325	31,957	3,695	8,233	10,507	64,717	
	<u>\$ 36,880</u>	<u>\$ 40,571</u>	<u>\$ 14,775</u>	<u>\$ 13,916</u>	<u>\$ 21,515</u>	<u>\$ 127,657</u>	

Nine Months Ended February 1, 2020

	High School Park and Recreation						
	Commercial	Live Events	Transportation	International	Total		
Type of performance obligation							
Unique configuration	\$ 29,181	\$ 114,459	\$ 12,727	\$ 32,173	\$ 35,415	\$ 223,955	
Limited configuration	80,193	25,662	60,349	19,550	33,663	219,417	
Service and other	11,192	19,075	2,357	1,541	5,287	39,452	
	<u>\$ 120,566</u>	<u>\$ 159,196</u>	<u>\$ 75,433</u>	<u>\$ 53,264</u>	<u>\$ 74,365</u>	<u>\$ 482,824</u>	
Timing of revenue recognition							
Goods/services transferred at a point in time	\$ 81,562	\$ 30,903	\$ 55,791	\$ 19,901	\$ 34,696	\$ 222,853	
Goods/services transferred over time	39,004	128,293	19,642	33,363	39,669	259,971	
	<u>\$ 120,566</u>	<u>\$ 159,196</u>	<u>\$ 75,433</u>	<u>\$ 53,264</u>	<u>\$ 74,365</u>	<u>\$ 482,824</u>	

Three Months Ended January 26, 2019

	Commercial	Live Events	High School Park and Recreation	Transportation	International	Total
Type of performance obligation						
Unique configuration	\$ 5,942	\$ 18,491	\$ 3,053	\$ 10,095	\$ 6,798	\$ 44,379
Limited configuration	27,353	5,958	11,036	4,692	8,649	57,688
Service and other	3,864	5,546	709	603	2,280	13,002
	<u>\$ 37,159</u>	<u>\$ 29,995</u>	<u>\$ 14,798</u>	<u>\$ 15,390</u>	<u>\$ 17,727</u>	<u>\$ 115,069</u>
Timing of revenue recognition						
Goods/services transferred at a point in time	\$ 28,105	\$ 7,436	\$ 9,874	\$ 4,911	\$ 9,702	\$ 60,028
Goods/services transferred over time	9,054	22,559	4,924	10,479	8,025	55,041
	<u>\$ 37,159</u>	<u>\$ 29,995</u>	<u>\$ 14,798</u>	<u>\$ 15,390</u>	<u>\$ 17,727</u>	<u>\$ 115,069</u>

Nine Months Ended January 26, 2019

	Commercial	Live Events	High School Park and Recreation	Transportation	International	Total
Type of performance obligation						
Unique configuration	\$ 20,417	\$ 95,695	\$ 18,667	\$ 30,140	\$ 33,790	\$ 198,709
Limited configuration	82,605	23,243	53,964	18,970	29,278	208,060
Service and other	10,775	15,628	1,867	1,514	5,396	35,180
	<u>\$ 113,797</u>	<u>\$ 134,566</u>	<u>\$ 74,498</u>	<u>\$ 50,624</u>	<u>\$ 68,464</u>	<u>\$ 441,949</u>
Timing of revenue recognition						
Goods/services transferred at a point in time	\$ 84,584	\$ 26,796	\$ 48,932	\$ 19,410	\$ 31,364	\$ 211,086
Goods/services transferred over time	29,213	107,770	25,566	31,214	37,100	230,863
	<u>\$ 113,797</u>	<u>\$ 134,566</u>	<u>\$ 74,498</u>	<u>\$ 50,624</u>	<u>\$ 68,464</u>	<u>\$ 441,949</u>

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

Contract balances

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

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

	February 1, 2020	April 27, 2019	Dollar Change	Percent Change
Contract assets	\$ 35,242	\$ 33,704	\$ 1,538	4.6%
Contract liabilities - current	49,870	47,178	2,692	5.7
Contract liabilities - noncurrent	10,676	10,053	623	6.2

The changes in our contract assets and contract liabilities from April 27, 2019 to February 1, 2020 were due to the timing of billing schedules and revenue recognition, which can vary significantly depending on the contractual payment terms and the seasonality of the sports markets. We had no material impairments of contract assets for the nine months ended February 1, 2020.

As of April 27, 2019, we had six contracts in progress that were identified as loss contracts, for which we recorded a provision for losses of \$2,353 and two remaining contracts with loss estimates of \$44 as of February 1, 2020. These were included in the "Accrued expenses" line item in our condensed consolidated balance sheets.

During the nine months ended February 1, 2020, we recognized revenue of \$43,394 related to our contract liabilities as of April 27, 2019.

Remaining performance obligations

As of February 1, 2020, the aggregate amount of the transaction price allocated to the remaining performance obligations was \$247,332. We expect approximately \$209,949 of our remaining performance obligations to be recognized over the next 12 months with the remainder recognized thereafter. Remaining performance obligations related to product and service agreements are \$187,423 and \$59,909, respectively. Although remaining performance obligations reflect business that is considered to be legally binding, cancellations, deferrals or scope adjustments may occur. Any known project cancellations, revisions to project scope and cost, foreign currency exchange fluctuations and project deferrals are reflected or excluded in the remaining performance obligation balance, as appropriate.

Note 5. Segment Reporting

We organize and manage our business by the following five segments which meet the definition of reportable segments under ASC 280-10, *Segment Reporting*: Commercial, Live Events, High School Park and Recreation, Transportation, and International. These segments are based on the customer type or geography and are the same as our business units. We evaluate segment performance based on operating results through contribution margin, which is comprised of gross profit less selling expense. We exclude general and administration expense, product design and development expense, non-operating income and expense, and income tax expense in the segment analysis. Separate financial information is available and regularly evaluated by our chief operating decision-maker (CODM), who is our president and chief executive officer, in making resource allocation decisions for our segments.

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

	Three Months Ended		Nine Months Ended	
	February 1, 2020	January 26, 2019	February 1, 2020	January 26, 2019
Net sales:				
Commercial	\$ 36,880	\$ 37,159	\$ 120,566	\$ 113,797
Live Events	40,571	29,995	159,196	134,566
High School Park and Recreation	14,775	14,798	75,433	74,498
Transportation	13,916	15,390	53,264	50,624
International	21,515	17,727	74,365	68,464
	<u>127,657</u>	<u>115,069</u>	<u>482,824</u>	<u>441,949</u>
Gross profit:				
Commercial	5,399	8,942	22,479	27,593
Live Events	7,815	3,950	32,486	26,495
High School Park and Recreation	3,184	2,736	22,595	21,997
Transportation	4,316	5,880	18,073	17,471
International	3,768	3,361	14,441	12,317
	<u>24,482</u>	<u>24,869</u>	<u>110,074</u>	<u>105,873</u>
Contribution margin: (1)				
Commercial	820	4,460	7,757	13,984
Live Events	4,055	347	21,289	16,250
High School Park and Recreation	(277)	(384)	12,303	12,874
Transportation	3,258	4,959	14,605	14,245
International	74	(50)	3,094	480
	<u>7,930</u>	<u>9,332</u>	<u>59,048</u>	<u>57,833</u>
Non-allocated operating expenses:				
General and administrative	8,640	8,574	26,698	25,685
Product design and development	8,442	8,280	29,063	26,611
Operating (loss) income	<u>(9,152)</u>	<u>(7,522)</u>	<u>3,287</u>	<u>5,537</u>
Nonoperating income (expense):				
Interest income	233	328	664	713
Interest expense	13	(45)	(53)	(86)
Other income (expense), net	(331)	(203)	(652)	(423)
	<u>(9,237)</u>	<u>(7,442)</u>	<u>3,246</u>	<u>5,741</u>
(Loss) income before income taxes	<u>(9,237)</u>	<u>(7,442)</u>	<u>3,246</u>	<u>5,741</u>
Income tax expense (benefit)	3,497	(4,123)	1,676	(4,120)
Net (loss) income	<u>\$ (12,734)</u>	<u>\$ (3,319)</u>	<u>\$ 1,570</u>	<u>\$ 9,861</u>
Depreciation and amortization:				
Commercial	\$ 930	\$ 1,206	\$ 2,799	\$ 3,620
Live Events	1,395	1,332	4,187	3,838
High School Park and Recreation	501	503	1,520	1,463
Transportation	255	279	771	830
International	646	766	1,733	2,189
Unallocated corporate depreciation	746	668	2,187	2,114
	<u>\$ 4,473</u>	<u>\$ 4,754</u>	<u>\$ 13,197</u>	<u>\$ 14,054</u>

