DAKTRONICS INC /SD/
Form 10-K
June 16, 2010

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended May 1, 2010
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITES 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: None
Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, No Par Value	NASDAQ Global Select Market
Preferred Stock Purchase Rights	NASDAQ Global Select Market

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

The aggregate market value of the common stock held by non-affiliates of the Registrant as of October 30, 2009 (which is the last business day at the Registrant's most recently completed second quarter), computed by reference to the closing sales price of the registrant's common stock on The NASDAQ Stock Market on such date, was approximately $307,352,793. For purposes of determining this number, individual stockholders holding more than 10% of the Registrant's outstanding Common Stock are considered affiliates. This number is provided only for the purpose of this Annual Report on Form 10-K and does not represent an admission by either the Registrant or any such person as to the status of such person.

The number of shares of the registrant's Common Stock outstanding as of June 14, 2010 was 41,214,131.

Documents Incorporated By Reference

Portions of the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held August 25, 2010 are incorporated by reference in Part III of the Form 10-K, as indicated in Items 10 through 14 of Part III.

DAKTRONICS, INC. AND SUBSIDIARIES
FORM 10-K
FOR THE FISCAL YEAR ENDED MAY 1, 2010

SPECIAL NOTE REGARDING FORWARD–LOOKING STATEMENTS

This Annual Report on Form 10-K (including exhibits 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: our financing plans; trends affecting our financial condition or results of operations; our growth strategy and operating strategy; our competition; our business outside of the United States; our large contracts with significant customers; our ability to protect our intellectual property rights; excess production capacity or capacity needs; our involvement in securities and other litigation; difficult conditions in the economy; and the declaration and payment of dividends. The words "may," "would," “could,” “will,” “expect,” “estimate,” “anticipate,” “believe,” “intend,” “plans” and similar expressions and variations th intended to identify forward-looking statements. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, many of which are beyond our ability to control, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors discussed herein, including those discussed in the section of this Annual Report on Form 10-K entitled “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Business Risks and Uncertainties,” and those factors discussed in detail in our other filings with the Securities and Exchange Commission.

PART I.

Item 1. BUSINESS

General Development of Business

Company Background and Overview. Daktronics, Inc. was founded by Dr. Aelred Kurtenbach and Dr. Duane Sander in 1968 while they were professors of electrical engineering at South Dakota State University (“SDSU”) in Brookings, South Dakota. Our relationship with SDSU and other colleges and universities is a key factor contributing to our leadership in the industry. We have been able to experience sustained long-term growth due in part to the capability of the local universities and colleges to provide an important source of highly educated full-time and student employees.

Over the years, our products have evolved significantly, from scoreboards and matrix displays and related software applications to complex, integrated visual display systems that include full color video, text and graphics displays located on a local or remote network and tied together through sophisticated control systems. In the mid-nineties, as light emitting diodes (“LEDs”) became available in red, blue and green colors with outdoor brightness, we pioneered the development of full color LED video displays capable of replicating trillions of colors, thereby producing large format video systems with excellent color, brightness, energy efficiency and lifetime. Due to our foundation of developing scoring and graphics display systems, in which we were already a leader, we were able to add video capabilities so all of a customer’s large format display needs could be met in a complete, integrated system. This has proven to be a key factor in Daktronics becoming the dominant company worldwide in large electronic displays. Over the years, we have invested in product development to add complementary products and services, such as production services, liquid crystal display (“LCD”) networks, sound systems, marketing services, maintenance and support and other products for our customers.

Business Developments. As a result of our line of LED display systems and software applications, we gained significant market share through designing and manufacturing quality products and providing technical expertise and services. Our products are in use throughout the world, as we are the world’s leader in all LED display product categories, according to independent research.

In the sports market, our integrated video and scoring systems have been installed at many professional, collegiate and high school facilities, particularly in North America, and at international sporting events such as the Olympic Games.

With commercial applications, our video, digital billboard and graphics displays can be seen in major destination sites, such as Las Vegas and Times Square, along roadsides at retail establishments and at many other locations.

In the transportation market, our Vanguard® displays are in use in numerous jurisdictions across North America, and our customers include many state departments of transportation.

One of our core growth strategies on a historical basis has been to enter geographic markets by developing a small sales and service presence that provides after-sale support to our entire product line and sales of our products. This network of offices, including home offices, had been an important part of our growth strategy. Although we expect to still continue to open offices where it is important to have such a presence, in fiscal 2009 and through fiscal 2010, we began closing offices where they were not critical. In connection with these closings, more of our employees have transitioned to home offices. We currently have approximately 32 corporate offices throughout the world.

We occasionally acquire businesses that provide access to new markets or complement our existing products. In the past five years, we have acquired a number of small companies. Although these acquisitions increased the scope of services and technology that we are able to provide, our primary growth objective is still the increase of sales and profitability through organic growth.

We manufacture almost all products in South Dakota and Minnesota. Prior to 2006, almost all manufacturing was centralized in Brookings, South Dakota. As a result of the rapid growth during fiscal years 2006 through 2008 we experienced limitations in our ability to effectively hire sufficient numbers of employees in manufacturing. This caused us to expand operations in 2006 into Sioux Falls, South Dakota and Redwood Falls, Minnesota. We also invested in facilities in Shanghai China where we perform limited manufacturing, primarily final assembly for the Chinese market.

Financial Information About Segments

See Note 2 of the Consolidated Financial Statements for financial information pertaining to our business segments and geographic operations.

Narrative Description of Business

We are the world's leading supplier of electronic scoreboards, large electronic display systems and related marketing services, digital messaging solutions, software and services for sporting, commercial and transportation applications. Our continuing focus is on supporting customers with superior products, integration and services that provide dynamic, reliable and unique visual communication solutions. We offer a complete line of products, from small indoor and outdoor scoreboards and electronic displays to large multi-million dollar video display systems as well as related control, timing, sound and hoist systems and related professional services. We are recognized worldwide as a technical leader with the capabilities to design, market, manufacture, install and service complete integrated systems that display real-time data, graphics, animation and video.

We are engaged in a full range of activities: marketing and sales, engineering and design, manufacturing and professional services. Each of those activities is described below.

Marketing and Sales. Our products have been sold throughout the United States and other countries through a combination of direct sales personnel and resellers. In the United States and Canada, we use primarily a direct sales force for professional sports, colleges and universities, convention centers and smaller sports facilities, including high schools and transportation applications. In smaller commercial applications, we rely primarily on resellers. We also utilize resellers outside North America on large video system projects where we do not have a direct sales presence. Sales to resellers generally have terms consistent with sales directly to end users.

The majority of the products sold by resellers are standard catalog products. These are typically moderately priced and relatively easy to install. A limited number of models are built to inventory and available for quick delivery. We support our resellers through direct mail advertising, trade journal advertising, trade show exhibitions and our sales force support in the field. We believe that we can expand sales and in some niches, market share, by expanding both our direct sales force and resellers.

Our direct sales force is comprised of a network of corporate and home offices located throughout the world supporting all customer types in both sales and service. In addition to supporting resellers as described above, the direct sales staff sells the entire range of our standard products and substantially all of the large video display systems. Our direct sales staff is structured in a way to maximize cross-selling opportunities across segments.

We have organized our business into five business units which have a primary focus on particular markets and a secondary focus on opportunities in other markets. The business units consist of four domestic business units that include U.S. and Canada – Commercial, Live Events, Schools and Theatres, and Transportation – and a fifth business unit for International operations. We believe that customers in each of these areas share common attributes and are different from customers in the other areas which make them conducive to this structure. For example, Live Events customers usually have a large variety of products tied into a system in a single location that involves much more creative production services, design and event support. The Commercial business unit serves the needs created by large and remote networks of displays connected through various modes of communication. The Transportation business unit focuses on the unique needs of governmental contractors and ties into integrated systems that manage the flow of travelers and vehicles. Finally, the Schools and Theatre business unit focuses on the increasing level of support and service and limited resources along with all the statistics and related software and communication needs of athletic conferences and leagues.

When we target a potential customer for sales opportunities, the prospect is contacted either directly or through a reseller. Frequently, on larger sales opportunities, engineers, technicians and sales personnel jointly participate in site visits to assess site conditions, evaluate the customer's requirements and assemble and present proposals. Proposals to prospective customers include business and technical presentations as well as product demonstrations and visits to existing installations. We also regularly host customers at our various manufacturing facilities to demonstrate product quality, manufacturing and design capabilities.

International sales fluctuate from year to year based on the timing of large system projects. A typical term of sale for international projects includes a letter of credit or partial payment in advance. We believe that in addition to the growth we expect domestically, we will also achieve growth in the international markets. During fiscal years 2010, 2009 and 2008, approximately 12%, 12% and 13% of our net sales, respectively, were derived from international sales. Since 2000, we have acquired or opened international offices in Canada, China, France, the United Arab Emirates, Germany, Australia and the United Kingdom. For fiscal years 2008 and 2009 through the first quarter of fiscal 2010, we also were a 49% owner of a joint venture in Malaysia.

Much of our marketing and sales success in the past was based on our ability to create new products and product enhancements for customers by understanding their needs and opportunities. We have developed and continue to develop this understanding through active participation in the sales cycle by engineers and other personnel and through attending trade shows, conventions and seminars and fostering a culture of teamwork throughout the organization.

Engineering and Product Development. The large screen electronic display industry is characterized by ongoing product innovations and developments in technology and complementary services. To remain competitive, we must continue to anticipate and respond to changes and developments in the industry. We will continue our tradition of applying engineering resources throughout our business to help achieve more effective product development by investing approximately 4% of our net sales over the long-term into product design and development.

We employ engineers and technicians in the areas of mechanical and electrical design, applications engineering, software design and customer and product support. We use primarily in-house engineering to anticipate and respond rapidly to the product development needs of customers and the marketplace. We assign product managers to each product or product family to assist our sales staff in training and implementing product improvements, and to ensure that each product is designed for maximum reliability and serviceability. We also invest in new creative technologies and in companies developing new technologies.

Our engineering staff consists of four product development groups – Sports, Video, Commercial and Transportation. The sports product development group focus is aligned with the Schools and Theatre business unit, the video group is aligned with the Live Events and International business units, and the commercial and transportation groups are aligned with the Commercial and Transportation business units. During fiscal 2009, this alignment started to evolve into various knowledge centers across the product development groups for the purpose of leveraging knowledge and concepts across product lines. This alignment has driven improved product reliability, lower costs and better functionality for our customers. The development of these knowledge centers and various other practices within product development are modeled after best practices for lean product development.

Manufacturing. As a vertically integrated manufacturer of display systems, we perform most sub-assembly and substantially all final assembly of our products.

Our manufacturing operations include component manufacturing and system manufacturing (metal fabrication, electronic assembly, sub-assembly and final assembly). We augment our production capacity with the use of outside resources primarily due to capacity constraints, although we have also used outside providers when it was more cost effective.

We use a modular approach for manufacturing displays. Standard product modules are designed to be used in a variety of different products. This modular approach reduces parts inventory and improves manufacturing efficiency. We inventory a limited supply of standard products. Custom projects are built according to the customer's specifications. Product modules are designed so that a custom product may include a significant percentage of standard components to maximize reliability and ease of service. A key strategy of ours is to reduce the need for customization of displays and increase standardization. For example, we are developing a more widespread use of a common module platform and are expanding use of standard formed cabinets for displays.

Our order entry, production, customer service and many other functions are also consolidated through an enterprise resource planning system to facilitate communication among employee teams throughout the entire sales, design, production and delivery process.

We have manufacturing facilities in Brookings, South Dakota, Sioux Falls, South Dakota, Redwood Falls, Minnesota, and Victor, New York. We also deployed a limited amount of manufacturing capability in China, and we expect to expand manufacturing at that location at some time in the future. Locations outside of Brookings produce a material amount of our products.

During fiscal 2007, we began reorganizing our plants to more closely align them with the five business units described above. In fiscal 2008 and 2009, we expanded this reorganization by allocating inventory and decentralizing various other functions to each plant. This resulted in significant investment in replicating processes which in prior years were centralized. This was extremely important given the rapid growth of the business and the resulting unique needs of our customers in each business unit. Our goal was to align sales, marketing, engineering and manufacturing into a cohesive business unit with a focus on customers while not giving up the synergies of shared resources. In addition, given the cyclical nature of some parts of our business, we need to maintain our ability to manufacture the same products across our plants so that we can smooth out the peaks and valleys of customer demand of the various business units. During the second half of fiscal 2009, as a result of the downturn in business, primarily in our commercial business, it became more important to share the plants across business units. We expect that emphasis on aligning manufacturing to a business unit as opposed to a shared resource will continue to change as our business changes.

In fiscal 2007, we began implementing lean manufacturing techniques throughout our manufacturing facilities. Although there are direct costs associated with implementing lean manufacturing techniques, the goal of doing so is to eliminate waste and deliver products to a customer when the customer desires the products while maintaining minimal inventory and eliminating non-value added tasks.

Technical Contracting. We serve as a technical contractor for larger display system installations that require custom designs and innovative product solutions. The purchase of standard displays and other state-of-the-art display systems typically involves competitive proposals. As a part of our response to a proposal request, we may suggest additional products or features to assist the prospective customer in analyzing the optimal type of display system. We usually include, as a part of our proposal, site preparation and installation services related to the display system. In these cases, we serve as a contractor and may retain subcontractors. We are licensed in a number of domestic jurisdictions as a general contractor. Generally, we outsource all related electrical, steel and installation labor to qualified subcontractors with which we have developed relationships.

Professional Services. Our professional services are essential to continued market penetration and growth. Professional services we provide in addition to technical contracting include event support, content creation, product maintenance, marketing assistance, training on hardware and software, and display rentals. Our creative production staff provides a variety of services to customers, including video content, event support, control room design, on-site training (hardware and software), and continuing technical support for operators of complicated display systems.

Our sports marketing division provides customers with marketing and ad sales for facilities to fund display system purchases. These marketing services extend beyond the marketing potential of the equipment in the facility to other facility-related components. Typically, we render these services to facilities that do not have in-house marketing programs and staff.

We provide these services through our own employees located in company or home offices throughout the world in more than ten countries.

Customer Service and Support. Our customer service distinguishes us from our competitors. This service includes limited warranties for most of our products against failure due to defective parts or workmanship for periods generally ranging from one to five years after the first sale or installation, depending on the product or type of customer, and extended service agreements. We also provide help-desk access, parts repair and replacement and programming support for video, animation and other displays. We staff our help desk with experienced technicians who are available on-call 24 hours a day to support events and sites.

Our repair centers, located in the United States, Germany and Shanghai, are staffed with trained technicians who repair and return components that require service, and we offer a component exchange program for same-day shipment of replacement parts.

Beginning in fiscal 2009, we reorganized our North American field service personnel so that we could better focus on the commonality of the products across units rather than the unique needs of each customer, which was the prior focus. We believe that we can drive significant cost savings and synergies by doing this that will be realized over time. We also took steps to improve utilization of our field service personnel through the use of third party authorized service companies. This allows us to better respond to changes in volume of service which peaks in the late summer and early fall.

General Description of Our Products and Technologies

Our display technologies have changed significantly since the mid-1990s, when incandescent lamps were the primary display element. Presently, LED and LCD technologies are the primary display elements. The invention and availability of blue and green LED in the mid-1990s, along with the already available red LED, allowed the introduction of full-color video displays using LEDs as the primary colors to form all other colors in the video display. The decreasing costs of LCD components along with the drive for smaller displays have led to the addition of LCD displays. Driven by customer demand, we have enhanced our video display technology into mobile and modular technologies and high definition capabilities for various applications.

The cost, performance and availability of LEDs have made them the preferred display element for large displays as compared to alternatives such as incandescent and reflective technologies, most of which are obsolete or unproven. The cost effectiveness, life and performance of LCDs have made them the preferred small display solution. The vast majority of displays we sell today utilize LED technology.

The two principal components of many of our systems are the display and the controller. The controller uses computer hardware and software to process the information provided by the operator and other integrated sources and then compiles the information, graphics or animation to be presented on the display. Data can be transferred between the controller and local or remote displays. Local connections may use wire cables, fiber optic cables, infrared links or radio links. Standard and cellular telephone connections and satellite transmissions are used to connect to remote displays. The controller controls each of the pixels (which are the dots or picture elements that make up the image) on the display to present the message or image.