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

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

	Three Months Ended		Nine Months Ended	
	February 1, 2020	January 26, 2019	February 1, 2020	January 26, 2019
Net sales:				
United States	\$ 103,347	\$ 94,418	\$ 399,913	\$ 361,679
Outside United States	24,310	20,651	82,911	80,270
	<u>\$ 127,657</u>	<u>\$ 115,069</u>	<u>\$ 482,824</u>	<u>\$ 441,949</u>

	February 1, 2020	April 27, 2019
Property and equipment, net of accumulated depreciation:		
United States	\$ 58,414	\$ 59,192
Outside United States	7,954	6,122
	<u>\$ 66,368</u>	<u>\$ 65,314</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 suppliers that could limit our supply or cause delays in obtaining raw material and components needed in manufacturing.

Note 6. Marketable Securities

We have a cash management program which provides for the investment of cash balances not used in current operations. We classify our investments in marketable securities as available-for-sale in accordance with the provisions of ASC 320, *Investments – Debt and Equity Securities*. Marketable securities classified as available-for-sale are reported at fair value with unrealized gains or losses, net of tax, reported in accumulated other comprehensive loss in the condensed consolidated balance sheets. As it relates to fixed income marketable securities, it is not likely we will be required to sell any of these investments before recovery of the entire amortized cost basis. In addition, as of February 1, 2020, we anticipate we will recover the entire amortized cost basis of such fixed income securities, and we have determined no other-than-temporary impairments associated with credit losses were required to be recognized. The cost of securities sold is based on the specific identification method. Where quoted market prices are not available, we use the market price of similar types of securities traded in the market to estimate fair value.

As of February 1, 2020 and April 27, 2019, our available-for-sale securities consisted of the following:

	Amortized Cost	Unrealized Losses	Fair Value
Balance as of February 1, 2020			
Certificates of deposit	\$ 1,727	\$ —	\$ 1,727
	<u>\$ 1,727</u>	<u>\$ —</u>	<u>\$ 1,727</u>
Balance as of April 27, 2019			
Certificates of deposit	\$ 3,464	\$ —	\$ 3,464
U.S. Government securities	10,779	(5)	10,774
U.S. Government sponsored entities	10,510	(28)	10,482
Municipal bonds	1,626	(2)	1,624
	<u>\$ 26,379</u>	<u>\$ (35)</u>	<u>\$ 26,344</u>

Realized gains or losses on investments are recorded in our condensed consolidated statements of operations as "Other income (expense), net." Upon the sale of a security classified as available-for-sale, the security's specific unrealized gain (loss) is reclassified out of accumulated other comprehensive loss into earnings based on the specific identification method. In the nine months ended February 1, 2020 and January 26, 2019, the reclassifications from accumulated other comprehensive loss to net earnings were immaterial.

All available-for-sale securities are classified as current assets, as they are readily available to support our current operating needs. The contractual maturities of available-for-sale debt securities as of February 1, 2020 were as follows:

	Less than 12 months	Total
Certificates of deposit	\$ 1,727	\$ 1,727
	\$ 1,727	\$ 1,727

Note 7. Business Combinations

AJT Systems, Inc. Acquisition

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

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

Note 8. Goodwill

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

	Live Events	Commercial	Transportation	International	Total
Balance as of April 27, 2019	\$ 2,276	\$ 3,218	\$ 49	\$ 2,346	\$ 7,889
Foreign currency translation	8	54	8	(25)	45
Balance as of February 1, 2020	<u>\$ 2,284</u>	<u>\$ 3,272</u>	<u>\$ 57</u>	<u>\$ 2,321</u>	<u>\$ 7,934</u>

We perform an analysis of goodwill on an annual basis, and it is tested for impairment more frequently if events or changes in circumstances indicate that an asset might be impaired. Our annual analysis is performed during our third quarter of each fiscal year, based on the goodwill amount as of the first business day of our third fiscal quarter. We performed our annual impairment test on November 4, 2019 and concluded no goodwill impairment existed.

Note 9. Selected Financial Statement Data

Inventories consisted of the following:

	February 1, 2020	April 27, 2019
Raw materials	\$ 32,081	\$ 30,789
Work-in-process	11,468	8,239
Finished goods	36,657	39,804
	<u>\$ 80,206</u>	<u>\$ 78,832</u>

Property and equipment, net consisted of the following:

	February 1, 2020	April 27, 2019
Land	\$ 2,183	\$ 1,738
Buildings	68,208	66,403
Machinery and equipment	100,627	96,486
Office furniture and equipment	6,160	6,195
Computer software and hardware	53,067	55,460
Equipment held for rental	287	287
Demonstration equipment	8,076	7,422
Transportation equipment	8,060	7,715
	<u>246,668</u>	<u>241,706</u>
Less accumulated depreciation	<u>180,300</u>	<u>176,392</u>
	<u>\$ 66,368</u>	<u>\$ 65,314</u>

Note 10. 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 \$2,466 and \$2,208 at February 1, 2020 and April 27, 2019, respectively. Included in accounts receivable as of February 1, 2020 and April 27, 2019 was \$265 and \$440, 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 are recorded as a receivable as the revenue is recognized in accordance with GAAP, and profit is recognized to the extent the present value is in excess of cost. We generally retain a security interest in the equipment or in the cash flow generated by the equipment until the contract is paid. The present value of long-term contracts, including accrued interest and current maturities, was \$6,858 and \$3,514 as of February 1, 2020 and April 27, 2019, respectively. Contract receivables bearing annual interest rates of 5.0 to 9.0 percent are due in varying annual installments through 2024. The face value of long-term receivables was \$7,990 as of February 1, 2020 and \$3,271 as of April 27, 2019.

Note 11. Share Repurchase Program

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

During the nine months ended January 26, 2019, we had no repurchases of shares of our outstanding common stock. During the nine months ended February 1, 2020, we repurchased 378 shares of common stock at a total cost of \$2,329. As of February 1, 2020, we had \$35,846 of remaining capacity under our current share repurchase program.

Note 12. 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 in Sioux Falls, SD has a purchase option. We do not have any financing leases.

We determine if an arrangement is a lease at inception. 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 commencement date based on the present value of lease payments over the lease term. As our leases do not provide an implicit rate, we use the incremental borrowing rate based on the information available at 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 the three and nine months ended February 1, 2020, the operating lease cost was \$886 and \$2,748, respectively, which includes immaterial short-term leases. Both are recognized in cost of sales and operating expenses in the condensed consolidated statements of operations.

As of February 1, 2020, the weighted average remaining lease term and discount rate related to operating leases was 5.1 years and 3.5%.

Supplemental unaudited cash flow information related to operating leases include:

	Three Months Ended February 1, 2020	Nine Months Ended February 1, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 823	\$ 2,426

Future minimum operating lease payments as of, and subsequent to, February 1, 2020 under ASC 842 are as follows:

	Operating Leases⁽¹⁾
Fiscal years ending	
2020	\$ 745
2021	2,768
2022	2,018
2023	1,213
2024	1,089
Thereafter	2,398
Total lease payments	10,231
Less imputed interest	(863)
Total lease liabilities	\$ 9,368

(1) Includes \$3,879 to extend the term of our Sioux Falls, South Dakota manufacturing facility.

Note 13. Commitments and Contingencies

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

As of February 1, 2020 and April 27, 2019, \$2,025 and \$1,072, respectively, were included in the "Accrued expenses" line item in our condensed consolidated balance sheets for a probable and reasonably estimated cost to settle a patent litigation claim. The costs are included in cost of sales in the High School Park and Recreation business unit.

For other unresolved legal proceedings or claims, we do not believe there is a reasonable probability that any material loss will be incurred. Accordingly, no material accrual or disclosure of a potential range of loss has been made related to these matters. We do not expect the ultimate liability of these unresolved legal proceedings or claims to have a material effect on our financial position, liquidity or capital resources.

Warranties: Changes in our warranty obligation for the nine months ended February 1, 2020 consisted of the following:

	February 1, 2020
Beginning accrued warranty obligations	\$ 24,470
Warranties issued during the period	8,623
Settlements made during the period	(7,466)
Changes in accrued warranty obligations for pre-existing warranties during the period, including expirations	88
Ending accrued warranty obligations	<u>\$ 25,715</u>

Performance guarantees: We have entered into standby letters of credit and surety bonds with financial institutions relating to the guarantee of our future performance on contracts, primarily construction-type contracts. As of February 1, 2020, we had outstanding letters of credit and surety bonds in the amount of \$14,760 and \$5,335, 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 February 1, 2020, we were not aware of any indemnification claim from a customer.

Purchase commitments: From time to time, we commit to purchase inventory, advertising, cloud-based information systems, information technology maintenance and support services, and various other products and services over periods that extend beyond one year. As of February 1, 2020, we were obligated under the following unconditional purchase commitments:

Fiscal years ending	Amount
2020	\$ 1,343
2021	4,704
2022	2,752
2023	1,757
2024	150
Thereafter	153
	<u>\$ 10,859</u>

Note 14. Income Taxes

We calculate the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate for the full fiscal year to “ordinary” income or loss (pre-tax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. Due to various factors and operating in multiple state and foreign jurisdictions, our effective tax rate is subject to fluctuation.

Our effective tax rate for the nine months ended February 1, 2020 increased to 51.6 percent as compared to a negative 71.8 percent for the nine months ended January 26, 2019. The quarterly change in the effective tax rate was caused by discrete one-time impacts of \$3,255 recognized in the third quarter of fiscal 2019 due to the release of a tax reserve for a lapse of the statute and a valuation allowance reversal related to foreign net operating loss carryforwards. The estimated effective tax rate for fiscal 2020 of 51.6 percent is the result of the expected net taxes and credits being higher as a proportion of expected pre-tax earnings.

We are subject to U.S. federal income tax as well as income taxes of multiple state and foreign jurisdictions. Fiscal years 2017, 2018 and 2019 remain open to federal tax examinations, and fiscal years 2016, 2017, 2018 and 2019 remain open for various state income tax examinations. Certain subsidiaries are also subject to income tax in several foreign jurisdictions which have open tax years varying by jurisdiction beginning in fiscal 2009. In the event of any future tax assessments, we have elected to record the income taxes and any related interest and penalties as income tax expense in our condensed consolidated statement of operations.

As of February 1, 2020, undistributed earnings of our foreign subsidiaries are considered to be reinvested indefinitely. Additionally, we had \$576 of unrecognized tax benefits which would reduce our effective tax rate if recognized.

Note 15. 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 February 1, 2020 and April 27, 2019 according to the valuation techniques we used to determine their fair values. There have been no transfers of assets or liabilities among the fair value hierarchies presented.

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Balance as of February 1, 2020				
Cash and cash equivalents	\$ 40,316	\$ —	\$ —	\$ 40,316
Restricted cash	60	—	—	60
Available-for-sale securities:				
Certificates of deposit	—	1,727	—	1,727
Derivatives - asset position	—	50	—	50
Derivatives - liability position	—	(227)	—	(227)
Acquisition-related contingent consideration	—	—	(729)	(729)
	<u>\$ 40,376</u>	<u>\$ 1,550</u>	<u>\$ (729)</u>	<u>\$ 41,197</u>
Balance as of April 27, 2019				
Cash and cash equivalents	\$ 35,383	\$ —	\$ —	\$ 35,383
Restricted cash	359	—	—	359
Available-for-sale securities:				
Certificates of deposit	—	3,464	—	3,464
U.S. Government securities	10,774	—	—	10,774
U.S. Government sponsored entities	—	10,482	—	10,482
Municipal bonds	—	1,624	—	1,624
Derivatives - asset position	—	91	—	91
Derivatives - liability position	—	(4)	—	(4)
Acquisition-related contingent consideration	—	—	(3,065)	(3,065)
	<u>\$ 46,516</u>	<u>\$ 15,657</u>	<u>\$ (3,065)</u>	<u>\$ 59,108</u>

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

Acquisition-related contingent consideration as of April 27, 2019	\$ 3,065
Additions	75
Settlements	(2,491)
Interest	43
Foreign currency translation	37
Acquisition-related contingent consideration as of February 1, 2020	<u>\$ 729</u>

There have been no changes in the valuation techniques used by us to value our financial instruments since the end of fiscal 2019. For additional information, see our Annual Report on Form 10-K for the fiscal year ended April 27, 2019 for the methods and assumptions used to estimate the fair value of each class of financial instrument.

Note 16. Derivative Financial Instruments

We utilize derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates on those transactions denominated in currencies other than our functional currency, which is the U.S. dollar. We enter into currency forward contracts to manage these economic risks. We account for all derivatives in the condensed consolidated balance sheets within accounts receivable or accounts payable measured at fair value, and changes in fair values are recognized in earnings unless specific hedge accounting criteria are met for cash flow or net investment hedges. As of February 1, 2020 and April 27, 2019, we had not designated any of our derivative instruments as accounting hedges, and thus we recorded the changes in fair value in the "Other income (expense), net" line item in the condensed consolidated statements of operations.