Most of our display technologies rely on one or more of our software products to manage and provide content for the display. These software products range in complexity from scoring consoles, to the Venus® 1500 control software that allows the creation, display and scheduling of dynamic text and basic graphics content on electronic displays, to the Venus® 7000 display control system that controls multi-color displays and video displays, providing the ability to create graphics and animation as well as interfacing with third-party software for content. Additionally, our VisiconnSM control software is used to display targeted messages to specific audiences and to control large networks of digital displays. Complementary software, such as our DakStats® and interfacing software, is also available and can be fully integrated into the control software.

Our display systems range from small scoreboards and digit displays priced at under $1,000 to large complex display systems priced in excess of $20 million. Generally, our product sales are either custom products or standard catalog scoreboards or displays. Historically, these standard catalog sales have accounted for less than 25% of our total annual revenues. Our custom products are customized in terms of size, configuration and installation type but are generally built using standard technology platforms. In 2008, we initiated various programs to reduce custom components in favor of much more standardized components that could be assembled to form products that are customized to the needs of the end users.

Within each product family, we produce displays that vary in complexity, size and resolution. The physical dimensions of a display depend on the size of the viewing area, the distance from the viewer to the display, and the amount and type of information to be displayed. Generally, for longer distance viewing, the light sources, or pixels, are larger and spaced farther apart. The type of the display may also depend on the location of the viewing audience. For example, arena scoreboards may have a viewing angle nearly as wide as 180 degrees, compared with roadside displays, which typically are viewed from a passing vehicle only within a narrow angle from the display. We customize our products according to the design specifications of the customer and the conditions of the environment in which our products function.

Product Families and Technologies

Our products are comprised of the following primary product families:

1. Scoring and timing products for sports, primarily LED scoreboards, related controllers and software;
2. Audio systems, primarily for sports venues; and related control systems;
3. Automated rigging and hoist products and related control systems;
4. Video display systems, including a full-line of LED technologies in various pixel pitches and display configurations, and associated control systems;
5. Message displays, promoted under the Galaxy® and Galaxy Pro® names, and associated control systems;
6. Digital billboard displays, promoted under the Valo® product name, and associated control systems;
7. Digit and price displays and associated control systems; and
8. Transportation products, primarily the Vanguard® line of dynamic message signs.

Each of these product families is described below.

Scoring and Timing Products. Our line of scoring and timing products includes indoor and outdoor scoreboards for many different sports, digit displays, scoring and timing controllers, statistics software and other related products. Indoor systems range in complexity from two-digit shot clocks and small scoreboards with simple control, to large, center-hung scoreboards incorporating video displays, message centers, advertising panels and hoist systems. Outdoor scoreboards range in complexity from two-digit game timers and small scoreboards to larger systems incorporating scoring, timing, video, message centers and advertising panels.

We expect LED technology will remain the technology of choice for scoreboards and displays due to its lower power consumption, longer life and resulting lower maintenance costs as compared to other technologies. Because most of the scoreboards and display products within this group have significant standardization, we have been able to make progress on our goal of delivering the highest quality products.

We offer a variety of internally developed controllers complementing our scoreboards and displays. These controllers vary in price and complexity from the All Sport® 100, a handheld controller for portable scoreboards, to the All Sport® 5000 series, designed for more sophisticated scoring systems and allowing for more user-defined options. These controllers communicate with scoreboards through radio frequencies, fiber optic connections or other means.

We also offer timing systems for sports events, primarily aquatics and track competitions. A primary component of these systems is our proven OmniSport® 2000 timing console. The system has the capability to not only time and rank the competitors but also to interface with event management software created by third parties to facilitate the administration of the sporting event. Other timing system components include swimming touchpads, race start systems, and relay take off platforms.

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

Audio Systems. The audio system offerings include both standard and custom options. Standard audio systems are designed to meet the needs of a wide variety of outdoor sports venues based on the size and configuration of the facility. Each of the standard outdoor systems includes control systems that feature digital signal processing for improved sound quality reproduction. Custom indoor and outdoor systems are also offered for larger venues and venues with unique seating configurations. Our sound systems are often integrated into an overall venue solution that includes scoring, timing, message display and/or video capability.

Automated Rigging and Hoist Products. The automated rigging and hoist product family includes our Vortek® automated hoists which complement our arena center-hung scoreboard/display systems for both small and large sporting facilities. The hoist is an important part of an integrated solution for indoor venues that have center-hung, suspended displays. Many of these hoist systems are customized based on the weight and design of the equipment being suspended, along with the load capacity of the building structure and attachment points within the facility.

Additionally, the company provides automated rigging for theatre applications, primarily in high schools and similar venues. The strengths of our automated rigging systems include safety and ease of operation. The theatre rigging control system includes intuitive touch screens and menus to control the integrated hoist systems for added safety and enhanced operation of a theatre production, making changes in scenery, lighting and sound preprogrammed, timed and easy to control.

Video Display Systems. This group consists primarily of displays, which are comprised of a large number of full-color pixels capable of showing various levels of video, graphics and animation; and controllers, which manage the operation of the display. Video displays are comprised of red, green and blue LEDs arranged in various combinations to form pixels (picture elements). The electronic circuitry which controls the pixels allows for variances in the relative brightness of each LED to provide a full color spectrum, thereby displaying video images in striking, vibrant colors.

We offer a wide range of video display systems for different applications and budgets. Variables in video displays include the spacing of the pixels (pixel pitch), the resolution (number of pixels) of the displays, the brightness of the displays (nits), the number of discrete colors that the display is able to produce (color depth) and the viewing angles. In addition, modular design allows the product to be readily configured in custom sizes to meet each customer's specific requirements, with virtually no limit to the size of display that can be built.

We offer a complete line of video display systems that is second to none in the industry. At the high end, the product is capable of displaying 4.4 trillion colors and is available with pixel spacing as close as three millimeters. Currently, we offer a wide range of pixel spacing, ranging from three millimeter to 26 millimeter. The three-millimeter application provides the user with the greatest pixel density and shortest viewing distance, and the 26 millimeter is the most cost effective for physically large displays with longer viewing distances. In addition, the uniformity of colors across the display is important to the quality of the video image. Our unique display control circuitry, along with our proprietary manufacturing and calibration procedures, provide uniform colors across the display.

In addition to traditional rectangular video displays, we have adapted LED video technology into ribbon board displays, modular displays, and freeform display systems. Our ribbon board display systems are configured in different height-to-width ratios to give arenas and stadiums the ability to install long, narrower bands of displays in various locations in the facility. For new construction projects, our ProRail® attachment system is combined with ribbon board technology to provide improved sight lines for fans and reduce construction costs for the building's owner. Digital ribbon boards generally serve as a revenue generation source for teams and facilities through advertising as well as another location to display information such as scoring and statistics.

Our transportable display systems are comprised of lightweight individual LED video panels less than a square meter in size that are assembled together to form a display in a customizable height and width. These panels are used in what we refer to as mobile and modular applications, such as touring shows and the events market.

Freeform video elements, available as individual pixels or strips of pixels, can serve as architectural lighting, be used to illuminate channel lettering, or be configured in unique shapes to show graphics and video.

During the second half of fiscal 2010, we introduced our DVX series display technology. This new generation of product is intended to eventually replace our PS-X and HD-X display technology over time as we bring various configurations to the market. The focus of this development was to standardize a common module and cabinet platform across all pixel pitches to gain synergies on materials, improve reliability, decrease selling prices and decrease engineering costs over the long-term.

One of the primary control components for video displays is our Venus® 7000 controller, which is built on the Windows® operating system. This controller provides advanced capability for controlling video displays. We also provide a proprietary video processing system developed specifically for LED display technology. For larger venues that host live events, the Venus® controller and V-Link® video processor are typically part of a larger system that includes cameras, switchers, clip playback devices, and other components. These systems provide the ability to show instant replays, live action video, pre-recorded video clips, and overlays of scoring, timing and statistical information. We sometimes package our components with control components from other suppliers to provide a complete video production solution.

During the second half of fiscal 2010, we introduced our new Show Control System. This control system is intended to expand the capabilities of the Venus 7000 controller and features many enhancements designed to improve event management and display control. Show Control can operate entire networks of displays from a single control interface similar to the Venus® 7000 controller, but with a much more intuitive user interface. New features such as smart buttons allow users to instantly deliver media clips, camera feeds, and streaming information to any display in a network. It also adds advanced scheduling tools and detailed advertisement tracking tools to supplement the events revenue generating use of displays.

Message Display Systems. The key product lines in this group are marketed under the names Galaxy® and GalaxyPro® and are generally controlled with our Venus® 1500 display controller.

Galaxy® full-matrix displays, available in both indoor and outdoor models, are our leading product line for commercial applications and are expected to be a key product line for growth in the future. Galaxy® displays are red, amber or full color, with pixel spacing ranging from six millimeter to 46 millimeter depending on color, size and viewing distance. They are used primarily as message centers to convey information and advertising to consumers and the public. The modular design of the product allows us to configure a display to readily meet the size requirements of each customer. We offer various price points for similar sized displays within the Galaxy® line.

GalaxyPro® displays are full-matrix outdoor displays capable of displaying text, graphics and animation, as well as pre-recorded video clips. The product was developed to meet the video needs of the commercial market, primarily large retail market applications, such as auto dealerships and shopping centers. GalaxyPro® displays are offered in full color with pixel spacing of 12, 16 and 20 millimeters. GalaxyPro® displays are capable of producing 68 billion colors, have excellent color uniformity across the display, and are fully compatible with our Venus® 1500 display control software. The modular design of the product allows us to configure a display to readily meet the size requirements of each customer.

Galaxy® and GalaxyPro® series displays utilize our proprietary Venus® 1500 display control software to control the creation of messages and graphic sequences for downloading to the display. This software is designed to be useable without any special training, and it is applicable to all general advertising or message presentation applications. We also provide software that allows system integrators to write their own software using the Venus® 1500 software developer's kit to communicate to displays supplied by us. Several system integrators have implemented the Venus® 1500 protocol into their specific applications, resulting in additional display sales.

Digital Billboards. Our Valo® line of digital billboards offers a unique digital display solution for the outdoor advertising industry. The products, developed based on our experience with other full-color LED display technologies, are used primarily to display static images that change at regular intervals. Valo® systems include many features that are unique to the outdoor advertising business, such as our patented mounting system, self adjusting brightness, improved energy consumption, and enhanced network security.

The Visiconn system is the primary software application for controlling content and playback loops for digital billboard applications. The Visiconn display management solution can transform any Internet-ready computer into a secure, global control center for multiple LED displays, flat panel monitors, such as LCDs, and other presentation technologies. A rights-based control environment allows users to grant advertisers access to powerful content management tools, while also providing detailed ad tracking and proof-of-play reports. These features, combined with instant content deployment and the ability to sync with trusted real-time data providers allow for incorporation of live information into any presentation.

Digit and Price Displays. Other product lines marketed primarily to Commercial customers include our DataTime® and FuelightTM display systems. The DataTime® product line consists of outdoor time and temperature displays that use a remote sensor for temperature data input and are available in red or amber in various character sizes. Fuelight™ digit displays are specifically designed for the petroleum industry, offering high visibility and quick fuel price updates using the Fuelink™ control software. The product easily retrofits into existing structures and is also available in single-face or double-face (on certain models) configurations.

Transportation Products. Transportation products include a wide range of LED-based displays for road management, parking, mass transit and aviation applications. The Vanguard® family of dynamic message displays, which lead transportation product sales, are typically used to direct traffic and inform motorists. These displays are used over freeways, on arterial roads, near bridges, at toll booths and in other locations. We have also developed a software control system for these displays to help transportation agencies manage large networks of displays.

Our digit and directional displays are primarily marketed and sold for use in parking facilities. They include multi-line displays delivered in vertical cabinets, or drop-in digit panels designed to be mounted in existing structures or signs.

Most of the transportation products are designed and tested to rigorous transportation industry standards. Our personnel routinely work with standards development organizations to assist in writing standards that benefit the public and take advantage of the latest display technologies.

Sources of Raw Materials

We source some of our raw materials, including LEDs, from a limited number of suppliers, primarily due to quality control or the customized nature of the materials. The loss of one of these key suppliers could have an adverse impact on our business and operations. For additional information, refer to Item 1A – Risk Factors. From time to time, we enter into pricing agreements or purchasing contracts under which we agree to purchase a minimum amount of product in exchange for guaranteed price terms over the length of the contract, which generally does not exceed one year.

Intellectual Property

We develop technology on a continuing basis that we consider for patent application. We apply for the majority of our patents to establish the creation of the technology so that other parties cannot later claim ownership. We generally do not pursue infringement claims on these patents when others infringe on them. The remainder of our patents are designed to prevent infringement, and we aggressively pursue infringement claims for protection due to patent violations.

We apply for patents in the U.S. and a limited number of foreign jurisdictions. These patents generally pertain to our display technologies and product features and have various terms of duration. The patents we hold which are designed to protect and prevent competitors from infringing include, for example, patents on mechanical designs, such as our ProRail® system and Valo™ Mount, formed cabinet design and latching system for modules. They also include patents for product features and capabilities which we believe are superior in the marketplace and that give us a competitive position, such as our touchpad products for aquatics. There are a limited number of patents that apply to our electronics due to the rapid rate of change in the industry. However, we hold patents on such things as calibration methods and pixel arrangements. Due to the general nature of our business and the rapid rate of change in technology, we do not incur significant expenditures in defending or prosecuting patent claims.

We rely on trademarks, in addition to patents, to help establish and preserve limited proprietary protection for our products. Our trademarks are registered in the United States and other countries. We also have numerous trademark applications pending. These trademarks are used to establish brand recognition and distinction in our various markets.

Product drawings, software, training and product manuals and other works of authorship are also subject to applicable copyright law protections. We provide software to our customers in object code to help preserve our intellectual property rights. We also rely on nondisclosure and license agreements with our employees. Despite these intellectual property protections, there can be no assurance that a competitor will not copy the functions or features of our products.

Seasonal Nature of the Business

Our sales and profitability historically have fluctuated due to the impact of large product orders, such as display systems for facilities where professional and major college sports events take place and large commercial systems and networks. The seasonality of the sports market has also played a part in our sales and profit fluctuations. As a result, net sales and net income in the first and second quarters of a fiscal year tend to be higher than in the third quarter of a fiscal year, followed by higher levels in the fourth quarter leading into the first quarter of the following year.

The seasonality of the sports business is caused by sales related to facilities for football in the summer and early fall, followed by sales related to facilities for basketball and hockey in the fall, and facilities for baseball in the early to late spring. This seasonal effect can be compounded by large product orders in the sports markets and by the effects of holidays during our third fiscal quarter. The effects of seasonality unrelated to holidays are generally not found in our Commercial, International and Transportation business units, although the impact of large orders in those markets can cause significant fluctuations in net sales and profits. Approximately 57% of our net sales are in the Schools and Theatres and Live Events business units, 23% are in the Commercial business unit, 10% are in the International business unit, and the remaining approximately 10% are in the Transportation business unit.

Gross margins on large orders tend to fluctuate more than the gross margins on smaller orders. Large product orders that involve competitive bidding and substantial subcontract work for product installation generally have lower gross margins with greater variability in margins. Although we follow the percentage of completion method of recognizing revenues on the majority of these larger orders, we nevertheless have experienced fluctuations in operating results and expect that our future results of operations will be subject to similar fluctuations.

Working Capital Items

On large product orders, the time between order acceptance and project completion may extend up to and exceed 18 months depending on the amount of custom work and the customer's delivery needs. We often receive down payments or progress payments on these orders. To the extent that these payments are not sufficient to fund the costs and expenses associated with these orders, we use working capital and bank borrowings to finance these cash requirements.

Customers

The primary markets we serve, along with types of customers, are as follows:

Markets	Types of Customers
Live Events	Large colleges and universities, professional sports teams and facilities, Olympic games, national and international sports federations, civic arenas and convention centers, staging and rental, and motor racing.
Schools and Theatres	Elementary and secondary schools, small colleges and universities, local recreation centers and theatres.
Commercial	Retailers, outdoor advertisers, hospitality providers, quick-serve restaurants, financial institutions, casinos, pari-mutuel racing and other similar businesses.
Transportation	State and local departments of transportation, airlines, airports and related industries, parking facilities and transit authorities.

We have a large and diverse customer base. The nature of our business generally is not repetitive business from one or a few significant customers. As a result, the loss of a major customer generally would not have a material adverse impact on us.