The foreign currency exchange contracts in aggregated notional amounts in place to exchange U.S. dollars at February 1, 2020 and April 27, 2019 were as follows:

	February 1, 2020		April 27, 2019	
	U.S. Dollars	Foreign Currency	U.S. Dollars	Foreign Currency
Foreign Currency Exchange Forward Contracts:				
U.S. Dollars/Australian Dollars	2,555	3,753	2,688	3,772
U.S. Dollars/Canadian Dollars	750	998	625	821
U.S. Dollars/British Pounds	5,618	4,386	3,547	2,680
U.S. Dollars/Euros	3,755	3,377	—	—
U.S. Dollars/Swiss Franc	207	204	927	925
U.S. Dollars/Malaysian Ringgit	—	—	60	246

As of February 1, 2020, there was an asset and liability of \$50 and \$227, respectively; and as of April 27, 2019, there was an asset and liability of \$91 and \$4, 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 February 1, 2020, all contracts mature within 13 months.

Note 17. Subsequent Events

On February 25, 2020, our Board of Directors declared a dividend of \$0.05 per share payable on March 19, 2020 to shareholders of record of our common stock on March 9, 2020.

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (including exhibits and any information incorporated by reference herein) contains both historical and forward-looking statements that involve risks, uncertainties and assumptions. The statements contained in this Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21B of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, beliefs, intentions and strategies for the future. These statements appear in a number of places in this Report and include all statements that are not historical statements of fact regarding the intent, belief or current expectations with respect to, among other things: (i.) our competition; (ii.) our financing plans; (iii.) trends affecting our financial condition or results of operations; (iv.) our growth and operating strategies; (v.) the declaration and payment of dividends; (vi.) the timing and magnitude of future contracts; (vii.) raw material shortages and lead times; (viii.) fluctuations in margins; (ix.) the seasonality of our business; (x.) the introduction of new products and technology; (xi.) the amount and frequency of warranty claims; (xii.) our ability to manage the impact that new or adjusted tariffs may have on the cost of raw materials and components and our ability to sell product internationally; (xiii.) the resolution of litigation contingencies; and (xiv.) the timing and magnitude of any acquisitions or dispositions. The words "may," "would," "could," "should," "will," "expect," "estimate," "anticipate," "believe," "intend," "plan" and similar expressions and variations thereof are intended to identify forward-looking statements. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, many of which are beyond our ability to control, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors discussed herein, including those discussed in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended April 27, 2019 in the section entitled "Part I, Item 1A. Risk Factors" and "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," and those factors discussed in detail in our other filings with the Securities and Exchange Commission.

The following discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). This discussion should be read in conjunction with the accompanying Condensed Consolidated Financial Statements and Notes to the Condensed Consolidated Financial Statements included in this Report. The preparation of these condensed financial statements requires us to make estimates and judgments affecting the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate our estimates, including those related to total costs on long-term construction-type contracts, costs to be incurred for product warranties and extended maintenance contracts, bad debts, excess and obsolete inventory, income taxes, share-based compensation, goodwill impairment and contingencies. Our estimates are based on historical experience and on various other assumptions believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

OVERVIEW

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

Our net sales and profitability historically have fluctuated due to the impact of uniquely configured orders, such as display systems for professional sports facilities, colleges and universities, and spectacular projects in the commercial area, as well as the seasonality of the sports market. Uniquely configured orders can include several displays, controllers, and subcontracted structure builds, each of which can occur on varied schedules per the customer's needs. Outdoor installation sales can be impacted by outdoor weather conditions and the construction season. Our third fiscal quarter tends to be a slower quarter because it includes two holidays, it is affected by sports seasonality, and generally less outdoor construction work occurs due to weather conditions.

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

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

GENERAL

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

We measure our success using a variety of measures including:

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

Certain factors impact our ability to succeed in these strategies and impact our business units to varying degrees. For example, the overall cost to manufacture and the selling prices of our products have decreased over the years and are expected to continue to decrease in the future. Our competitors outside the U.S. are impacted differently by the global trade environment allowing them to avoid tariff costs or reduce prices. As a result, additional competitors have entered the market, and each year we must sell more product to generate the same or greater level of net sales as in previous fiscal years. However, the decline of digital solution pricing over the years and increased user adoption and applications have increased the size of the global market. In the near-term, orders and sales timing may be impacted by the coronavirus situation ("COVID-19") potentially causing customer order delays and supply chain disruptions.

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

Each of our 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, the sports business can also be seriously impacted.

We can be impacted by short-term events like the U.S. Administrative trade actions in 2018 or a number of other factors that are disclosed in "Item 1A. Risk Factors" included in our Annual Report on Form 10-K for the fiscal year ended April 27, 2019.

The outlook and unique key growth drivers and challenges by our business units include:

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

- Standard display product market growth due to market adoption and lower product costs, which drive marketplace expansion. Standard display products are used to attract or communicate with customers and potential customers of retail, commercial, and other establishments. Pricing and economic conditions are the principal factors that impact our success in this business unit. We utilize a reseller network to distribute our standard products.
- National accounts standard display market opportunities due to customers' desire to communicate their message, advertising and content consistently across the country. Increased demand is possible from national retailers, quick serve restaurants, petroleum retailers, and other nationwide organizations.
- Additional standard display offerings using micro-light emitting diode ("LED") designs.
- Increasing use of LED technologies replacing signage previously using liquid crystal display ("LCD") technology by existing and new customers.
- Increasing interest in spectaculars, which include very large and sometimes highly customized displays as part of entertainment venues such as casinos, shopping centers, cruise ships and Times Square type locations.
- Dynamic messaging systems demand growth due to market adoption and expanded use of this technology.
- The use of architectural lighting products for commercial buildings, which real estate owners use to add accents or effects to an entire side or circumference of a building to communicate messages or to decorate the building.
- The continued deployment of digital billboards as Out-of-Home ("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: Over the long-term, we believe growth in the Live Events business unit will result from a number of factors, including:

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

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

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

Transportation Business Unit: Over the long-term, we believe growth in the Transportation business unit will result from increasing applications and acceptance of electronic displays to manage transportation systems, including roadway, airport, parking, transit and other applications. Effective use of the United States transportation infrastructure requires intelligent transportation systems. This growth is highly dependent on government spending, primarily by state and federal governments, along with the continuing acceptance of private/public partnerships as an alternative funding source. Growth is also expected in dynamic messaging systems for advertising and wayfinding

use in public transport and airport terminals due to expanded market usage and displays, with LED technology replacing prior LCD installations and additional display offerings using micro-LEDs.

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

RESULTS OF OPERATIONS

Daktronics, Inc. operates on a 52- or 53-week fiscal year, with our fiscal year ending on the Saturday closest to April 30 of each year. When April 30 falls on a Wednesday, the fiscal year ends on the preceding Saturday. Within each fiscal year, each quarter is comprised of 13-week periods following the beginning of each fiscal year. In each 53-week year, an additional week is added to the first quarter, and each of the last three quarters is comprised of a 13-week period. The fiscal year ended April 27, 2019 consisted of 52 weeks. Fiscal 2020 will be a 53-week year; therefore, the nine months ended February 1, 2020 contains operating results for 40 weeks while the nine months ended January 26, 2019 contains operating results for 39 weeks.

COMPARISON OF THE THREE MONTHS ENDED FEBRUARY 1, 2020 AND JANUARY 26, 2019

Net Sales

(in thousands)	Three Months Ended			
	February 1, 2020	January 26, 2019	Dollar Change	Percent Change
Net sales:				
Commercial	\$ 36,880	\$ 37,159	\$ (279)	(0.8)%
Live Events	40,571	29,995	10,576	35.3
High School Park and Recreation	14,775	14,798	(23)	(0.2)
Transportation	13,916	15,390	(1,474)	(9.6)
International	21,515	17,727	3,788	21.4
	<u>\$ 127,657</u>	<u>\$ 115,069</u>	<u>\$ 12,588</u>	<u>10.9 %</u>
Orders:				
Commercial	\$ 36,898	\$ 41,114	\$ (4,216)	(10.3)%
Live Events	41,484	45,767	(4,283)	(9.4)
High School Park and Recreation	20,447	17,034	3,413	20.0
Transportation	16,203	11,541	4,662	40.4
International	19,992	19,973	19	0.1
	<u>\$ 135,024</u>	<u>\$ 135,429</u>	<u>\$ (405)</u>	<u>(0.3)%</u>

Commercial: The decrease in net sales for the three months ended February 1, 2020 compared to the same period one year ago was primarily due to a lighter demand in the on-premise niche, which was offset by increases in the OOH and spectacular niches due to the timing of projects.

The decrease in orders for the three months ended February 1, 2020 compared to the same period one year ago was primarily due to a decrease in large orders in the spectacular niche, while the on-premise and OOH niches remained relatively flat compared to the same period last year.

Live Events: The increase in net sales for the three months ended February 1, 2020 compared to the same period one year ago was primarily due to the timing of the demand for upgraded or new solutions for professional sports stadiums and college and university venues.

Orders decreased for the three months ended February 1, 2020 compared to the same period one year ago due to a decrease in the number of projects for professional sports stadiums.

High School Park and Recreation: Net sales for the three months ended February 1, 2020 compared to the same period one year ago remained relatively flat.

Orders increased for the three months ended February 1, 2020 compared to the same period one year ago due to the variability in order timing.

Transportation: The decrease in net sales for the three months ended February 1, 2020 compared to the same period one year ago was primarily due to the variability of large order production timing caused by customer project schedules.

Orders increased for the three months ended February 1, 2020 compared to the same period one year ago due to the variability of timing caused by large projects.

International: Net sales for the three months ended February 1, 2020 compared to the same period one year ago increased primarily due to the variability of timing caused by spectacular and OOH projects.

Orders increased for the three months ended February 1, 2020 compared to the same period one year ago primarily due to general variations in the timing of account-based order placements.

Product Order Backlog

The product order backlog as of February 1, 2020 was \$187 million as compared to \$168 million as of January 26, 2019 and \$182 million at the end of the second quarter of fiscal 2020. Historically, our product order backlog varies due to the seasonality of our business, the timing of large projects, and customer delivery schedules for these orders. The product order backlog as of February 1, 2020 increased in the Live Events, High School Park and Recreation, Transportation, and International business units and remained relatively flat in the Commercial business unit from January 26, 2019.

Gross Profit

<i>(in thousands)</i>	Three Months Ended			
	February 1, 2020		January 26, 2019	
	Amount	As a Percent of Net Sales	Amount	As a Percent of Net Sales
Commercial	\$ 5,399	14.6%	\$ 8,942	24.1%
Live Events	7,815	19.3	3,950	13.2
High School Park and Recreation	3,184	21.5	2,736	18.5
Transportation	4,316	31.0	5,880	38.2
International	3,768	17.5	3,361	19.0
	<u>\$ 24,482</u>	<u>19.2%</u>	<u>\$ 24,869</u>	<u>21.6%</u>

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

The decrease in our gross profit percentage for the three months ended February 1, 2020 compared to the same period one year ago was due to an increase in tariff related expenses of approximately \$0.6 million, or a 0.5% impact to gross profit, as last year at this time tariffs were just being introduced on US imports of aluminum, steel, and components from China. We also experienced additional expenses of approximately \$1.1 million for project delivery costs. Total warranty as a percent of sales decreased to 1.3% for the three months ended February 1, 2020 as compared to 1.6% during the three months ended January 26, 2019. The following describes the overall impact by business unit for the three months ended February 1, 2020 compared to the same period one year ago:

The gross profit percent decreased in the Commercial business unit primarily due to higher warranty expense, product mix, and additional project delivery costs. The gross profit percent decreased in the Transportation business unit primarily due to lower sales volumes over relatively fixed infrastructure costs, which was partially offset by lower warranty expense. The gross profit percent decreased in the International business unit primarily due to a change in sales mix, which was partially offset by lower warranty expense and higher sales volumes over relatively fixed infrastructure costs. The gross profit percent increased in the Live Events business unit primarily due to higher sales volumes over relatively fixed infrastructure costs and lower warranty expense. The gross profit percent increased in the High School Park and Recreation business unit primarily due to lower warranty expense and a non-recurring litigation claim that was recorded during the same period one year ago.

Contribution Margin

<i>(in thousands)</i>	Three Months Ended				
	February 1, 2020			January 26, 2019	
	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales
Commercial	\$ 820	2.2 %	(81.6)%	\$ 4,460	12.0 %
Live Events	4,055	10.0	1,068.6	347	1.2
High School Park and Recreation	(277)	(1.9)	(27.9)	(384)	(2.6)
Transportation	3,258	23.4	(34.3)	4,959	32.2
International	74	0.3	(248.0)	(50)	(0.3)
	<u>\$ 7,930</u>	<u>6.2 %</u>	<u>(15.0)%</u>	<u>\$ 9,332</u>	<u>8.1 %</u>

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

Contribution margin is impacted by the previously discussed sales and gross margin for each business unit. Each business unit's contribution margin was impacted by an increase in selling expenses in the third quarter of fiscal 2020 compared to the same quarter a year ago due to personnel related expenses.

Other Operating Expenses

<i>(in thousands)</i>	Three Months Ended				
	February 1, 2020			January 26, 2019	
	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales
General and administrative	\$ 8,640	6.8%	0.8%	\$ 8,574	7.5%
Product design and development	\$ 8,442	6.6%	2.0%	\$ 8,280	7.2%

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

General and administrative expenses in the third quarter of fiscal 2020 increased as compared to the same period one year ago primarily due to an increase in personnel related expenses, which is partially offset by a decrease in professional fees.

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

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

Product design and development expenses in the third quarter of fiscal 2020 increased as compared to the same period one year ago primarily due to increased labor costs and professional services assigned to product design and development projects. To deliver value to our customers and meet the markets' needs, we expect an increase in expenditures for new or enhanced customer solutions and to develop leading production technologies in the evolving micro-LED space.

Other Income and Expenses

<i>(in thousands)</i>	Three Months Ended				
	February 1, 2020			January 26, 2019	
	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales
Interest income, net	\$ 246	0.2 %	(13.1)%	\$ 283	0.2 %
Other income (expense), net	\$ (331)	(0.3)%	63.1 %	\$ (203)	(0.2)%

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

The change in interest income, net for the third quarter of fiscal 2020 compared to the same period one year ago was primarily due to the change in investment levels caused by the volatility of working capital needs.