Backlog

Our backlog consists of customer sales agreements or purchase orders that we expect to fill within the next 24 months and was approximately $127 million as of May 1, 2010 and $120 million as of May 2, 2009. Because sales agreements and purchase orders are typically subject to cancellation or delay by customers with a limited or no penalty, our backlog is not necessarily indicative of future net sales or net income. Although orders for many of our products may be shipped within 90 days, other orders may take longer depending on the customer's project schedule or other factors. Contracts related to new construction projects generally tend to have the longest lead times. Included in backlog is one order for approximately $8 million related to the minimum guaranteed commitment on a $26 million procurement contract from the New Jersey Turnpike Authority. The customer has verbally committed to taking delivery of a minimum amount during fiscal 2011 although contractually, they have approximately three years to take delivery on this minimum.

Government and Other Regulation

In the United States and other countries, various laws and regulations, including zoning ordinances, restrict the installation of outdoor signs and displays, particularly in the commercial market. These laws and regulations include those that impose greater restrictions on electronic displays than on non-electronic displays such as traditional billboards due to alleged concerns over aesthetics or driver safety if a display is located near a road or highway. These factors may prevent or inhibit us from selling products to some prospective customers.

Some of our products are tested to safety standards developed by Underwriters Laboratories in the United States, as well as similar standards in other countries. We design and produce our products in accordance with these standards.

Our manufacturing operations use certain chemical products and chemical processes that are subject to various environmental rules and regulations. Our manufacturing operations must also meet various safety related rules and regulations. We believe we are in material compliance with applicable governmental laws and regulations.

In some countries in which we operate, including China, there are various laws and regulations that may inhibit our operations and financial condition. These include restrictions or limitations on our ability to withdraw our capital investment, undeveloped legal frameworks to enforce our rights, and different levels of enforcement and consistency of laws.

Competition

The large electronic display industry is highly fragmented and characterized by intense competition from a variety of sources. There are a number of established suppliers of competing products which may have greater market penetration in certain of our market niches or greater financial, marketing and other resources. Competitors also attempt to copy our products or product features. Because a customer's budget for the purchase of a large screen electronic display is often part of that customer's advertising budget, we may also compete with other forms of advertising, such as television, print media or fixed display signs.

There are generally more competitors in product categories and applications that require less complicated display systems, such as the high school scoreboard market and the text and graphics display markets. As the needs of customers increase and the display systems become more complex, there are generally fewer competitors. However, due to the high profile nature of larger complex display systems, the competition is generally more intense.

Within our standard product business, which includes our Galaxy® and Valo™ display lines and scoreboard products, there are a large number of competitors, none of which we consider to be dominant. In addition, in the Galaxy® display business, there are a significant number of Asian competitors that attempt to sell in our marketplace. We generally compete based on our depth of service and the wide range of our product offerings.

Within our large video system business, across all segments, there are various competitors that have different levels of strength in individual niches, but none that have a dominant position overall. For example, a single competitor may have strength in the mobile video business but very little in the fixed installation business. Another competitor may have strength in the billboard display business but very little strength in any other video system applications. In addition, our large display business has competitors in a narrow niche that were significant at one time in that niche and then substantially decreased their presence in that niche. These changes seem to happen as a result of the complexities of the marketplace and the failures that are experienced on installations that receive a great deal of visibility. Our video systems are highly complex and visible, requiring a high standard of performance that is difficult for other industry participants to maintain over the long-term.

Our competitors are not generally aligned by business unit. The focus of competitors tends to be more of a product focus. For example, our Galaxy® line of displays has competitors that are also concentrated in the Commercial business unit, although, like us, they also compete with these same products in our other business units. Competitors with a focus on video displays compete generally across all our business units.

Overall, we compete based on our broad range of products and features, complementary services, advanced technology, prompt delivery, and reliable and readily available customer service and support. We also strive to provide cost-effective products and solutions for our customers. Contrary to our focus on technologically advanced products and customer support, some of our competitors compete in some markets by providing lower-cost display systems, which are of a lesser quality with lower product performance or less customer support. If a customer focuses principally on price, we are less likely to obtain the sale. To remain competitive, we must continue to enhance our existing products, introduce new products and product features, and provide customers with cost-effective solutions to their display needs.

Research and Development

We believe our engineering capability and experience are unparalleled among our competitors and that our product development capability will continue to be a very important factor in our markets.

Product development expenses for fiscal years 2010, 2009 and 2008 were approximately $21.9 million, $21.6 million and $20.8 million, respectively.

Environmental Concerns

Our products and production processes require the storage, use and disposal of a variety of chemicals that are considered hazardous under applicable federal and state laws. Accordingly, we are subject to a variety of regulatory requirements for the handling and disposal of such materials. We do not anticipate any material effect on our capital expenditures, earnings or competitive position due to compliance with government regulations involving environmental matters.

Employees

As of May 1, 2010, we employed approximately 2,100 full-time employees and approximately 400 part-time and temporary employees. Of these employees, approximately 900 were in manufacturing, 500 were in sales and marketing, 500 were in customer service, 400 were in engineering and 200 were in administration. None of our employees are represented by a collective bargaining agreement. We believe employee relations are good.

Financial Information About Geographic Areas

Our operations in countries outside the U.S. are accompanied by certain financial and other risks. Relationships with customers and effective terms of sale vary by country, often with longer-term receivables than are typical in the U.S. Currency exchange rate fluctuations can affect net sales from, and profitability of, operations outside the U.S. We attempt to hedge these exposures to reduce the effects of foreign currency fluctuations on net earnings. In addition, the repatriation of certain earnings of our foreign subsidiaries' may result in substantial U.S. tax cost.

See Note 2 of the Consolidated Financial Statements for additional financial data pertaining to our geographic operations.

Available Information

We make available, free of charge, on or through our website (http://investor.daktronics.com), our annual, quarterly and current reports and any amendments to those reports as soon as reasonably practicable after we electronically file such reports with the Securities and Exchange Commission ("SEC"). The reports are also available through a link to the

SEC's website at http://www.sec.gov. Information contained on our website or linked through it is not part of this report.

Item 1A. RISK FACTORS

A number of risks and uncertainties exist which could impact our future operating results. These uncertainties include, but are not limited to, general economic conditions, competition, our success in developing new products and technologies, market acceptance of new products and other factors, including those set forth below.

Competition could result in lower net sales and decreased margins. We operate in highly competitive markets, some of which are highly fragmented. In addition, because a customer's budget for the purchase of an electronic display is often part of that customer's advertising budget, our products often compete with other forms of advertising, such as television, print media or fixed display signs. Competition could result in not only a reduction in net sales but also in the prices charged by us for our products. To remain competitive, we must be able to not only anticipate and respond quickly to our customers' needs and enhance and upgrade our existing products and services to meet those needs but also continue to price our products competitively. Our competitors may develop cheaper, more efficient products, or they may be willing to charge lower prices for strategic marketing or to increase market share. Some competitors have more capital and other resources than we do and may be better able to take advantage of acquisition opportunities or adapt more quickly to changes in customer requirements, which could negatively affect our ability to compete effectively.

Our business may suffer if we are not successful in our efforts to keep up with a rapidly changing product market. The electronic display industry is characterized by ongoing product improvement, innovations and developments in display and controller technology. Competitors could develop new or superior products to increase their share of the markets. Our future success in addressing the needs of our customers will depend in part on our ability to continue to make timely and cost-effective product improvements, innovations and developments.

We enter into fixed-priced contracts on a regular basis. Almost all of the contracts we enter into to sell our products are on a fixed-price basis. If our actual costs exceed original estimates on fixed-price contracts, our profits will be reduced. Although we benefit from cost savings, we have a limited ability to recover cost overruns. Because of the large scale and long duration of some contracts, unanticipated cost increases may occur as a result of several factors including, but not limited to, increases in the cost or shortages of components, materials or labor; unanticipated technical problems; required project modifications not initiated by the customer; and suppliers' or subcontractors' failure to perform or a delay in performing their obligations. These factors could delay delivery of products, and contracts may provide for liquidated damages for late delivery. Unanticipated costs that cannot be passed on to customers or the payment of liquidated damages under fixed contracts would negatively impact our profits.

Backlog may not be indicative of future revenue. Customers may cancel or delay projects for reasons beyond our control. Orders normally contain cancellation provisions that permit our recovery of costs expended and a portion of the anticipated profit if a customer cancels an order. If a customer elects to cancel, we may not realize the full amount of revenues included in our backlog. If projects are delayed, the timing of revenues could be affected, and projects may remain in the backlog for extended periods of time. Revenue recognition occurs over longer periods of time and is subject to unanticipated delays. If we receive relatively large orders in any given quarter, fluctuations in the levels of the quarterly backlog can result because the backlog in that quarter may reach levels that may not be sustained in subsequent quarters. For these reasons, backlog may not be indicative of future revenues.

Our ability to conduct business outside the United States may be adversely affected by factors outside of our control, which could adversely affect net sales and profits from international sales. For fiscal years 2010, 2009 and 2008, revenue outside the United States represented approximately 12%, 12% and 13% of our consolidated net sales, respectively. Our operations and earnings throughout the world have been and may in the future be adversely affected from time to time in varying degrees by war, political developments, foreign laws and regulations, regional economic uncertainty, political instability, restrictions, customs and tariffs, changing regulatory environments, fluctuations in foreign currency exchange rates, longer accounts receivable cycles in certain foreign countries (whether due to cultural, exchange rate or other factors), compliance with import/export laws and foreign tax laws and potential increased costs associated with overlapping tax structures. The likelihood of such occurrences and their overall effect on us vary greatly from country to country and are not predictable. These factors may result in a decline in net sales or profitability and could adversely affect our ability to expand our business outside of the United States.

Our operating results may vary significantly from quarter to quarter, making it difficult to estimate future revenue and earnings. Our quarterly revenues and earnings have varied in the past and are likely to vary in the future. Contracts we enter into generally stipulate customer-specific delivery terms and may have contract cycles of a year or more, which subjects them to many factors beyond our control. Furthermore, because significant portions of our operating costs are fixed, an unanticipated delay or cancellation of orders in backlog may have a significant negative impact on our quarterly operating results. Factors that could cause our operating results to vary also include new product introductions, variations in product and project mix, and delivery due date changes. Therefore, quarterly operating results may be subject to significant variations, and operating results in one quarter may not be indicative of future operating results.

Our products are covered by warranties, and fulfilling these warranties could adversely affect our financial results. Unanticipated warranty and other costs for defective products could adversely affect our financial condition and results of operations and reputation. We provide warranties on our products generally for terms of five years or less in the case of standard products and one year or less in the case of custom orders. In addition, in response to customer needs, we regularly offer extended warranties. These warranties require us to repair or replace faulty products and meet certain performance standards, among other customary warranty provisions. Although we continually monitor our warranty claims and provide a reserve for estimated warranty issues on an on-going basis, an unanticipated claim could have a material adverse impact on our financial results. In some cases, we may be able to subrogate a claim back to a subcontractor or supplier if the subcontractor or supplier supplied the defective product or performed the service, but this may not always be possible. The need to repair or replace products with design or manufacturing defects could temporarily delay the sale of new products, reduce profits and adversely affect our reputation.

Product liability claims not covered by insurance could adversely affect our financial condition and results of operations. We may be subject to product liability claims involving claims of personal injury or property damage. Although we maintain product liability insurance coverage to protect us in the event of such a claim, our coverage may not be adequate to cover the cost of defense and the potential award. Also, a well-publicized actual or perceived problem could adversely affect our reputation and reduce the demand for our products.

Large contracts with significant customers represent a significant portion of our accounts receivable and costs and estimated earnings in excess of billings. We closely monitor the credit worthiness of our customers and have not, to date, experienced significant credit losses. Significant portions of our sales are to customers who place large orders for custom products. We mitigate our exposure to credit risk, to some extent, by requiring deposits, payments prior to shipment, progress payments and letters of credit. However, because some of the exposure is outside of our control, unanticipated events could have a material adverse impact on our operating results.

The amounts of our orders and net sales and our financial results will be substantially affected by whether we are awarded large contracts and the size and timing of large contracts. The amounts of our orders and net sales and our financial results will be substantially affected by whether we are awarded large contracts, primarily in the professional and major college facilities market and the outdoor advertising niche, and the amounts and timing of these contracts. Whether we are awarded large contracts and their timing and amount could also cause material fluctuations in our net sales and earnings. Awards of large contracts and their timing and amount are difficult to predict and are outside of our control.

The terms and conditions of our credit facility impose restrictions on our operations, and if we default on our credit facility, it could have a material adverse effect on our results of operations and financial condition. The terms and conditions of our $35 million revolving credit facility with a bank impose restrictions that limit, among other things, our ability to incur debt, merge, sell assets, make distributions and create or incur liens. The availability of the credit facility is also subject to certain covenants as explained in “Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Our ability to comply with the covenants may be affected by events beyond our control, and we cannot assure that we will achieve operating results and maintain a financial position meeting the requirements of the credit facility. A breach of any of these covenants could result in a default under the credit facility. In the event of a default, the bank could elect to declare any outstanding principal amount of the credit facility and term debt, any and all accrued interest thereon and any and all other amounts payable under the credit facility to be immediately due and payable, which would have an adverse effect on our results of operations and financial condition. As of May 1, 2010, we were in compliance with all financial and other covenants of our credit facility.

We must comply with the Foreign Corrupt Practices Act. We are required to comply with the United States Foreign Corrupt Practices Act, which prohibits United States companies from engaging in bribery or making other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some of our competitors, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time to time in many jurisdictions, including the Middle East and China. If our competitors engage in these practices, they may receive preferential treatment from the personnel of some companies or governmental agencies, giving our competitors an advantage in securing business from these companies or from government officials who might give them priority in obtaining new licenses, which would put us at a disadvantage. In addition, although we inform our personnel that such practices are illegal, we cannot assure that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties.

Our operations in the People’s Republic of China (”China”) subject us to risks and uncertainties relating to the laws and regulations of China. We have offices and make sales to customers in China. Under its current leadership, the government of China has been pursuing economic reform policies, including the encouragement of foreign trade and investment and greater economic decentralization. However, the government of China may not continue to pursue such policies. Despite progress in developing its legal system, China does not have a comprehensive and highly developed system of laws, particularly with respect to foreign investment activities and foreign trade. Enforcement of existing and future laws and contracts is uncertain, and the implementation and interpretation of them may be inconsistent. As the Chinese legal system develops, the promulgation of new laws, changes to existing laws and the preemption of local regulations by national laws may adversely affect foreign investors. For example, China recently passed a unified enterprise income tax law, which changes and increases the income tax on foreign-owned facilities. China also enacted new labor laws that became effective January 1, 2008 that make it more difficult and expensive for companies to make changes in their workforce. In addition, some government policies and rules are not published or communicated in local districts in a timely manner, if they are published at all. If they are published, they may not be followed consistently by local districts. As a result, we may inadvertently operate our business in violation of new rules and policies without having any knowledge of their existence. These uncertainties could limit the legal protections available to us. Any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

Our ability to satisfy any debt obligations will depend upon our future operating performance, which will be affected by prevailing economic, financial and business conditions and other factors, some of which are beyond our control. It is anticipated that borrowings from our existing credit facility and cash provided by operating activities should provide sufficient funds to finance our capital expenditures, working capital and otherwise meet operating expenses and debt service requirements as they become due. However, if additional capital is required, there can be no assurance that we will be able to raise such capital when needed or on satisfactory terms, if at all.

We may make future acquisitions, which may be difficult to integrate, divert management resources, result in unanticipated costs or dilute our shareholders. Part of our business strategy is to make acquisitions of or investments in companies businesses, products or technologies that complement our current products, enhance our market coverage or technical capabilities, or offer growth opportunities. We currently do not have any definitive agreements to acquire any company or business, and we may not be able to identify or complete any acquisition in the future. Additional risks associated with acquisitions include the following:

- it may be difficult to integrate the purchased company, products, businesses or technologies into our own business;
- we may incur substantial unanticipated integration costs;
- it may be difficult, time-consuming and costly to integrate management information and accounting systems of an acquired business into our current systems;
- assimilating the acquired businesses may divert significant management attention and financial resources from our other operations and could disrupt our ongoing business;
- we may enter markets in which we have limited prior experience;
- acquisitions could result in the loss of key employees, particularly those of the acquired operations;
- we may have difficulty retaining or developing the acquired businesses' customers;
- acquisitions could adversely affect our existing business relationships with suppliers and customers;
- we may fail to realize the potential cost savings or other financial benefits and/or the anticipated strategic benefits of the acquisitions; and
- we may incur liabilities from the acquired businesses for infringement of intellectual property rights or other claims, and we may not be successful in seeking indemnification for such liabilities or claims.

In connection with these acquisitions or investments, we could incur debt, recognize amortization expenses related to intangible assets, recognize large and immediate write-offs, assume liabilities, or issue stock that would dilute our current shareholders' percentage of ownership. We may not be able to complete acquisitions or integrate the operations, products or personnel gained through any such acquisition without a material adverse effect on our business, financial condition and results of operations.

Our business is partially subject to risks of terrorist acts and, to a lesser degree, acts of war. Terrorist acts and, to a lesser degree, acts of war, may disrupt our operations as well as the operations of our customers. Such acts have created an interruption of orders and delays in orders already booked, primarily in sports facilities and destination sites. Any future terrorist activities and, to a lesser degree, acts of war, could create additional uncertainties, forcing customers to further reduce or delay their spending or cancel or delay already planned projects, which could have a material adverse impact on our business, operating results and financial condition.

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

We may fail to continue to attract, develop and retain key management and other key employees, which could negatively impact our operating results. We depend on the performance of our senior management team and other key employees. The loss of certain members of our senior management, including our Chief Executive Officer, could negatively impact our operating results and ability to execute our business strategy. Our future success will also depend in part upon our ability to attract, train, motivate and retain qualified personnel. We do not have employment agreements with the executive officers or other employees, but we do maintain key person life insurance on the lives of our Chairman of the Board and our Chief Executive Officer.

We may be unable to protect our intellectual property rights. We rely on a variety of intellectual property rights that we use in our products and services. We may not be able to successfully preserve our intellectual property rights in the future, and these rights could be invalidated, circumvented or challenged. In addition, the laws of some foreign countries in which our products and services have been or may be sold do not protect intellectual property rights to the same extent as the laws of the United States. A failure to protect proprietary information and any successful intellectual property challenges or infringement proceedings against us could materially and adversely affect our competitive position. In addition, even if we are successful in protecting our intellectual property rights or defending ourselves against a claim of infringement, any related dispute or litigation could be costly and time-consuming and divert management's attention from business.

We maintain inventory that is subject to obsolescence and write downs to the extent it is replaced through product enhancements or advances in technology. As a result of our products being subject to continuous enhancements and design changes, inventory held by us is subject to the risk of obsolescence and excess levels that may not be saleable. Losses incurred as a result could have an adverse impact on our future profits.

We may not be able to utilize our capacity efficiently or accurately plan our capacity requirements, which may negatively affect our business and operating results. We increase our production capacity and the overhead that supports production based on anticipated market demand. Market demand, however, has not always developed as expected or remained at a consistent level. The underutilization that can result decreases our profitability. For example, in fiscal 2007 and 2008, market demand for our products was increasing rapidly, resulting in expanding our capacity. In the second half of fiscal 2009, net sales were below our expectations primarily due to a decline of orders in our Commercial and International business units. This resulted in underutilization of our manufacturing capacity. As a result, our profitability also was below our expectations.

The following factors complicate accurate capacity planning for market demand:

- changes in the demand for and mix of products our customers buy;
- our ability to add and train our manufacturing staff in advance of demand;
- the market's pace of technological change;
- variability in our manufacturing productivity; and
- long lead times for most of our plant and equipment expenditures, requiring major financial commitments well in advance of actual production requirements.

A further deterioration of our business could result in further underutilization of our manufacturing capacity, and we may need to impair certain assets in the future. Our inability to plan our capacity requirements accurately and efficiently utilize our production capacity, or our failure to put in place the technologies and capacity necessary to meet market demand, could adversely affect our business, financial condition and results of operations.

We depend on single-source suppliers for some of the raw materials used in the manufacture of our products. We obtain some of our raw materials, including LEDs, from a limited number of suppliers. If we cannot obtain some key raw materials from our suppliers, we cannot assure that the raw materials will be readily available from other suppliers, that other suppliers will agree to supply the materials to us on terms that are as favorable as the terms we currently receive, or that the raw materials from any other suppliers will be of adequate and consistent quality. Although we believe our supply of raw materials currently is adequate for the needs of our business, we cannot assure you that new sources of supply will be available when needed. Any interruption in our supply of raw materials could have a material adverse effect on our ability to manufacture our products until a new source of supply is located and, therefore, could have a material adverse effect on our business, financial condition and results of operations.

If our internal control over financial reporting is found to be inadequate, our financial results may not be accurate, raising concerns for investors and potentially adversely affecting our stock price. Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to evaluate and determine the effectiveness of our internal controls over financial reporting. We have dedicated a significant amount of time and resources to ensure compliance with this legislation for the fiscal years ended May 1, 2010, May 2, 2009 and April 26, 2008 and will continue to do so for future periods. We may encounter problems or delays in completing the review and evaluation, the implementation of improvements, and the receipt of a positive attestation, or any attestation at all, from our independent registered public accounting firm. In addition, our assessment of our internal controls may identify deficiencies that need to be addressed in our internal controls over financial reporting or other matters that may raise concerns for investors and therefore adversely affect our stock price.

Our manufacturing would be interrupted if we were unable to use one of our manufacturing facilities. We manufacture most of our products in two locations in South Dakota and one in Minnesota. If any of these facilities were to be destroyed, shut down or unable to be used for its intended purposes, we would be limited in our capacity to meet customer demands until a replacement facility and equipment, if necessary, was found. The replacement of the manufacturing facility could take an extended amount of time before manufacturing operations could restart. The delay engendered by, and the potential cost incurred in, these steps could have a material adverse effect on our business, financial condition and results of operations.

The protections we have adopted may discourage takeover offers favored by our shareholders. We have adopted, and there are available under the South Dakota Business Corporation Act (“SD Act”), several provisions that could have the effect of discouraging takeover offers. Of the 120,000,000 shares of capital stock authorized in our articles of incorporation, 5,000,000 shares are undesignated. Our Board of Directors may issue the undesignated shares on terms and with the rights, preferences and designations determined by the Board without shareholder action, which could be used to discourage takeover attempts. Our articles of incorporation provide for a classified board consisting of three classes of directors. A classified board generally makes it more difficult to replace directors and to acquire our company. We have adopted a shareholder rights plan that provides for the exercise of preferred share purchase rights when a person becomes the beneficial owner of 20% or more of our outstanding common stock (subject to certain exceptions). In addition, we are governed by the anti-takeover provisions of the current SD Act, which may deny shareholders the receipt of a premium on their common stock, which in turn have a depressive effect on the market price of the common stock. In general, shares of a corporation acquired in a “control share acquisition,” as defined in the SD Act, have no rights unless voting rights are approved in a prescribed manner. There are also provisions that prohibit a public South Dakota corporation from engaging in a “business combination,” as defined in the SD Act, with an “interested shareholder,” as defined in the SD Act, for a period of four years after the date of the transaction in which the person became an interested shareholder unless the business combination is approved in a prescribed manner. The SD Act also limits the voting rights of shares acquired in specified types of acquisitions and restricts specified types of business combinations. The existence or issuance of "blank check" stock, the classified board, the existence of our shareholder rights plan and the effect of the anti-takeover provisions of the SD Act, individually or in the aggregate, may discourage potential takeover attempts and delay, deter or prevent a change in control. They also may make the removal of management more difficult, which could deprive our shareholders of opportunities to sell their shares at prices higher than prevailing market prices.

Significant changes in the market price of our common stock could result in securities litigation claims against us. Significant price and value fluctuations have occurred with respect to the publicly-traded securities of technology companies generally. The price of our common stock has changed significantly in the past and is likely to continue to experience significant changes in the future. In the past, securities litigation claims have been filed against certain companies following a period of decline in the market price of their publicly-traded securities. We may be the target of similar securities litigation claims in the future. Risks associated with litigation often are difficult to assess or quantify, and their existence and magnitude can remain unknown for significant periods of time. Although we maintain directors' and officers' insurance, the amount of insurance coverage may not be sufficient to cover a claim, and the continued availability of this insurance cannot be assured. Future litigation, if any, may result in substantial costs and divert management's attention and resources, which could materially adversely affect our results of operations, financial condition and liquidity.

Unfavorable results of legal proceedings could have a material adverse effect on us. As described in Item 3 of this Annual Report on Form 10-K, our company has been named as a defendant in two complaints filed by three plaintiffs in November 2008 in the U.S. District Court for the District of South Dakota. The complaints purport to be brought on behalf of the classes described in the complaints; allege that the defendants, including the company, materially misled the investing public as described in the complaints; and allege claims under the Securities Exchange Act of 1934, as amended. Related additional claims may arise in the future. Results of legal proceedings cannot be predicted with certainty. Regardless of the merit of any claims, defending them can be time-consuming and disruptive to our operations and cause significant expense and diversion of management attention and resources, which may have a material adverse effect on our business, financial condition and results of operations, including our cash flow. Should we fail to prevail in these matters, or should any of these matters be resolved against us, we may be faced with significant monetary damages, which also could materially adversely affect our business, financial condition and results of operations, including our cash flow.

Difficult and volatile conditions in the capital, credit and commodities markets and in the overall economy could continue to materially adversely affect our financial position, results of operations and cash flow, and we do not know ifthese conditions will improve in the near future. Our financial position, results of operations and cash flow could continue to be materially adversely affected by the current and continuing difficult conditions and significant volatility in the capital, credit and commodities markets and in the overall worldwide economy. These factors, combined with declining business and consumer confidence and increased unemployment, have precipitated a worldwide economic slowdown and recession in the United States and other parts of the world. The continuing impact that these factors might have on us and our business is uncertain and cannot be predicted at this time. Current economic conditions have accentuated each of the risks described in this Annual Report on Form 10-K and magnified their potential effect on us and our business. The difficult conditions in these markets and the overall economy affect our business in a number of ways. For example:

- Although we believe we have sufficient liquidity under our credit agreement with a bank to run our business, under extreme market conditions, there can be no assurance that such funds would be available or sufficient and, in such a case, we may not be able to successfully obtain additional financing on favorable terms, or at all.

- Market volatility has exerted downward pressure on our stock price, which may make it more difficult for us to raise additional capital in the future.

- Economic conditions could continue to result in our customers experiencing financial difficulties or electing to limit spending because of the declining economy, which may result in decreased net sales and earnings for us.

-

Economic conditions combined with the weakness in the credit markets could continue to lead to increased price competition for our products, increased risk of excess and obsolete inventories and higher overhead costs as a percentage of revenue.

- If the markets in which we participate experience further economic downturns, as well as a slow recovery period, this could continue to negatively impact our sales and revenue generation, margins and operating expenses, and consequently have a material adverse effect on our business, financial condition and results of operations.

We do not know if market conditions or the state of the overall economy will improve in the near future or when or how quickly improvement will occur.

Circumstances could arise in which our goodwill and intangible assets could become impaired, causing us to recognize substantial non-cash impairment charges, which would adversely affect our financial results. We have pursued and will continue to seek potential acquisitions to complement and expand our existing businesses, increase our revenues and profitability, and expand our markets. As a result of prior acquisitions, we have goodwill and intangible assets recorded on our balance sheet as described in the notes to the consolidated financial statements contained elsewhere in this report. We will continue to evaluate the recoverability of the carrying amount of our goodwill and intangible assets on an ongoing basis, and we may incur substantial non-cash impairment charges, which would adversely affect our financial results. There can be no assurance that the outcome of such reviews in the future will not result in substantial impairment charges. Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions as to prices, costs, holding periods or other factors that may result in changes in our estimates of future cash flows. Although we believe the assumptions we used in testing for impairment are reasonable, significant changes in any one of our assumptions could produce a significantly different result. A decline in our market capitalization or in our estimated forecasted discounted cash flows also could result in an impairment of our goodwill and intangible assets. A non-cash impairment charge could materially and adversely affect the net income for the reporting period in which it is recorded.

Uncertainties inherent in certain accounting matters could adversely affect our operating results. The discussion of goodwill impairment and long-lived assets matters in Notes 1 and 4 to our consolidated financial statements is incorporated by reference.

Our data systems could fail or their security could be compromised. Our business operations depend on the reliability of sophisticated data systems. Any failure of these systems, or any breach of our systems' security measures, could adversely affect our operations, at least until our data can be restored and/or the breaches remediated.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our principal real estate properties are located in areas we deem necessary to meet sales, service and operating requirements. We consider all of the properties to be both suitable and adequate to meet current and near-term operating requirements.

As of May 1, 2010, we leased approximately 20 facilities throughout the United States and 11 facilities outside the United States for sales and service offices. We also leased two facilities in Sioux Falls, South Dakota, comprising approximately 120,000 square feet. One of the leases contains an option to purchase the building from May 31, 2009 through May 31, 2011. Our China subsidiary leases approximately 90,500 square feet in a building in Shanghai for sales, service and manufacturing. The majority of the remaining sales and service offices located throughout the

United States, Canada, Europe and China are small offices, generally consisting of less than 10,000 square feet leased under operating leases. These lease obligations expire on various dates, with the longest commitment extending to fiscal 2016. We believe all of our leases will be renewable at market terms in our discretion as they become due or that suitable alternative space will be available to lease under similar terms and conditions.

We own various buildings in Brookings, South Dakota, totaling approximately 1,000,000 square feet, and a building in Redwood Falls, Minnesota, totaling approximately 100,000 square feet.

Item 3. LEGAL PROCEEDINGS

Our company and two of our executive officers were named as defendants in a consolidated class action lawsuit filed in the U.S. District Court for the District of South Dakota in November 2008 on behalf of a class of investors who purchased our stock in the open market between November 15, 2006 and April 5, 2007. In an Amended Consolidated Complaint filed on April 13, 2009 (“Complaint”), the plaintiffs allege that the defendants made false and misleading statements of material facts about our business and expected financial performance in the company’s press releases, its filings with the Securities and Exchange Commission, and conference calls, thereby inflating the price of the company’s common stock. The Complaint alleges claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (“Exchange Act”). The Complaint seeks compensatory damages on behalf of the alleged class in an unspecified amount, reasonable fees and costs of litigation, and such other and further relief as the Court may deem just and proper. On June 5, 2009, we filed a motion to dismiss the Complaint. In July 2009, the plaintiffs filed a memorandum of law in opposition to our motion to dismiss. In September 2009, we filed a reply memorandum in support of the motion to dismiss. On June 8, 2010, the Court granted our motion to dismiss the Complaint without prejudice to plaintiffs being able to file a formal motion to further amend the complaint within 20 days of the date of the order.

We are involved in a variety of other legal actions relating to various matters that arise in the normal course of business. Although we are unable to predict the ultimate outcome of these legal actions, it is the opinion of management that the disposition of these matters, taken as a whole, will not have a material adverse effect on our Consolidated Financial Statements taken as a whole.

Item 4. RESERVED

PART II

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

Our common stock currently is quoted on The NASDAQ Global Select Market under the symbol “DAKT.” As of June 14, 2010, we had 509 shareholders of record. Following are the high and low sales prices for our common stock for each quarter within the last two fiscal years.

	Fiscal Year 2010		Fiscal Year 2009	
	High	Low	High	Low
1st Quarter	$ 9.88	$ 7.00	$ 21.32	$ 14.62
2nd Quarter	9.50	7.36	21.15	9.02
3rd Quarter	9.56	7.20	10.69	5.69
4th Quarter	9.29	7.06	9.46	5.89

On June 3, 2010, our Board of Directors declared a dividend of $0.10 per share payable on June 25, 2010 to holders of record of its common stock on June 14, 2010.

On May 28, 2009, our Board of Directors declared an annual dividend payment of $0.095 per share on our common stock for the fiscal year ended May 2, 2009.

Although we expect to continue to pay annual dividends for the foreseeable future, any and all subsequent dividends will be reviewed annually and determined and declared by the Board in its discretion. In addition, our credit facility imposes limitations on our ability to pay dividends as further described in "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

Performance Graph

The following graph shows changes during the period from April 30, 2005 to May 1, 2010 in the value of $100 invested in: (1) our common stock; (2) The NASDAQ Stock Market Index for U.S. companies; and (3) the Standard and Poor's 600 Index for Electronic Equipment Manufacturers. The values of each investment as of the dates indicated are based on share prices plus any dividends in cash, with the dividends reinvested on the date they were paid. The calculations exclude trading commissions and taxes.

Item 6. SELECTED FINANCIAL DATA (in thousands, except per share data)

The table below provides selected historical financial data, which should be read in conjunction with the financial statements and the notes to the financial statements and "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this report. The statement of operations data for the fiscal years ended May 1, 2010, May 2, 2009 and April 26, 2008 and the balance sheet data at May 1, 2010 and May 2, 2009 are derived from, and are qualified by reference to, the audited financial statements included elsewhere in this report. The statement of operations data for the fiscal years ended April 28, 2007 and April 29, 2006 and the balance sheet data at April 26, 2008, April 28, 2007 and April 29, 2006 are derived from audited financial statements not included in this report.