Other income (expense), net: The change in other income and expense, net for the third quarter of fiscal 2020 as compared to the same period one year ago was primarily due to foreign currency volatility.

Income Taxes

We calculate the provision for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate for the full fiscal year to “ordinary” income or loss (pretax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. Due to various factors, including operations in multiple jurisdictions worldwide, our effective tax rate is subject to fluctuation.

We have recorded an effective tax rate of negative 37.9 percent for the third quarter of fiscal 2020 as compared to an effective tax rate of 55.4 percent for the third quarter of fiscal 2019. The quarterly change in the effective tax rate was caused by discrete one-time impacts of \$3.3 million recognized in the third quarter of fiscal 2019 due to the release of a tax reserve for a lapse of the statute and a valuation allowance reversal related to foreign net operating loss carryforwards. The estimated effective tax rate for fiscal 2020 is the result of the expected net taxes and credits being higher as a proportion of expected pre-tax earnings.

COMPARISON OF THE NINE MONTHS ENDED FEBRUARY 1, 2020 AND JANUARY 26, 2019

Net Sales

<i>(in thousands)</i>	Nine Months Ended			
	February 1, 2020	January 26, 2019	Dollar Change	Percent Change
Net sales:				
Commercial	\$ 120,566	\$ 113,797	\$ 6,769	5.9 %
Live Events	159,196	134,566	24,630	18.3
High School Park and Recreation	75,433	74,498	935	1.3
Transportation	53,264	50,624	2,640	5.2
International	74,365	68,464	5,901	8.6
	<u>\$ 482,824</u>	<u>\$ 441,949</u>	<u>\$ 40,875</u>	<u>9.2 %</u>
Orders:				
Commercial	\$ 119,059	\$ 123,637	\$ (4,578)	(3.7)%
Live Events	149,461	128,803	20,658	16.0
High School Park and Recreation	73,852	73,928	(76)	(0.1)
Transportation	55,410	54,736	674	1.2
International	75,827	65,291	10,536	16.1
	<u>\$ 473,609</u>	<u>\$ 446,395</u>	<u>\$ 27,214</u>	<u>6.1 %</u>

Sales and orders in all business units were impacted as a result of the nine months ended February 1, 2020 including 40 weeks compared to the more common 39 weeks. The nine months ended January 26, 2019 contained 39 weeks.

For net sales, during the first nine months ended February 1, 2020, we achieved a \$12.1 million per week average run rate as compared to \$11.3 million per week during the first nine months ended January 26, 2019, or an approximate 6.5% increase. This change was driven by the order volume reasons described below and the timing of conversion related to the seasonality in our business.

For orders, during the first nine months ended February 1, 2020, we achieved a \$11.8 million per week average run rate as compared to \$11.4 million per week during the first nine months ended January 26, 2019, or an approximate 3.5% increase. We had an increase in orders placed during the first nine months ended February 1, 2020 related to new releases of our product offerings.

Commercial: Net sales for the nine months ended February 1, 2020 compared to the same period one year ago increased as a result of the timing of projects in the spectacular and OOH niches, which was partly offset by a decrease in net sales in the on-premise niche primarily due to lighter demand.

Orders decreased for the nine months ended February 1, 2020 compared to the same period one year ago primarily due to a decrease in large orders in the spectacular niche and a softer market in the OOH niche.

Live Events: The increase in net sales for the nine months ended February 1, 2020 compared to the same period one year ago was primarily due to the timing of the demand for upgraded or new solutions for arenas and professional sports stadiums.

Orders increased for the nine months ended February 1, 2020 compared to the same period one year ago due to an increase in the number of projects for college and university venues, minor league sports stadiums, and arena venues.

High School Park and Recreation: The increase in net sales for the nine months ended February 1, 2020 compared to the same period one year ago was primarily due to the timing of converting orders and backlog into sales.

Orders for the nine months ended February 1, 2020 compared to the same period one year ago remained relatively flat.

Transportation: The increase in net sales for the nine months ended February 1, 2020 compared to the same period one year ago was related to the variability caused by large order timing and continued demand for intelligent transportation systems.

Orders increased for the nine months ended February 1, 2020 compared to the same period one year ago primarily due to the variability of timing caused by large projects.

International: Net sales increased in our International business unit for the nine months ended February 1, 2020 compared to the same period one year ago mainly due to the variability of timing caused by large spectacular and OOH projects.

Orders increased for the nine months ended February 1, 2020 compared to the same period one year ago primarily due to general variations in the timing of account-based order placements.

Gross Profit

<i>(in thousands)</i>	Nine Months Ended			
	February 1, 2020		January 26, 2019	
	Amount	As a Percent of Net Sales	Amount	As a Percent of Net Sales
Commercial	\$ 22,479	18.6%	\$ 27,593	24.2%
Live Events	32,486	20.4	26,495	19.7
High School Park and Recreation	22,595	30.0	21,997	29.5
Transportation	18,073	33.9	17,471	34.5
International	14,441	19.4	12,317	18.0
	<u>\$ 110,074</u>	22.8%	<u>\$ 105,873</u>	24.0%

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

The decrease in our gross profit percentage for the nine months ended February 1, 2020 compared to the same period one year ago was primarily due to an increase in tariff related expenses of approximately \$3.3 million, or a 0.7% impact to gross profit, as last year at this time tariffs were just being introduced on US imports of aluminum, steel, and components from China. We also experienced additional expenses of approximately \$4.2 million for project delivery costs and for an existing litigation claim estimate. Total warranty as a percent

of sales decreased to 1.9% for the nine months ended February 1, 2020 as compared to 2.3% during the nine months ended January 26, 2019. The following describes the overall impact by business unit for the nine months ended February 1, 2020 compared to the same period one year ago:

The gross profit percent decreased in our Commercial business units for the reasons described above, which was partially offset by higher sales volumes over relatively fixed infrastructure costs. The gross profit percent decreased in the Transportation business unit primarily due to increased warranty expense, which was partially offset by higher sales volumes over relatively fixed infrastructure costs. The gross profit percent increased in the Live Events and High School Park and Recreation business units primarily due to higher sales volumes over relatively fixed infrastructure costs, which was partially offset by the reasons described above. The gross profit percent increased in the International business unit primarily due to lower warranty expense and higher sales volumes over relatively fixed infrastructure costs.

Contribution Margin

<i>(in thousands)</i>	Nine Months Ended				
	February 1, 2020			January 26, 2019	
	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales
Commercial	\$ 7,757	6.4%	(44.5)%	\$ 13,984	12.3%
Live Events	21,289	13.4	31.0	16,250	12.1
High School Park and Recreation	12,303	16.3	(4.4)	12,874	17.3
Transportation	14,605	27.4	2.5	14,245	28.1
International	3,094	4.2	544.6	480	0.7
	<u>\$ 59,048</u>	<u>12.2%</u>	<u>2.1 %</u>	<u>\$ 57,833</u>	<u>13.1%</u>

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

Contribution margin is impacted by the previously discussed sales and gross margin for each business unit. The impact of changes in selling expenses on each business unit's contribution margin are as follows:

All areas of selling expenses were impacted as a result of the nine months ended February 1, 2020 including 40 weeks compared to the more common 39 weeks. The nine months ended January 26, 2019 contained 39 weeks. Selling expense in our Commercial, Live Events, High School Park and Recreation, and Transportation business units increased in the nine months ended February 1, 2020 compared to the same period a year ago primarily due to personnel related expenses and increased marketing efforts. Selling expenses in our International business unit decreased in the nine months ended February 1, 2020 compared to the same period one year ago primarily due to bad debt recovery and a decrease in third-party commissions.