	2010	2009	2008	2007	2006
Statement of Operations Data:					
Net sales	$393,185	$580,681	$499,677	$433,201	$309,370
Operating income (loss)	(6,730)	42,617	38,243	36,915	31,815
Net income (loss)	(6,989)	26,428	26,213	24,427	20,961
Diluted earnings (loss) per share*	(0.17)	0.64	0.63	0.59	0.52
Weighted average diluted shares outstanding*	40,908	41,152	41,337	41,311	40,506
Balance Sheet Data:					
Working capital	$115,571	$107,405	$62,545	$44,904	$74,930
Total assets	305,851	324,876	294,479	265,850	199,231
Long-term liabilities	11,304	13,397	8,074	9,060	6,253
Shareholders' equity	207,054	211,911	183,253	153,708	125,345
Cash dividend per share*	0.095	0.09	0.07	0.06	0.05

*Amounts have been adjusted for the two-for-one stock split approved on May 25, 2006.

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

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

OVERVIEW

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

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

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

We operate on a 52 to 53 week fiscal year, with our fiscal year ending on the Saturday closest to April 30 of each year. Within each fiscal year, each quarter is comprised of 13 week periods following the beginning of each fiscal year. In each 53 week year, each of the last three quarters is comprised of a 13 week period, and an additional week is added to the first quarter of that fiscal year. When April 30 falls on a Wednesday, the fiscal year ends on the preceding Saturday. The years ended May 1, 2010, May 2, 2009 and April 26, 2008 consisted of 52, 53 and 52 weeks, respectively..

For a summary of recently issued accounting pronouncements and the effects of those pronouncements on our financial results, refer to Note 1 of the notes to our Consolidated Financial Statements, which are included elsewhere in this report, and the section of this Item 7 entitled "Recent Accounting Pronouncements."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We believe the following critical accounting policies require significant judgments and estimates in the preparation of our consolidated financial statements:

Revenue recognition on long-term construction-type contracts. Earnings on construction-type contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Indirect cost include charges for such items a facilities, engineering, and project management, Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are capable of being estimated. Generally, construction-type contracts we enter into have fixed prices established, and to the extent the actual costs to complete construction-type contracts are higher than the amounts estimated as of the date of the financial statements, the resulting gross margin would be negatively affected in future quarters when we revise our estimates. Our practice is to revise estimates as soon as such changes in estimates are known. We do not believe there is a reasonable likelihood that there will be a material change in future estimates or assumptions we use to determine these estimates. We combine contracts for accounting purposes when they are negotiated as a package with an overall profit margin objective, essentially represent an agreement to do a single project for a customer, involve interrelated construction activities, and are performed concurrently or sequentially. When a group of contracts is combined, revenue and profit are earned uniformly over the performance of the combined projects. We segment revenues in accordance with contract segmenting criteria in Accounting Standards Codification ("ASC") 650-35, Construction-Type and Production-Type Contracts.

Allowance for doubtful accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. To identify impairment in customers' ability to pay, we review aging reports, contact customers in connection with collection efforts and review other available information. Although we consider our allowance for doubtful accounts adequate, if the financial condition of our customers were to deteriorate and impair their ability to make payments to us, additional allowances may be required in future periods. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to determine the allowance for doubtful accounts. As of May 1, 2010 and May 2, 2009, we had an allowance for doubtful accounts balance of approximately $2.6 million and $2.2 million, respectively.

Warranties. We have recognized a reserve for warranties on our products equal to our estimate of the actual costs to be incurred in connection with our performance under the warranties. Generally, estimates are based on historical experience taking into account known or expected changes. If we would become aware of an increase in our estimated warranty costs, additional reserves may become necessary, resulting in an increase in costs of goods sold. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to determine our reserve for warranties. As of May 1, 2010 and May 2, 2009, we had approximately $18.9 million and $19.8 million reserved for these costs, respectively.

Extended warranty and product maintenance. We recognize deferred revenue related to separately priced extended warranty and product maintenance agreements. The deferred revenue is recognized ratably over the contractual term. If we would become aware of an increase in our estimated costs under these agreements in excess of our deferred revenue, additional reserves may be necessary, resulting in an increase in costs of goods sold. In determining if additional reserves are necessary, we examine cost trends on the contracts and other information and compare that to the deferred revenue. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to determine estimated costs under these agreements. As of May 1, 2010 and May 2, 2009, we had $12.1 million and $9.5 million of deferred revenue related to separately priced extended warranty and product maintenance agreements, respectively.

Inventory. Inventories are stated at the lower of cost or market. Market refers to the current replacement cost, except that market may not exceed the net realizable value (that is, estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal), and market is not less than the net realizable value reduced by an allowance for normal profit margins. In valuing inventory, we estimate market value where it is believed to be the lower of cost or market, and any necessary changes are charged to costs of goods sold in the period in which they occur. In determining market value, we review various factors such as current inventory levels, forecasted demand and technological obsolescence. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate the estimated market value of inventory. However, if market conditions change, including changes in technology, product components used in our products or in expected sales, we may be exposed to unforeseen losses that could be material.

Income taxes. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating the actual current tax expense, as well as assessing temporary differences in the treatment of items for tax and financial reporting purposes. These timing differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income in each jurisdiction, and to the extent we believe that recovery is not likely, a valuation allowance must be established. We review deferred tax assets, including net operating losses, and for those not expecting to be realized, we have recognized a valuation allowance. If our estimates of future taxable income are not met, a valuation allowance for some of these deferred tax assets would be required. We believe that we will generate taxable income in future years which will allow for realization of deferred tax assets. Realization of the deferred tax assets would require approximately $25 million of taxable income, which we believe is achievable.

We operate within multiple taxing jurisdictions, both domestic and international, and are subject to audits in these jurisdictions. These audits can involve complex issues, including challenges regarding the timing and amount of deductions and the allocation of income amounts to various tax jurisdictions. At any one time, multiple tax years are subject to audit by various tax authorities.

We record our income tax provision based on our knowledge of all relevant facts and circumstances, including the existing tax laws, the status of current examinations and our understanding of how the tax authorities view certain relevant industry and commercial matters. In evaluating the exposures associated with our various tax filing positions, we record reserves for probable exposures, consistent with ASC 740, Income Taxes. A number of years may elapse before a particular matter for which we have established a reserve is audited and fully resolved or clarified. We adjust our income tax provision in the period in which actual results of a settlement with tax authorities differs from our established reserve, when the statute of limitations expires for the relevant taxing authority to examine the tax position, or when more information becomes available. Our tax contingencies reserve contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposure associated with our various filing positions. We believe that any potential tax assessments from various tax authorities that are not covered by our income tax provision will not have a material adverse impact on our consolidated financial position, results of operations or cash flow.

We have not recorded U.S. deferred income taxes on certain of our non-U.S. subsidiaries' undistributed earnings, as such amounts are intended to be reinvested outside the United States indefinitely. However, should we change our business and tax strategies in the future and decide to repatriate a portion of these earnings to one of our U.S. subsidiaries, including cash maintained by these non-U.S. subsidiaries, additional U.S. tax liabilities would be incurred. It is not practical to estimate the amount of additional U.S. tax liabilities we would incur.

Some of the countries in which we are located allow tax holidays or provide other tax incentives to attract and retain business. We have obtained holidays or other incentives where available and practicable. Our taxes could increase if certain tax holidays or incentives are retracted (which in some cases could occur if we fail to satisfy the conditions on which such holidays or incentives are based), they are not renewed upon expiration, or tax rates applicable to us in such jurisdictions are otherwise increased. It is anticipated that tax holidays and incentives with respect to our Chinese operations will expire within the next three years. However, due to the possibility of changes in existing tax law and our operations, we are unable to predict how these expirations will impact us in the future. In addition, any acquisitions may cause our effective tax rate to increase, depending on the jurisdictions in which the acquired operations are located.

Asset Impairment: Carrying values of goodwill and other intangible assets with indefinite lives are reviewed at least annually for possible impairment in accordance with ASC 350, Intangibles - Goodwill and Other. Our impairment review involves the estimation of the fair value of goodwill and indefinite-lived intangible assets using a combination of a market approach and an income (discounted cash flow) approach at the reporting unit level, that requires significant management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment. The use of different assumptions would increase or decrease estimated discounted future operating cash flows and could increase or decrease an impairment charge. We use our judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as adverse business conditions, economic factors and technological change or competitive activities may signal that an asset has become impaired.

Carrying values for long-lived tangible assets and definite-lived intangible assets, excluding goodwill and indefinite-lived intangible assets, are reviewed for possible impairment as circumstances warrant in connection with ASC 360-10-05-4, Impairment or Disposal of Long-Lived Asset. Impairment reviews are conducted when we believe that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the forecast for a product, changes in technology or in the way an asset is being used, a history of negative operating cash flow, or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review. The Company’s initial impairment review to determine if a potential impairment charge is required is based on an undiscounted cash flow analysis at the lowest level for which identifiable cash flows exist. The analysis requires judgment with respect to changes in technology, the continued success of product lines, future volume, revenue and expense growth rates, and discount rates.

Stock-based compensation: We use the Black-Scholes standard option pricing model (“Black-Scholes model”) to determine the fair value of stock options and stock purchase rights. The determination of the fair value of the awards on the date of grant using the Black-Scholes model is affected by our stock price as well as by assumptions regarding other variables, including projected employee stock option exercise behaviors, risk-free interest rate, expected volatility of our stock price in future periods and expected dividend yield.

We analyze historical employee exercise and termination data to estimate the expected life assumption of a new employee option. We believe that historical data currently represents the best estimate of the expected life of a new employee option. The risk-free interest rate we use is based on the U.S. Treasury zero-coupon yield curve on the grant date for a maturity similar to the expected life of the options. We estimate the expected volatility of our stock price in future periods by using the implied volatility in market traded options. Our decision to use implied volatility was based on the availability of actively traded options for our common stock and our assessment that implied volatility is more representative of future stock price trends than the historical volatility of our common stock. We use an expected dividend yield consistent with our dividend yield over the period of time we have paid dividends in the Black-Scholes option valuation model. The amount of stock-based compensation expense we recognize during a period is based on the portion of the awards that are ultimately expected to vest. We estimate pre-vesting option forfeitures at the time of grant by analyzing historical data, and we revise those estimates in subsequent periods if actual forfeitures differ from those estimates.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the expense in future periods may differ significantly from what we have recorded in the current period and could materially affect our net earnings and net earnings per share in a future period.

Results of Operations

The following table sets forth the percentage of net sales represented by items included in our Consolidated Statements of Operations for the fiscal years ended May 1, 2010, May 2, 2009 and April 26, 2008:

	Year Ended May 1, 2010		May 2, 2009		April 26, 2008	
Net sales	100.0	%	100.0	%	100.0	%
Cost of goods sold	76.0	%	73.3	%	70.5	%
Gross profit	24.0	%	26.7	%	29.5	%
Operating expenses	25.7	%	19.4	%	21.9	%
Operating income (loss)	(1.7	%)	7.3	%	7.6	%
Interest income (expense), net	0.3	%	0.3	%	0.1	%
Other income (expense), net	(0.7	%)	(0.5	%)	0.2	%
Income (loss) before income taxes	(2.1	%)	7.1	%	7.9	%
Income tax expense (benefit)	(0.3	%)	2.6	%	2.7	%
Net income (loss)	(1.8	%)	4.5	%	5.2	%

Net Sales

The following table sets forth net sales and orders by business unit for fiscal years ended May 1, 2010, May 2, 2009 and April 26, 2008:

Net sales	Year Ended (in millions) May 1, 2010	Percent Change		May 2, 2009	Percent Change		April 26, 2008
Commercial	$91,860	(41.1	) %	$155,851	(13.9	) %	$180,938
Live Events	159,229	(40.9	)	269,650	59.9		168,640
Schools & Theatres	62,878	(5.4	)	66,444	9.1		60,919
Transportation	40,481	18.1		34,289	(8.2	)	37,355
International	38,737	(28.9	)	54,447	5.1		51,825
	$393,185	(32.3	) %	$580,681	16.2	%	$499,677

Orders				
Commercial	$93,833	(30.7)%	$135,316	(26.3)%	$183,555
Live Events	155,509	(37.1)	247,296	22.6	201,775
Schools & Theatres	62,493	(1.1)	63,173	(0.2)	63,286
Transportation	45,968	2.8	44,707	29.6	34,500
International	47,482	25.1	37,960	(40.0)	63,303
	$405,285	(23.3)%	$528,452	(3.3)%	$546,419

Fiscal Year 2010 as compared to Fiscal Year 2009

Commercial Business Unit. In the early part of the third quarter of fiscal 2009, we were notified that our largest customer in our outdoor advertising niche was decreasing its spending on digital billboards from approximately $100 million annually to approximately $15 million annually, effective for calendar year 2009. We were one of two primary vendors of digital billboards for this customer. This corresponded to a decline in orders overall in the outdoor advertising niche, which started to become evident late in the second quarter of fiscal 2009. It is our belief that the then current economic conditions and limited credit availability caused this decline. Although we believe that this niche still remains a long-term growth opportunity, we do not expect to see it rebound until sometime in calendar year 2011, based on industry reports. It is also important to note that the outdoor advertising business has a number of constraints in addition to the current economic conditions, primarily the challenges of achieving adequate returns on investments on digital displays, which limit locations suitable for digital displays, and regulatory constraints, which we expect to be a long-term factor that limits deployment of digital displays. The foregoing decline in digital billboards was the most significant factor in the decline in sales and orders in fiscal 2010 as compared to fiscal 2009. Net sales in this niche (digital billboards for outdoor advertisers) decreased by approximately $50 million or more than 70% as compared to fiscal 2009.

The reseller and national account portion of the commercial business unit, which includes primarily our Galaxy® displays and large custom contracts for commercial facilities, decreased approximately $14.4 million or 17% in fiscal 2010 as compared to fiscal 2009. The decline in the reseller niche for fiscal 2010 was due to a lower level of sales of standard Galaxy® displays as well as a decline in sales of large video display systems. We attribute the decline in sales of Galaxy® displays to the weaker economic conditions in fiscal 2010 as compared to the same period of fiscal 2009. The level of large custom contract sales in this niche is subject to volatility as described elsewhere and therefore it is difficult to project; however, we are seeing a growing number of opportunities. Finally, the decrease in net sales in the national account portion was due to declines by our larger accounts due to a slow-down in their deployment and decreases in new stores. Orders and sales are being impacted by aggressive competition, causing customers to hesitate and evaluate opportunities more carefully. Although it appears as though sales may be rebounding, we cannot be certain that this trend will continue, given the volatile nature of the current economic conditions and competitive forces. For the long-term, we believe that this market will be a growth area for the company.

During the fourth quarter of fiscal 2010, there were an increasing number of press and industry reports concerning increasing deployment of digital billboards by the major outdoor advertising companies. While we believe that an increase in opportunities in this niche is likely, we believe that we will still have to compete for and win orders in order to participate in this growth. We also believe that as a result of declining selling prices for digital billboards, the ultimate level of net sales, if we retain the same market share as the first half of fiscal 2009 and fiscal 2008, will be less than in prior years, although net sales would still grow significantly on a percentage basis.

As a result of the declining opportunities for orders, which is resulting from the economic and credit environments, the competitive pressures in this business unit have increased as competitors go after fewer opportunities. This has put considerable pricing pressure on all aspects of this business unit and is expected to continue into fiscal 2011. This has had an adverse impact on gross margins and net sales.

Subject to the foregoing, our Commercial business unit generally benefits from increasing product acceptance, lower cost of displays, our distribution network and a better understanding by our customers of the product as a revenue generation tool.

In the past, the seasonality of the outdoor advertising niche has been a factor in the fluctuation of our net sales over the course of a fiscal year because the deployment of displays slows in the winter months in the colder climate regions of the United States. Generally, seasonality is not a material factor in the rest of the Commercial business. Our estimates for net sales and orders in the Commercial business unit could vary significantly depending on economic and credit factors and our ability to capture business in our national account niche.

Order bookings were also down as indicated above for the same reasons as net sales.

Live Events Business Unit. The decrease in net sales for fiscal 2010 as compared to fiscal 2009 was the result of a decline in revenues from large new construction contracts exceeding $5 million as explained in prior filings, which led to the significant growth during fiscal 2009. These large contracts contributed approximately $37.3 million in net sales during fiscal 2010 compared to approximately $116.8 million during fiscal 2009. In addition, orders and net sales were less than expected as a result of orders being delayed and not moving forward. We believe this was due to economic concerns and various other factors causing customers to put off large expenditures. Overall, we believe that these orders are not lost but only delayed until the period preceding the next applicable sports season. For example, orders for major league baseball facilities did not materialize in the third quarter of fiscal 2010. We believe that these orders are possible for fiscal year 2011. This dynamic is making it more difficult to estimate what orders and net sales will be for the fall sports season. During the first quarter of fiscal 2011, we would expect to understand better how our customer base will respond in this portion of our business.

During the fourth quarter of fiscal 2009, we began to see more significant competitive pressure, primarily aggressive pricing by multiple competitors in the Live Events marketplace, that we believe is not sustainable for the long-term. Although, it appears that these pressures may be declining somewhat, it is generally too early to assume that to be the case. In addition, over the next 24 months, most professional sport leagues are expected to be renegotiating labor contracts with players. This could negatively impact orders during this period. Until these pressures are reduced or eliminated, they are likely to adversely affect our ability to book orders and our gross profit margin. As a result of these competitive factors and general economic conditions, it is difficult to forecast net sales into fiscal 2011. In addition, although our Live Events business is typically resistant to economic conditions, the severity of the current economic environment may continue to impact this business. There have been transactions which have been delayed due to economic conditions, as previously described, which have had a significant negative impact on our business. However, over the long term, we expect to see growth, assuming that the economy improves and we are successful at counteracting competitive pressures.

The decrease in orders is due to the decrease in large orders and competitive pressures, which we believe have caused us to lose orders we otherwise would have earned, and various other factors, all as explained above.

Our expectations regarding growth over the long term in large sports venues is due to a number of factors, including facilities trending to spend more on larger display systems; our product and services offerings, which remain the most integrated and comprehensive offerings in the industry; and our field sales and service network, which is important to support our customers. In addition, we benefit from the competitive nature of sports teams, which strive to out-perform their competitors with display systems. This impact has and is expected to continue to be a driving force in increasing transaction sizes in new construction and major renovations. Growth in the large sports venues is also driven by the desire for high-definition video displays, which typically drives larger displays or higher resolution displays, both of which increase the average transaction size. We believe that the effects of the economy are generally less likely to have a significant adverse impact on the sports market as compared to our other markets because our products are generally revenue-generation tools (through advertising) for facilities, and the sports business is generally considered to be less sensitive to economic cycles, although the severity of the current economic conditions have caused a significant impact.

Schools and Theatres Business Unit. Net sales in this business unit declined as a result of decreases in orders in the sports portion of this business unit which were partially offset by increasing net sales and orders in the hoist portion of the business. We believe that the decline in the sports portion of the business unit is due to reasons similar to Live Events. In addition, we believe that although much of the spending on small sports systems derives from advertising revenues, the impact of declining school budgets is having a direct and indirect adverse impact on this business unit, which seems to have gotten worse in the fourth quarter of fiscal 2010 and appears to be continuing into the first quarter of fiscal 2011. Although it is difficult to project, we believe that the first half of fiscal 2011 could continue to be a challenge for this business unit. Because that period is the key selling time, it is likely that orders and net sales could decline for fiscal 2011 as compared to fiscal 2010.

Transportation Business Unit. The increase in net sales was due to the larger backlog of orders at the beginning of fiscal 2010 as compared to the beginning of fiscal 2009. The increases in orders in this business unit are due, in part, to a large order for the New Jersey Transit Authority of approximately $8 million which is the guaranteed portion of a procurement contract of up to $25 million over a five-year period. We believe that overall growth in this business unit is the result of federal government stimulus money and prior federal legislation that provided for increased spending on transportation projects, including large increases associated with intelligent transportation systems, and to us gaining market share. We expect that net sales and orders in the Transportation business unit could grow in fiscal 2011.

Similar to other business units, it appears that the competitive environment become more intense as a limited number of competitors have become more aggressive in pricing. Although we expect that this pricing pressure is not sustainable, it is likely to have an adverse impact on our net sales and gross profit margins in future quarters.

International Business Unit. The decrease in net sales was attributable, in part, to large orders booked in the fourth quarter of fiscal 2008 for a rail station in Beijing and a network of displays in the U.K. that converted to net sales in the first quarter of fiscal 2009. Due to the focus on large contracts in this business unit and the small number of contracts actually booked, volatility is not unusual. Overall, we have made considerable investments in growing our business internationally, where we do not have the same market share as we do domestically. As stated in prior filings, in the second half of fiscal 2009, we began to see more competitive pressures in this area similar to the competitive pressures described above in the Live Events market because the competitors tend to overlap. We believe that this had an adverse impact on our order bookings in fiscal 2010. In spite of the foregoing, it appears that this market may be seeing some strengthening, as our opportunities seem to be increasing late in fiscal 2010, as we booked a number of large orders that resulted in orders growing for fiscal 2010. The result of this is a much higher backlog at the end of fiscal 2010 as compared to the end of fiscal 2009, which should drive sales higher in fiscal 2011 if bookings can remain constant. As a result of the competitive pressures, we expect to continue to see more challenges to gross profit to win orders.

Advertising Revenues. We occasionally sell products in exchange for the advertising revenues generated from the use of our display products. These sales represented less than 1% of net sales for fiscal 2010 and 2009. The gross profit percent on these transactions has typically been higher than the gross profit percent on other transactions of similar size, although the selling expenses associated with these transactions are typically higher.

Fiscal Year 2009 as compared to Fiscal Year 2008
Commercial Business Unit. As a result of the declines in orders midway through fiscal 2009 in the outdoor advertising niche as described above, net sales in that niche decreased by approximately $15.9 million or 19% as compared to fiscal 2008. Net sales in our reseller niche, which includes primarily our Galaxy® displays and large custom contracts for commercial facilities, decreased approximately $9.4 million or 14%.

The decline in the reseller niche was due to a lower level of large contract business and sales of Galaxy® displays. We attribute the decline in both areas to the worsening economic conditions and to internal execution issues related to meeting delivery commitments in the first half of fiscal 2009. We experienced sales decline sequentially for each quarter during fiscal 2009.

The decline in orders was caused by declines in both the reseller and outdoor advertising niches for the same reasons as described above.

Live Events Business Unit. The increase in orders reflects a $45 million contract related to the New Meadowlands Stadium in New Jersey. We also booked two other large contracts for major league baseball facilities totaling approximately $16 million during the third quarter of fiscal 2009. This compares to a number of transactions booked in the third quarter of fiscal 2008, each of which exceeded $10 million, primarily in professional baseball facilities.

- 24 -

As we began fiscal 2009, we had expected to see significant order growth in the Live Events business unit as a result of the number of large projects in our pipeline and taking into account our market share. Through the year, we achieved our share of these projects which, along with growth in the number of smaller projects, allowed us to achieve higher than expected net sales growth, partially offsetting the decline in Commercial business unit sales. As described above, we began to see more significant competitive pressure, primarily aggressive pricing by multiple competitors in the Live Events marketplace, during the fourth quarter of fiscal 2009. Net sales in our sports marketing and mobile and modular portion of this business unit were less than 2% of total net sales and thus were not significant in fiscal 2009 and fiscal 2008.

Schools and Theatres Business Unit. Underlying the lack of order growth overall was an increase of approximately 5% in orders of display systems to smaller colleges and K-12 facilities and a decline of approximately 33% in orders of hoist systems. We had expected orders to increase by more than 15% for the entire fiscal year for this business unit, but achievement of this growth was adversely affected by shipping delays earlier in fiscal 2009. Economic conditions also impacted this business unit during this time.

Transportation Business Unit. The decline in net sales and the increase in orders were due to the timing of deliveries according to customer schedules. We believe that the increases in orders in this business unit are due, in part, to federal government stimulus money and prior federal legislation that provided for increased spending on transportation projects, including large increases associated with intelligent transportation systems, and to us gaining market share.

International Business Unit. The increase in net sales was attributable, in part, to large orders booked in the fourth quarter of fiscal 2008 for a rail station in Beijing and a network of displays in the U.K. that converted to net sales in the first quarter of fiscal 2009, as previously discussed. We also believe that the second half of fiscal 2009 was adversely impacted by competitive pressures similar to the competitive pressures described above in the Live Events business unit because the competitors tend to overlap.

Backlog

Our backlog at the end of fiscal 2010 was $127 million as compared to $120 million at the end of fiscal 2009. Overall, the increase in backlog is the result of the increase in orders in the International and Transportation business units in fiscal 2010 as compared to net sales. Orders in the Transportation business unit outpaced sales by more than $5 million, while orders in the International business unit outpaced net sales by almost $9 million. These increases were partially offset by declines in backlog in the Live Events business unit. Backlog varies significantly quarter to quarter due to the effects of large orders, and significant variations can be expected, as explained previously. In addition, our backlog is not necessarily indicative of future sales or net income, also as explained previously.

Gross Profit

	Year Ended (in millions)								
	May 1, 2010			May 2, 2009			April 26, 2008		
	Gross Profit	Percent Change	As a Percent of Net Sales	Gross Profit	Percent Change	As a Percent of Net Sales	Gross Profit	As a Percent of Net Sales	
Commercial	$ 18,741	(52.4) %	20.4 %	$ 39,332	(32.4) %	25.2 %	$ 58,175	32.2 %	
Live Events	33,702	(58.0)	21.2	80,300	88.0	29.8	42,722	25.3	
Schools & Theatre	16,480	1.0	26.2	16,312	(15.1)	24.5	19,215	31.5	
Transportation	12,815	61.2	31.7	7,948	(28.7)	23.2	11,149	29.8	
International	12,818	11.8	33.1	11,466	(29.8)	21.1	16,329	31.5	
	$ 94,556	(39.1) %	24.0 %	$ 155,358	5.3 %	26.8 %	$ 147,590	29.5 %	

Fiscal Year 2010 as compared to Fiscal Year 2009

The decrease in gross profit in fiscal 2010 as compared to fiscal 2009 was due to lower net sales. Gross margin percents on large contracts decreased during fiscal 2010 by approximately 1.2 percentage points over fiscal 2009 as a result of competitive factors. The largest impact in terms of declines in percentage points was in the Live Events Business unit, where gross profits declined on large contracts by 1.9 percentage points. Gross profit percents were flat year over year for standard orders. In fiscal 2010, large contracts comprised approximately 61% of net sales, while standard orders comprised approximately 29%. Overall contracts and standard orders gross profit percent declined by approximately one percentage point. Warranty costs declined as a percentage of net sales to 3.5% in fiscal 2010 as opposed to 4.2% in the prior fiscal year. The costs of excess capacity caused a 1.2 percentage point decline in gross profit. Other items such as inventory writedowns and other variances comprised the difference.

Included in warranty costs in fiscal 2009 were a number of significant and isolated warranty costs that did not recur in fiscal 2010 that were explained in prior filings. We continue to be challenged with higher than expected warranty costs, although for fiscal 2010 they declined as a percentage of sales. During fiscal 2009, we began expending significant effort on developing, and have now brought to market, our new DVX technology. We believe that this common module platform will help reduce warranty costs as well as increase gross profit percents.

One of the more significant impacts that we are experiencing is the level of fixed costs as a percentage of sales within manufacturing. Since we believe that in the future our business will rebound and sales will grow, we should gain leverage in gross profit percentage. As a result, we have not decreased some of the fixed cost infrastructure, as that would significantly impair our ability to respond to rising sales in the future.

Within the Commercial business unit, gross profit percent decreased approximately five percentage points in fiscal 2010 as compared to fiscal 2009 as a result of a decline in margin in all niches. The majority of the decline was in the billboard niche as a result of competitive factors, higher warranty costs and greater excess capacity in fiscal 2010 as compared to fiscal 2009.

Gross profit percents declined in the Live Events business unit, primarily as a result of the competitive factors and the lower level of sales during the year as described above, which resulted in higher costs of excess capacity.

Gross profit percents in Schools and Theaters increased as a result of improved performance in our hoist business offset partially by a decline in gross profit in our small sports facilities business, which resulted primarily as a result of higher variances.

Gross profit in our Transportation business unit increased as a result of better margin achievement on orders in spite of the competitive factors.

Within the International business unit, gross profit increased as a result of lower warranty costs as a percentage of sales.

It is difficult to project gross profit levels for fiscal 2011 as a result of the uncertainty on the level of sales. If sales were to remain flat in 2011 as compared to 2010, we believe that gross profits would rise as a result of new product introductions, primarily the DVX technology, and lower warranty costs and inventory write-downs. If sales were to decline, it may be difficult to prevent gross profit margin percents from declining, depending on the magnitude of the decline in net sales.

Fiscal Year 2009 as compared to Fiscal Year 2008

The increase in gross margin dollars in fiscal 2009 as compared to fiscal 2008 was due to higher net sales. Gross margin percents on large contracts increased during fiscal 2009 by approximately two percentage points over fiscal 2008 as a result of better margins on PS-X display technology orders, primarily on the large new construction projects. This increase was more than offset by the costs of excess capacity in the second half of fiscal 2009, higher warranty costs and inventory write-downs, and the reorganization of our field services infrastructure (which offsets an equal decline in selling expense). These decreases were partially offset by a gain of approximately $1 million on the sale of our building in Tampa, Florida in the first quarter of fiscal 2009.

Warranty costs caused gross profit percentages to decline by more than two percentage points in fiscal 2009 as compared to fiscal 2008. This decline was due primarily to issues with new product designs and quality. Increased inventory write-downs resulted from write-downs in Canada related to the plant closure and the write-off of excess inventory. We also incurred costs during the second quarter of fiscal 2009 to close down our manufacturing operation in Canada. The reorganization of our field services department adversely impacted gross profit percentages by approximately 0.6 points. Finally, the higher costs of excess manufacturing capacity resulted from the sharp decline in net sales in the second half of fiscal 2009, making it difficult to adjust costs adequately. The higher costs of manufacturing infrastructure include additional personnel in quality, manufacturing engineering and inventory management. These factors, excluding warranty costs, impacted all business units.

Within the Commercial business unit, gross profit percent decreased approximately seven percentage points in fiscal 2009 as compared to fiscal 2008 as a result of a decline in margin in all niches. The decline resulted from greater costs of excess capacity and lower margins in our Galaxy® display business, which was impacted by the economic conditions and delivery execution, increased competition in the outdoor advertising niche and the factors described above.

The increase in gross profit for our Live Event business unit was primarily the result of higher margins on product sales as mentioned above and was partially offset by higher than expected warranty costs.

The decline in gross profit percentages in our Schools and Theatres business unit resulted from greater variances in manufacturing, the reclassification of our field services infrastructure to cost of goods sold, and lower overall margins on standard products.

The decrease in gross profit percentages in our Transportation business unit was the result of the lower sales level in the last half of the fiscal year, which adversely impacted utilization.

Gross profit in our International business unit declined primarily due to the impact of higher warranty costs.

- 26 -

Operating Expenses

	Year Ended (in millions)							
	May 1, 2010			May 2, 2009			April 26, 2008	
	Operating Expense	Percent Change	As a Percent of Sales	Operating Expense	Percent Change	As a Percent of Sales	Operating Expense	As a Percent of Sales
Selling	$ 54,253	(13.0) %	13.8 %	$ 62,335	(0.2) %	10.7 %	$ 62,479	12.5 %
General and administrative	25,199	(12.5)	6.4	28,787	10.5	5.0	26,040	5.2
Product design and development	21,920	1.4	5.6	21,619	3.8	3.7	20,828	4.2
Gain on insurance proceeds	(1,496)	100.0	(0.4)	-	-	-	-	-
Goodwill impairment	1,410	100.0	0.4	-	-	-	-	-
	$ 101,286	(10.2) %	25.8 %	$ 112,741	3.1 %	19.4 %	$ 109,347	21.9 %

Fiscal Year 2010 as compared to Fiscal Year 2009

Operating expenses are comprised of selling, general and administrative expenses and product design and development costs. The changes in the various components of operating expenses are explained below. As a result of the downturn in orders and net sales that started during the second quarter of fiscal 2009, we began to decrease all types of operating expenses to partially keep pace with the declining net sales. Although we will continue efforts to reduce costs the ultimate level of decreased spending is difficult to estimate, as it involves continuous and evolving efforts. Our most significant cost factor within operating expense is personnel related costs, and, to date, our approach has been focused on allowing attrition and limited reductions in workforce, coupled with a general hiring freeze, to drive a significant portion of the decrease in personnel costs. In addition, we implemented wage freezes for salaried employees in fiscal 2010 and various other cost reduction initiatives. Since the first quarter of fiscal 2009, we have reduced operating expenses by over 17%. During the fourth quarter of fiscal 2010, we reduced the number of our full-time employees by approximately 7%, which provides annual savings in excess of $5 million. Those cost savings are spread among all areas of the company but will impact operating expenses beginning in the first quarter of fiscal 2011. However, at the current level of sales, we believe that we need to reduce costs further, and we will generally rely on attrition for the first two quarters to reduce personnel costs further. The first two quarters of the fiscal year are our key selling periods, and, as such, we believe that some stability in the business is important during this time. If sales do not develop according to plans, we may take further action to reduce costs as we near the third quarter of fiscal 2011.