Other Operating Expenses

<i>(in thousands)</i>	Nine Months Ended				
	February 1, 2020			January 26, 2019	
	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales
General and administrative	\$ 26,698	5.5%	3.9%	\$ 25,685	5.8%
Product design and development	\$ 29,063	6.0%	9.2%	\$ 26,611	6.0%

All areas of operating expenses were impacted as a result of the nine months ended February 1, 2020 including 40 weeks compared to the more common 39 weeks. The nine months ended January 26, 2019 contained 39 weeks.

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

General and administrative expenses in the nine months ended February 1, 2020 increased as compared to the same period one year ago primarily due to an increase in professional fees and personnel related expenses, which was partially offset by a decrease in IT related systems.

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

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

Product design and development expenses in the nine months ended February 1, 2020 as compared to the same period one year ago increased primarily due to increased labor costs and professional services assigned to product design and development projects. To deliver value to our customers and meet the markets' needs, we expect an increase in expenditures for new or enhanced customer solutions.

Other Income and Expenses

<i>(in thousands)</i>	Nine Months Ended				
	February 1, 2020			January 26, 2019	
	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales
Interest income, net	\$ 611	0.1 %	(2.6)%	\$ 627	0.1 %
Other income (expense), net	\$ (652)	(0.1)%	54.1 %	\$ (423)	(0.1)%

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

The change in interest income, net in the nine months ended February 1, 2020 compared to the same period one year ago was primarily due to the change in investment levels caused by the volatility of working capital needs.

Other income (expense), net: The change in other income and expense, net for the nine months ended February 1, 2020 compared to the same period one year ago was primarily due to foreign currency volatility.

Income Taxes

Our effective tax rate was 51.6 percent for the nine months ended February 1, 2020 as compared to an effective tax rate of negative 71.8 percent for the nine months ended January 26, 2019. The quarterly change in the effective tax rate was caused by discrete one-time impacts of \$3.3 million recognized during the third quarter of fiscal 2019 due to the release of a tax reserve for a lapse of the statute and a valuation allowance reversal related to foreign net operating loss carryforwards. The estimated effective tax rate for fiscal 2020 of 51.6 percent is the result of the expected net taxes and credits being higher as a proportion of expected pre-tax earnings.

LIQUIDITY AND CAPITAL RESOURCES

<i>(in thousands)</i>	Nine Months Ended		
	February 1, 2020	January 26, 2019	Percent Change
Net cash provided by (used in):			
Operating activities	\$ 6,190	\$ 32,187	(80.8)%
Investing activities	10,034	(19,926)	(150.4)
Financing activities	(11,424)	(8,771)	30.2
Effect of exchange rate changes on cash	(166)	62	(367.7)
Net increase in cash, cash equivalents and restricted cash	\$ 4,634	\$ 3,552	30.5 %

Cash increased by \$4.6 million for the first nine months of fiscal 2020 as compared to \$3.6 million in the first nine months of fiscal 2019, which is primarily due to the conversion of marketable securities to cash for working capital needs.

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

Net cash provided by operating activities was \$6.2 million for the first nine months of fiscal 2020 compared to net cash provided by operating activities of \$32.2 million in the first nine months of fiscal 2019. The \$26.0 million decrease in cash used in operating activities from the first nine months of fiscal 2019 to the first nine months of fiscal 2020 was the result of changes in net operating assets and liabilities of \$17.4 million, \$8.3 million decrease in net income, \$0.9 million in depreciation and amortization, and \$0.4 million in other non-cash items, net, adjusted by a \$1.0 million change in a contingent liability.

Year-to-date cash provided from operations differed as compared to last year primarily due to order volatility in Live Events and Transportation business units, which had large dollar projects this year as compared to last year. This accounted for most of the changes in accounts receivable, contract assets, long-term receivables, and contract liabilities and equates to \$29.8 million of the change in net cash provided by operating activities as compared to last year.

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

	Nine Months Ended	
	February 1, 2020	January 26, 2019
(Increase) decrease:		
Accounts receivable	\$ (14,253)	\$ (1,209)
Long-term receivables	(2,048)	148
Inventories	(1,523)	2,617
Contract assets	(1,602)	4,199
Prepaid expenses and other current assets	201	1,231
Income tax receivables	884	(433)
Investment in affiliates and other assets	(578)	130
Increase (decrease):		
Accounts payable	237	(11,952)
Contract liabilities	3,335	12,104
Accrued expenses	3,711	5,402
Warranty obligations	53	(2,604)
Long-term warranty obligations	1,192	(687)
Income taxes payable	484	(1,333)
Long-term marketing obligations and other payables	(128)	(249)
	<u>\$ (10,035)</u>	<u>\$ 7,364</u>

Net cash provided by (used in) investing activities: Net cash provided by investing activities totaled \$10.0 million in the first nine months of fiscal 2020 compared to net cash used in investing activities of \$19.9 million in the first nine months of fiscal 2019. During the first nine months of fiscal 2020, we had no purchases of marketable securities compared to \$25.3 million in the first nine months of fiscal 2019. Proceeds from sales or maturities of marketable securities totaled \$24.7 million in the first nine months of fiscal 2020 as compared to \$22.3 million in the first nine months of fiscal 2019. Net proceeds of marketable securities in fiscal 2020 were utilized to cover working capital needs for changes in operating assets and liabilities described above. Purchases of property and equipment totaled \$13.6 million in the first nine months of fiscal 2020 compared to \$14.1 million in the first nine months of fiscal 2019. Purchases of and loans to an equity investment totaled \$1.2 million in the first nine months of fiscal 2020 as compared to \$0.9 million in the first nine months of fiscal 2019. During the first nine months of fiscal 2019, we had a net cash outflow of \$2.3 million for the acquisition of assets of AJT Systems, Inc.

Net cash used in financing activities: Net cash used in financing activities was \$11.4 million for the nine months ended February 1, 2020 compared to \$8.8 million in the same period one year ago. Principal payments on long-term obligations for the first nine months of fiscal 2020 were \$2.1 million compared to \$0.4 million during the first nine months of fiscal 2019, which was mostly related to contingent liability payments. Dividends of \$6.8 million, or \$0.15 per share, were paid to Daktronics shareholders during the first nine months of fiscal 2020, as compared to dividends of \$9.4 million, or \$0.21 per share, paid to Daktronics shareholders during the first nine months of fiscal 2019. During the first nine months of fiscal 2020, we repurchased \$2.3 million of shares as part of the \$40.0 million share

repurchase plan authorized by our Board of Directors. There were no share repurchases in the first nine months of fiscal 2019. Proceeds from the exercise of stock options during the first nine months of fiscal 2019 were \$1.3 million and there were no proceeds from the exercise of stock options in the first nine months of fiscal 2020.