All areas of operating expenses on a year-to-date basis were impacted because the first quarter of fiscal 2009 included 14 weeks as opposed to the more common 13 weeks of the first quarter of fiscal 2010.

Fiscal Year 2009 as compared to Fiscal Year 2008
The changes in the various components of operating expenses are explained below.

Selling expenses consist primarily of salaries, other employee-related costs, travel and entertainment expenses, facilities-related costs for sales and service offices, and expenditures for marketing efforts, including the costs of collateral materials, conventions and trade shows, product demos and supplies.

Fiscal Year 2010 as compared to Fiscal Year 2009
Selling expense decreased in fiscal 2010 as compared to fiscal 2009 as a result of a decrease in personnel costs, including taxes and benefits, of approximately $4.4 million, a decrease of $1.6 million in travel and entertainment costs, a $0.7 million decrease in costs of conventions, a $0.7 million decrease in depreciation, and a $0.7 million decrease in bad debt expense. The decrease in personnel costs is the result of the lower number of employees caused by the reduction efforts explained above. The decrease in travel and entertainment costs is a reflection of the lower number of employees and the lower level of sales opportunities. The decrease in costs of conventions is a result of lower number of trade shows attended and decreased costs of those where attendance was appropriate. Depreciation costs declined as a result of a lower level of demonstration equipment. The decline in bad debt expense is due to a lower level of credit losses occurring in fiscal 2010 which is difficult to attribute to specific factors.

We are continuing to focus on decreasing our infrastructure costs in light of the level of sales in fiscal 2010. We are also continuing to focus on other areas of reduction within selling expense and expect that it will decline in fiscal 2011 on a sequential basis. This expectation is subject to our ability to contain costs, such as bad debt expense and travel and entertainment costs, and achieving additional employee attrition.

Fiscal Year 2009 as compared to Fiscal Year 2008
As described in previous filings, we reorganized our field services organization at the beginning of fiscal 2009 and, as a result, approximately $2.5 million of expenses, primarily personnel costs, incurred in fiscal 2008 that were classified as selling expense were classified in cost of goods sold in fiscal 2009. Had this change not been made, selling expense as a percentage of net sales would have still declined. Selling expenses for fiscal 2009 were lower than selling expenses in fiscal 2008 principally because of a decrease in personnel costs, including taxes and benefits of approximately $0.2 million, and a decline of $1.7 million in travel and entertainment costs. Offsetting these decreases were increases in bad debt expense, which increased approximately $1.9 million; an increase in commissions to third parties, which increased by approximately $0.4 million; and an increase in credit card fees of approximately $0.5 million. The increase in bad debt expense was the result of a number of isolated product issues and customer issues, although a small portion of the increase could have resulted from the adverse economic conditions. The increase in commissions is due to the nature of the specific underlying transactions. Typically, commissions are not a significant factor in our business.

- 27 -

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, amortization of intangibles and the costs of supplies.

Fiscal Year 2010 as compared to Fiscal Year 2009
The decrease in general and administrative costs was the result of a decrease of approximately $1.1 million in personnel costs, including benefits and taxes; lower costs related to the hardware and software infrastructure,

including depreciation, which decreased $0.3 million; lower professional fees, which decreased by approximately $1.0 million; and lower costs relating to recruiting and other expenses. The lower level of personnel costs is the result of the reductions in employees described above. The lower level of professional fees is due to the higher level of litigation and contract negotiation fees in fiscal 2009 representing isolated items. The lower recruiting fees result from the elimination of new full-time hires in fiscal 2010 as compared to fiscal 2009. We expect that general and administrative expenses will decrease in fiscal 2011.

Fiscal Year 2009 as compared to Fiscal Year 2008
The increase in general and administrative costs in fiscal 2009 as compared to fiscal 2008 was the result of an increase of approximately $2.0 million in personnel costs, including benefits and taxes to support our planned international and other growth; higher costs related to the hardware and software infrastructure, including depreciation, which increased $1.2 million; and higher professional fees, which consisted primarily of higher legal fees resulting from the higher costs of contract negotiations and litigation, which increased by approximately $0.3 million. These increases were offset by declines in recruiting costs and other expenses.

Product design and development expenses consist primarily of salaries, other employee-related costs and facilities and equipment-related costs and supplies.

Fiscal Year 2010 as compared to Fiscal Year 2009
Investments in our DVX technology and various other initiatives to standardize display components and in other display technologies and related items, including control systems for both single site displays and networked displays, continued to drive increases in product design and development expenses in fiscal 2010 as compared to fiscal 2009. We also invested in other product lines, including our Galaxy® display technology. Additionally, in fiscal 2010 we invested heavily in initiatives designed to improve manufacturing processes and decrease the cost of our products. We expect that product development will decrease in dollars in fiscal 2011 but will likely exceed our long-term target of approximately 4% of net sales.

Fiscal Year 2009 as compared to Fiscal Year 2008
Investments in our common module platforms and various other initiatives to standardize display components in our line of PS-X, HD-X and PST® video displays and in other display technologies and related items drove increases in product development in fiscal 2009 as compared to fiscal 2008. We also invested in other product lines in fiscal 2009, including our Galaxy® display technology, Sportsound® systems and control systems. We developed new products and enhanced existing products, including our Valo™ digital billboards and a wider range of PST® products with more pixel density options. We also invested heavily in initiatives designed to improve manufacturing processes and decrease the cost of our products.

Gain on insurance proceeds: During the third quarter of fiscal 2010, we recorded a gain on insurance proceeds of $1.5 million related to the fire at our Star Circuits manufacturing facility as described in Note 14 to the consolidated financial statements. The proceeds from the insurance company were used to purchase replacement equipment, inventory and supplies, offset the extra expense of outsourcing this manufacturing, and build out the facility to house the operations.

Goodwill Impairment: During the third quarter of fiscal 2010, we recorded a non-cash impairment charge of $1.4 million related to our Schools and Theaters and International business units. The charge was approximately $0.7 million for each business unit. There was no similar impairment expense in prior fiscal years. The impairment resulted from our analysis of goodwill which factored in the unexpected decline in forecasted discounted cash flows. We attributed the decline to the weaker economic conditions and the continued decline in our stock price. See Note 4 of the consolidated financial statements for additional information, including estimates and assumptions we used to determine this charge.

Contribution Margin by Segment

The following table sets forth contribution margin, defined as gross profit less selling expenses, by segment:

	Year Ended May 1, 2010	May 2, 2009	April 26, 2008
Contribution Margin			
Commercial	$ 5,175	$ 22,380	$ 42,084
Live Events	18,320	63,323	23,860
Schools & Theatres	4,423	2,059	4,648
Transportation	9,490	3,630	6,929
International	2,895	1,631	7,594
Segment Contribution Margin	$ 40,303	$ 93,023	$ 85,115

Contribution margin by segment is based on gross profit and selling costs, which includes allocations of various expenses on a discretionary basis that may not be indicative of the segment's performance on a stand-alone basis. Certain items are allocated based on management's judgment as to the best methods to achieve company-wide goals. Therefore, we caution making conclusions as to performance based on these disclosures, which are required under generally accepted accounting principles.

Fiscal Year 2010 as compared to Fiscal Year 2009
Within the Commercial business unit and Live Events business unit, contribution margins decreased in fiscal 2010 as compared to fiscal 2009 as a result of lower gross profit percentages on lower sales, as explained above, partially offset by decreased selling expenses as we continued to reduce the infrastructure of the business units in line with the decline in sales. Selling expenses decreased by approximately 20% in the Commercial business unit and approximately 9% in the Live Events business unit.

Contribution margin increased in the Schools and Theaters business unit in fiscal 2010 as compared to fiscal 2009 as a result of increased gross profit percents offsetting the decrease in net sales, as explained above, combined with a 15% decrease in selling expenses.

The contribution margin in the Transportation business unit increased in fiscal 2010 as compared to fiscal 2009 as a result of increased sales and gross profit percentages as explained above, combined with a 23% decrease in selling expenses.

The increase in contribution margin for the International business unit was a result of increased gross profit percentages on lower sales, which caused an increase in gross profit dollars slightly, which was offset by higher selling costs.

Fiscal Year 2009 as compared to Fiscal Year 2008
Within the Commercial business unit, the contribution margin decreased in fiscal 2009 as compared to fiscal 2008 as a result of lower gross profit margins caused by the excess capacity in the second half of fiscal 2009 and an increase in selling expense.

The contribution margin increased in the Live Events business unit in fiscal 2009 as compared to fiscal 2008 as a result of the increase in net sales described above and the increase in gross profit margins of four percentage points described above. In addition, selling expenses decreased by approximately $1.9 million in fiscal 2009 as compared to fiscal 2008 in part due to a reassignment of costs to the Schools and Theaters business unit relating to sports marketing activities to reflect the greater emphasis being placed on sports marketing in high schools.

The contribution margin in the Schools and Theatres business unit decreased in fiscal 2009 as compared to fiscal 2008 as a result of lower gross profit margins caused by higher costs of manufacturing variances offset by lower selling costs as we reallocated personnel at the beginning of fiscal 2009 into costs of goods sold, as described above.

Within the Transportation business unit, contribution margin decreased in fiscal 2009 as compared to fiscal 2008 as a result of a decrease in net sales and a decline in gross profit percentages due to lower contract margins and higher manufacturing variances.

Contribution margin for the International business unit decreased as a result of increased warranty costs and increased selling expenses in an effort to expand the International business unit.

Interest Income and Expense

We occasionally generate interest income through product sales on an installment basis, under lease arrangements or in exchange for the rights to sell and retain advertising revenues from displays, which result in long-term receivables. We also invest excess cash in short-term temporary cash investments and marketable securities that generate interest income. Interest expense is comprised primarily of interest on our notes payable and long-term debt.

Fiscal Year 2010 as compared to Fiscal Year 2009
Interest income decreased 28.6% to $1.5 million for fiscal 2010 as compared to $2.1 million for fiscal 2009. The decrease was the result of lower interest rates partially offset by higher levels of temporary cash investments. We expect that the amount of interest income will decrease in fiscal 2011 over fiscal 2010 due to the lower levels of interest-bearing receivables, but that the decrease will be partially offset by the interest income on higher levels of temporary cash investments; however, our business is characterized by a great deal of volatility of working capital components, and therefore cash balances could be lower than expected, leading to lower interest income.

Interest expense remained level at $0.2 million in fiscal 2010 and fiscal 2009. We do not expect our levels of debt to change materially in fiscal 2011 from fiscal 2010; therefore, interest expense is expected to continue to be insignificant in fiscal 2011.

Fiscal Year 2009 as compared to Fiscal Year 2008
Interest income increased 16.7% to $2.1 million for fiscal 2009 as compared to $1.8 million for fiscal 2008. The increase was the result of higher levels of temporary cash investments.

Interest expense decreased 85.7% to $0.2 million in fiscal 2009 as compared $1.4 million for fiscal 2008. The decrease is due to lower average borrowings outstanding during fiscal 2009 as compared to fiscal 2008.

Income Taxes

Fiscal Year 2010 as compared to Fiscal Year 2009
Income taxes decreased to ($1.2) million in fiscal 2010 as compared to $15.1 million in fiscal 2009. The decrease was attributable primarily to the decrease in income before income taxes and a decrease in the effective tax rate. The effective tax rate decreased to approximately 14.2% in fiscal 2010 from 36.4% in fiscal 2009. The decrease in the effective tax rate is attributable to the impact of various items on a pre-tax loss position in fiscal 2010 compared to a pre-tax income position in fiscal 2009. Items such as stock compensation, for example, impacted the effective rate by almost 14% in fiscal 2010 as compared to 2% in fiscal 2009. These adjustments to pre-tax income were comparable

in both years in the dollar amount of the adjustment, except for research and development tax credits, which decreased by approximately $0.6 million; goodwill impairment, which increased by $0.3 million; and the elimination of the domestic production activities deduction. The decrease in the research and development tax credit resulted from the elimination of the credit effective January 1, 2010. Currently, there are efforts underway in Congress to reinstate the credit effective on January 1, 2010. If that were to occur, we would recognize the benefits of the reinstatement at the time it becomes law. The goodwill impairment occurred during fiscal 2010, and a portion of the impairment related to non-deductible goodwill. The elimination of the domestic production activities deduction was the result of the loss during fiscal 2010, as the deduction applies only in cases of current taxable income.

Fiscal Year 2009 as compared to Fiscal Year 2008

Income taxes increased 12.7% to $15.1 million in fiscal 2009 as compared to $13.4 million in fiscal 2008. The increase was attributable primarily to the increase in income before income taxes and an increase in the effective tax rate. The effective tax rate increased to 36.4% in fiscal 2009 from 33.8% in fiscal 2008. The increase in the effective tax rate is attributable to a higher state income tax rate in fiscal 2009 as a result of our business in high tax-rate states, a decline in research and development tax credits as a percentage of net income in fiscal 2009, the benefit of favorable adjustments in our current liabilities in fiscal 2008, and the lower level of income earned in foreign jurisdictions in fiscal 2009 where effective rates are lower than the United States. During the second quarter of fiscal 2009, Congress passed and the President signed into law a bill that reinstated the research and development tax credit, which had expired as of December 31, 2007. The reinstatement caused a decline in our domestic effective tax rate.

Fiscal Year 2010 Fourth Quarter Summary

During the fourth quarter of fiscal 2010, net sales decreased 24.0% to $92.0 million as compared to $121.1 million in the fourth quarter of fiscal 2009. The decrease was primarily due to decreased net sales in the International and Commercial business units, as explained previously.

Gross margin percentage declined to 21.9% in the fourth quarter of fiscal 2010 from 22.8% in the fourth quarter of fiscal 2009. The decline in gross profit levels was primarily due to the impact of variances in manufacturing which were not materially different in dollar amounts from the fourth quarter of fiscal 2010 to the fourth quarter of fiscal 2009, but as a percent of sales, had an impact on the percentage. This was partially offset by lower warranty costs as a percent of sales in fiscal 2010 as compared to fiscal 2009.

Selling and general and administrative costs declined by 8.7% in the fourth quarter of fiscal 2010 to $20.0 million as compared to $21.9 million in the fourth quarter of fiscal 2009. The decline in general and administrative expenses resulted from lower payroll and benefits costs and lower professional fees, as previously explained. The lower level of selling expenses results from lower payroll and benefits, depreciation, and various marketing costs, as previously described, partially offset by higher commission expense.

Product development costs increased by 17.4% in the fourth quarter of fiscal 2010 to $5.4 million as compared to $4.6 million in the fourth quarter of fiscal 2009. The increase was the result of an adjustment to professional fees in the fourth quarter of fiscal 2009 which decreased costs, and the mix of where engineers were spending time – customer contracts as opposed to product development.

Net interest income decreased to $0.4 million in the fourth quarter of fiscal 2010 from $0.5 million in the fourth quarter of fiscal 2009.

The effective tax rate for the fourth quarter of fiscal 2010 decreased to 19.0% from 67.6% in the fourth quarter of fiscal 2009. The decrease was due to the higher losses in foreign jurisdictions in the fourth quarter of fiscal

2009. The rate in fiscal 2009 was unusually high due to the adjustment of the estimated annual rate in the fourth quarter of fiscal 2009 as compared to the estimated effective tax rate used in the third quarter of fiscal 2009.

Liquidity and Capital Resources

Working capital was $115.6 million at May 1, 2010 compared to $107.4 million at May 2, 2009. We have historically financed working capital needs through a combination of cash flow from operations and borrowings under bank credit agreements.

Cash provided by operations for fiscal 2010 was $43.8 million. The net loss of $7.0 million plus $21.2 million in changes in net operating assets and liabilities, adjusted by depreciation and amortization of $22.3 million, the add back of $2.5 million equity in net losses of equity investments, $3.8 million of stock-based compensation, $1.4 million of goodwill impairment, $0.4 million of increased bad debt reserves and various other items offset by the $1.0 million gain on sale of property and equipment, generated the cash provided by operations.