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

Working capital was \$113.2 million and \$119.6 million at February 1, 2020 and April 27, 2019, respectively. The changes in working capital, particularly changes in accounts receivable, accounts payable, inventory, and contract assets and liabilities, and the sports market seasonality can have a significant impact on the amount of net cash provided by operating activities largely due to the timing of payments and receipts. On multimillion-dollar orders, the time between order acceptance and project completion may extend up to or exceed 12 months or more depending on the amount of custom work and a customer's delivery needs. We often receive down payments or progress payments on these orders.

We had \$3.2 million of retainage on long-term contracts included in receivables and contract assets as of February 1, 2020, which has an impact on our liquidity. We expect to collect these amounts within one year. When working capital is needed, we have historically financed our cash needs through a combination of cash flow from operations and borrowings under bank credit agreements. During the third quarter of fiscal 2020 and the fourth quarter of fiscal 2019, we violated one of our bank covenants, but we received a waiver from our banking institution for the quarter ended February 1, 2020 and year ended April 27, 2019.

On November 15, 2019, we entered into an amendment to extend the maturity date of our credit agreement and a related revolving bank note from November 15, 2019 to November 15, 2022 and to modify certain other terms and financial covenants. The revolving amount of the agreement and note remains at \$35.0 million, including up to \$15.0 million for commercial and standby letters of credit. The credit agreement is unsecured and requires us to be in compliance with certain financial ratios and other covenants. As of February 1, 2020, there were no advances to us under the loan portion of the line of credit, and the balance of letters of credit outstanding was approximately \$6.3 million.

We are sometimes required to obtain bank guarantees or other financial instruments for display installations and we have a global banking relationship to provide such instruments. If we are unable to meet the terms of the arrangement, our customer would draw on the banking arrangement, and the bank would subrogate its loss to Daktronics. As of February 1, 2020, we had \$8.5 million of such instruments outstanding.

We are sometimes required to obtain performance bonds for display installations, and we have a bonding line available through a surety company for an aggregate of \$150.0 million in bonded work outstanding. If we were unable to complete the work, and our customer would call upon the bond for payment, the surety company would subrogate its loss to Daktronics. At February 1, 2020, we had \$5.3 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 are projecting capital expenditures and an investment in a technology company to be approximately \$33 million for fiscal 2020. Projected capital expenditures include manufacturing equipment for new or enhanced product production, expanded capacity, investments in quality and reliability equipment, and continued information infrastructure investments. We also evaluate and may invest in new technologies or acquire companies aligned with our business strategy.

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

Off-Balance Sheet Arrangements and Contractual Obligations

There has been no material change in our off-balance sheet arrangements and contractual obligations since the end of our 2019 fiscal year on April 27, 2019. For additional information, see our Annual Report on Form 10-K for the fiscal year ended April 27, 2019.

Significant Accounting Policies and Estimates

We describe our significant accounting policies in "Note 1. Nature of Business and Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended April 27, 2019. We discuss our critical accounting estimates in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended April 27, 2019. In the first quarter of fiscal 2020, we adopted

new lease guidance, as described in "Note 1. Basis of Presentation" of the Notes to the Condensed Consolidated Financial Statements included elsewhere in this Report. There have been no other significant changes in our significant accounting policies or critical accounting estimates since the end of fiscal 2019.

New Accounting Pronouncements

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain interest rate, foreign currency, and commodity risks as disclosed in our Annual Report on Form 10-K for the fiscal year ended April 27, 2019. There have been no material changes in our exposure to these risks during the first nine months of fiscal 2020.

Item 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Not applicable.

Item 1A. RISK FACTORS

The discussion of our business and operations included in this Quarterly Report on Form 10-Q should be read together with the risk factors described in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended April 27, 2019. They describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties, together with other factors described elsewhere in this Report, have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. New risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect our financial condition or financial results.

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

Share Repurchases

The following table provides information about share repurchases of common stock during the third quarter of fiscal 2020:

Period	Total number of shares purchased	Average price paid per share (including fees)	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the share repurchase program(1)
December 1, 2019 - December 28, 2019	27,481	5.99	27,481	36,328,333
December 29, 2019 - February 1, 2020	80,520	5.99	80,520	35,846,217
Total	108,001		108,001	

(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.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

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

SIGNATURES

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

/s/ Sheila M. Anderson

Daktronics, Inc.

Sheila M. Anderson

Chief Financial Officer

(Principal Financial Officer and

Principal Accounting Officer)

Date: February 28, 2020

Index to Exhibits

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

3.1	Amended and Restated Articles of Incorporation of the Company, (Incorporated by reference to Exhibit 3.1 of the Current Report on Form 10-Q/A (Amendment No. 1) of Daktronics, Inc. filed on December 21, 2018).
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.4 filed with our Annual Report on Form 10-K on June 12, 2013).
4.1	Rights Agreement dated as of November 16, 2018 between Daktronics, Inc. and Equiniti Trust Company, as Rights Agent (Incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K of Daktronics, Inc. filed on November 16, 2018).
10.1	Credit Agreement dated November 15, 2016 by and between the Company and U.S. Bank National Association (Incorporated by reference to Exhibit 10.1 filed with our Current Report on Form 8-K filed on November 16, 2016).
10.2	Revolving Note dated November 15, 2016 issued by the Company to U.S. Bank National Association (Incorporated by reference to Exhibit 10.2 filed with our Current Report on Form 8-K filed on November 16, 2016).
10.3	Second Amendment to Credit Agreement dated as of November 15, 2019 by and between the Company and U.S. Bank National Association (Incorporated by reference to Exhibit 10.1 filed with our Current Report on Form 8-K filed on November 15, 2019).
10.4	Daktronics, Inc. 2015 Stock Incentive Plan ("2015 Plan"). (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A filed on July 14, 2015).
10.5	Form of Restricted Stock Award Agreement under the 2015 Plan (Incorporated by reference to Exhibit 10.2 filed with our Current Report on Form 8-K on September 3, 2015).
10.6	Form of Non-Qualified Stock Option Agreement Terms and Conditions under the 2015 Plan (Incorporated by reference to Exhibit 10.3 filed with our Current Report on Form 8-K on September 3, 2015).
10.7	Form of Incentive Stock Option Terms and Conditions under the 2015 Plan (Incorporated by reference to Exhibit 10.4 filed with our Current Report on Form 8-K on September 3, 2015).
10.8	Form of Restricted Stock Unit Terms and Conditions under the 2015 Plan (Incorporated by reference to Exhibit 10.5 filed with our Current Report on Form 8-K on September 3, 2015).
31.1	Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
31.2	Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350). (1)
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350). (1)
101	The following financial information from our Quarterly Report on Form 10-Q for the period ended February 1, 2020 formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive Income, (iv) the Condensed Consolidated Statements of Cash Flows, (v) Notes to Condensed Consolidated Financial Statements, and (vii) document and entity information. (1)

(1) Filed herewith electronically.

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

I, Reece A. Kurtenbach, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended February 1, 2020 of Daktronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over 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
Date: 2/28/2020

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

I, Sheila M. Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended February 1, 2020 of Daktronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over 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/ Sheila M. Anderson
Sheila M. Anderson
Chief Financial Officer
Date: 2/28/2020

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

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

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

/s/ Reece A. Kurtenbach
Reece A. Kurtenbach
Chief Executive Officer
Date: 2/28/2020

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

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

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

/s/ Sheila M. Anderson
Sheila M. Anderson
Chief Financial Officer
Date: 2/28/2020