The most significant drivers of the change in net operating assets were the decreases in inventories, accounts receivable, long-term receivables and costs and estimated earnings in excess of billings. These changes were offset by decreases in income taxes payable, accounts payable, and other accrued expenses and liabilities. The decrease in inventories and accounts receivables was the result of the lower level of net sales. Days sales outstanding increased to 48 days as of the end of fiscal 2010 from 38 days as of the end of fiscal 2009. Days inventory outstanding remained at approximately 43 days at the end of both fiscal years. Other changes in net operating assets were not significant and generally related to the change in overall business during the year. Overall, changes in operating assets and liabilities can be impacted by the timing of cash flows on large orders, as described above, that can cause significant fluctuations in the short term. As a result of various initiatives underway, including changes in manufacturing, purchasing, collections and payment processes, we expect to continue improving our cash flow relative to sales and costs of goods sold from operating activities.

Cash used by investing activities of $13.1 million in fiscal 2010 included $16.1 million used to purchase property and equipment, $0.4 million of purchased receivables, net, from an affiliate, $0.4 million for a loan to an equity investee and a $0.1 million investment, which was offset by $3.2 million of proceeds from insurance for assets destroyed in a fire, $0.5 million from sale of Ledtronics, our Malaysian affiliate, and $0.2 million proceeds from the sale of property and equipment. During fiscal 2010, we invested approximately $4.4 million in facilities; approximately $4.9 million in manufacturing equipment; approximately $2.1 million in information systems hardware and software; approximately $2.6 million in demonstration equipment; and approximately $2.1 million in rental equipment. These investments were made to support sales, in the case of demo and rental equipment, and other areas, primarily for maintaining existing infrastructure rather than for growth needs. The investment in facilities related to the closing of a transaction we committed to in fiscal 2007 to purchase a building in Brookings, South Dakota. For fiscal 2010, capital expenditures were 4.1% of net sales. The purchase of receivables from an affiliate consists of our purchase of receivables from Outcast Media International, Inc. (“Outcast”) to facilitate cash flow from operations of its business. We intend to continue to limit capital expenditures to primarily maintenance activities in fiscal 2011.

Cash used in financing activities was approximately $3.5 million in fiscal 2010, which included $3.9 million paid to shareholders in the form of a dividend, offset by $0.4 million received for option exercises and $0.1 million in tax benefits from stock-based compensation.

Included in receivables as of May 1, 2010 was approximately $5.0 million of retainage on construction-type contracts, all of which is expected to be collected within one year.

We have used and expect to continue to use cash reserves and, to a lesser extent, bank borrowings to meet our short-term working capital requirements. On large product orders, the time between order acceptance and project completion may extend up to and exceed 24 months depending on the amount of custom work and the customer’s delivery needs. We often receive down payments or progress payments on these product orders. To the extent that these payments are not sufficient to fund the costs and other expenses associated with these orders, we use working capital and bank borrowings to finance these cash requirements.

Our product development activities include the enhancement of existing products and the development of new products from existing technologies. Product development expenses for fiscal years 2010, 2009 and 2008 were $21.9 million, $21.6 million and $20.8 million, respectively. We intend to incur expenditures at a rate higher than our long-term targeted level of 4% of net sales in fiscal 2011, although dollars spent may decrease, to develop new display products and solutions using various technologies to offer higher resolution and more cost-effective and energy-efficient displays, as well as to complement the services and solutions that are provided with the displays. We also intend to continue developing software applications related to our display systems to enable these products to continue to meet the needs and expectations of the marketplace.

We have a credit agreement with a bank that was amended on November 12, 2009, which provides for a $35.0 million line of credit and includes up to $15.0 million for standby letters of credit. The line of credit is due on November 15, 2010. The interest rate ranges from LIBOR plus 125 basis points to LIBOR plus 175 basis points depending on the ratio of interest-bearing debt to EBITDA, as defined. EBITDA is defined as net income before income taxes, interest expense, depreciation and amortization. The effective interest rate was 1.7% at May 1, 2010. We are assessed a loan fee equal to 0.125% per annum of any non-used portion of the loan. As of May 1, 2010, there were no advances under the line of credit.

The credit agreement is unsecured. In addition to provisions that limit dividends to the current year net profits after tax, the credit agreement also requires us to be in compliance with the following financial ratios:

- A minimum fixed charge coverage ratio of 2 to 1 at the end of any fiscal year. The ratio is equal to (a) EBITDA less dividends, a capital expenditure reserve of $6 million, and income tax expense, over (b) all principal and interest payments with respect to debt, excluding debt outstanding on the line of credit, and
- A ratio of interest-bearing debt, excluding any marketing obligations, to EBITDA of less than 1 to 1 at the end of any fiscal quarter.

We were in compliance with all applicable covenants as of May 1, 2010. The minimum fixed charge coverage ratio was 5.3 to 1, and the ratio of interest-bearing debt to EBITDA was approximately 0.1 to 1, as of May 1, 2010.

We are sometimes required to obtain performance bonds for display installations. We currently have a bonding line available through a surety company that provides for an aggregate of $100 million in bonded work outstanding. At May 1, 2010, we had approximately $42.3 million of bonded work outstanding against this line.

We believe that if our growth extends beyond current expectations or if we make any strategic investments, we may need to increase the amount of our credit facility or seek other means of financing our growth. We anticipate that we will be able to obtain any needed funds under commercially reasonable terms from our current lender or other sources. We believe that our working capital available from all sources will be adequate to meet the cash requirements of our operations in the foreseeable future.

Off-Balance-Sheet Arrangements and Contractual Obligations

We enter into various debt, lease, purchase and marketing obligations that require payments in future periods. Debt obligations represent primarily bank loans. Operating lease obligations relate primarily to leased office space and furniture. Long-term marketing obligations relate to amounts due in future periods for payments on net sales where we sold and installed our equipment in exchange for future advertising revenue. When certain advertising revenue thresholds are met, all or a portion of excess cash is owed back to the customer. Unconditional purchase obligations represent future payments for inventory and advertising rights purchase commitments.

Guarantees include a transaction in connection with the sale of equipment to a financial institution. Under this transaction, we entered into a contractual arrangement whereby we agreed to repurchase equipment at the end of the lease term at a fixed price of approximately $1.1 million. We have recognized a guarantee in the amount of $0.2 million under the provisions of ASC 460, Guarantees. Revenue related to this transaction of $4.8 million was recognized during fiscal 2007.

In connection with our investment in Outcast, we had previously guaranteed its outstanding debt of approximately $3.7 million. This debt would have matured at various times through calendar year 2012 at which time our guarantee would have expired. Our obligation was generally limited to 50% of the amounts outstanding, and we had recourse back to Outcast under a reimbursement agreement. The guarantee was undertaken to support Outcast's rollout of LCD displays in connection with its core business. The total amount accrued relating to the guarantee liability under the provisions of ASC 460 was $72 as of May 1, 2010. In addition to the foregoing, Outcast was obligated to pay us on approximately $1,600 of loans that matured during the third quarter of fiscal 2010.

During the fourth quarter of fiscal 2010, we entered into a binding arrangement which requires us at closing, which occurred in May 2010, to loan our share of the guaranteed amount of the debt of approximately $1.9 million to an investment fund managed by the Chairman of Outcast in exchange for a note. The proceeds of the note were used to purchase the rights in the debt from the lender. As further explained in Note 17 to the consolidated financial statements, we also exchanged our secured note for a new note from the investment fund and transferred our equity and convertible debt interests in Outcast into the investment fund. The senior note and the note resulting from the guarantee mature on the earlier of the receipt of proceeds from other portfolio investments held by the investment fund or December 31, 2010.

- 32 -

The ability of the investment fund to pay these notes is contingent on the sale of some or all of its interests in portfolio companies, including Outcast. Based on our analysis of the investment fund and Outcast, we have not reserved any amounts against the new notes.

As of May 1, 2010, our debt, lease and purchase obligations were as follows (in thousands):

Contractual Obligations	Total	Less than 1 year	1-3 Years	4-5 Years	After 5 Years
Cash commitments:					
Long-term marketing obligations					
and accrued interest	$891	$290	$594	$7	$-
Operating leases	9,562	3,141	4,559	788	1,074
Unconditional purchase obligations	17,246	14,307	2,939	-	-
Conditional purchase obligations	1,000	-	-	-	1,000
Total	$28,699	$17,738	$8,092	$795	$2,074
Other commercial commitments:					
Standby letters of credit	$2,264	$2,198	$66	$-	$-
Guarantees	$4,919	$3,819	$-	$-	1,100

Inflation

We believe that inflation has not had a material effect on our operations or our financial condition, although it could in the future.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (codified as "ASC 105"). ASC 105 establishes the Accounting Standards Codification ("ASC") as the source of authoritative accounting literature recognized by the FASB to be applied by nongovernmental entities in addition to rules and interpretive releases of the Securities and Exchange Commission ("SEC"), which are sources of authoritative generally accepted accounting principles ("GAAP") for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative. ASC 105 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of the financial statements. Following this statement, the FASB will issue new standards in the form of Accounting Standards Updates ("ASU"). This standard became effective for financial statements for interim and annual reporting periods ending after September 15, 2009. We began to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the second quarter of fiscal 2010. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on our consolidated financial statements.

In September 2006, the FASB issued ASC 820, Fair Value Measurements and Disclosures. ASC 820 establishes a framework for measuring fair value, clarifies the definition of fair value, and requires additional disclosures about fair value measurements that are already required or permitted by other accounting standards (except for measurements of share-based payments) and is expected to increase the consistency of those measurements. ASC 820, as issued, is effective for fiscal years beginning after November 15, 2007. In February 2008, the effective date of ASC 820 was deferred for one year for certain nonfinancial assets and nonfinancial liabilities. Accordingly, we adopted certain parts of ASC 820 at the beginning of fiscal 2009, and we adopted the remaining parts of ASC 820 at the beginning of fiscal 2010. The implementation of ASC 820 did not have a material impact on our consolidated financial statements at either date.

In December 2007, the FASB issued ASC 805, Business Combinations. ASC 805 provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. Some of the revised guidance of ASC 805 includes initial capitalization of acquired in-process research and development, expensing transaction and acquired restructuring costs and recording contingent consideration payments at fair value, with subsequent adjustments recorded to net earnings. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. We adopted ASC 805 on May 3, 2009, and any acquisitions we make in future periods will be subject to this new accounting guidance.

In December 2007, the FASB issued ASC 810, Noncontrolling Interests in Consolidated Financial Statements. ASC 810 establishes new standards that will govern the accounting for and reporting of noncontrolling interests in partially owned subsidiaries. ASC 810 is effective for fiscal years beginning on or after December 15, 2008 and requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements must be applied prospectively. We adopted ASC 810 on May 3, 2009. As of that date, we did not have any partially owned consolidated subsidiaries and, therefore, the adoption of this accounting standard had no effect on our consolidated financial statements.

In March 2008, the FASB issued ASC 815, Disclosures aboutDerivative Instruments and Hedging Activities, which changes the disclosure requirements for derivative instruments and hedging activities. ASC 815 requires companies to provide enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair values and amounts of gains and losses on derivative instruments, and disclosures about contingent features related to credit risk in derivative agreements. We adopted ASC 815 on May 3, 2009. The adoption of ASC 815 had no effect on our consolidated financial statements.

In April 2008, the FASB issued ASC 350, Intangibles – Goodwill and Other. ASC 350 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. ASC 350 is effective for fiscal years beginning after December 15, 2008. We adopted ASC 350 on May 3, 2009. The adoption of ASC 350 had no effect on our consolidated financial statements.

In June 2008, the FASB issued ASC Subtopic 260-10-45, Earnings Per Share – Other Presentation Matters. ASC 260-10-45 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share (“EPS”) pursuant to the two-class method. ASC 260-10-45 is effective for fiscal years beginning after December 15, 2008. Upon adoption, all prior-period EPS data is required to be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform to the provisions of ASC 260-10-45. We adopted ASC 260-10-45 on May 3, 2009. Because we do not have any share-based payments that would be considered to be participating securities under these provisions, the implementation will not have any impact on our computation of EPS unless we issue such securities in the future.

In November 2008, the FASB ratified ASC Subtopic 323-10-65-1, Equity Method Investment Accounting Considerations. ASC 323-10-65-1 applies to all investments accounted for under the equity method and clarifies the accounting for certain transactions and impairment considerations involving equity method investments. We adopted ASC 323-10-65-1 on May 3, 2009. The adoption of ASC 323-10-65-1 did not have a material impact on our consolidated financial statements.

In November 2008, the FASB ratified ASC Subtopic 350-30-35-5A, Accounting for Defensive Intangible Assets. ASC 350-30-35-5A applies to defensive intangible assets, which are acquired intangible assets that an entity does not intend to actively use but does intend to prevent others from obtaining access to the asset. ASC 350-30-35-5A requires an entity to account for defensive intangible assets as a separate unit of accounting. Defensive intangible assets should not be included as part of the cost of an entity’s existing intangible assets because the defensive intangible assets are separately identifiable. Defensive intangible assets must be recognized at fair value in accordance with ASC 805 and ASC 820. ASC 350-30-35-5A is effective for intangible assets acquired for fiscal years beginning after December 15, 2008. We adopted ASC 350-30-35-5A on May 3, 2009, and any intangible asset acquired after that date will be subject to this new accounting guidance.

In May 2008, the FASB issued ASC 470-20, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). ASC 470-20 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by ASC 420-20-25-12, Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants. Additionally, ASC 420-20 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. ASC 420-20 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. We adopted ASC 470-20 on May 3, 2009. The adoption of ASC 470-20 did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued three ASC Topics intended to provide additional application guidance and enhanced disclosures regarding fair value measurements and impairments of securities. ASC Subtopic 820-10-65-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly

Decreased and Identifying Transactions That Are Not Orderly, provides additional guidelines for estimating fair value in accordance with ASC Subtopic 820-10-50, Fair Value Measurements. ASC 320, Debt and Equity Securities, provides additional guidance related to the disclosure of impairment losses on securities and the accounting for impairment losses on debt securities. ASC 320 does not amend existing guidance related to other-than-temporary impairments of equity securities. ASC 825 and 270, Interim Disclosures about Fair Value of Financial Instruments, increases the frequency of fair value disclosures. These ASC topics and subtopics are effective for fiscal years and interim periods ending after June 15, 2009. We adopted these ASC topics and subtopics on May 3, 2009. The adoption of these ASC topics and subtopics did not have a material impact on our consolidated financial statements.

In May 2009, the FASB issued ASC 855, Subsequent Events. ASC 855 is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, ASC 855 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC 855 is effective for fiscal years and interim periods ending after June 15, 2009. We adopted ASC 855 on May 3, 2009. The adoption of ASC 855 did not have a material impact on our consolidated financial statements.

In October 2009, the FASB issued ASC Subtopic 605-25, Revenue Recognition-Multiple-Element Arrangements. ASC Subtopic 605-25 provides principles for allocation of consideration among its multiple elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. ASC Subtopic 605-25 introduces an estimated selling price method for allocating revenue to the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are currently assessing the impact of ASC 605-25 on our consolidated financial statements.

In August 2009, the FASB issued ASU 2009-05, Measuring Liabilities at Fair Value, which amends ASC 820, Fair Value Measurements and Disclosures. ASU 2009-05 provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASU 2009-05 also clarifies that when estimating fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance. We adopted ASU 2009-05 on August 30, 2009. The adoption of ASU 2009-05 did not have a material impact on our consolidated financial statements.

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rates

Through May 1, 2010, most of our net sales were denominated in United States dollars, and our exposure to foreign currency exchange rate changes on net sales has not been significant. Net sales originating outside the United States for fiscal 2010 were approximately 8.2% of net sales, of which a portion was denominated in Canadian dollars, euros, Chinese renminbi, British pounds or other currencies. If we believed that currency risk in any foreign location was significant, we would utilize foreign exchange hedging contracts to manage our exposure to the currency fluctuations. Over the long-term, net sales to international markets are expected to increase as a percentage of net sales and, consequently, a greater portion of this business could be denominated in foreign currencies. In addition, we fund our foreign subsidiaries' operating cash needs in the form of loans denominated in United States dollars. As a result, operating results may become subject to fluctuations based upon changes in the exchange rates of certain currencies in relation to the United States dollar. To the extent that we engage in international sales denominated in United States dollars, an increase in the value of the United States dollar relative to foreign currencies could make our products less competitive in international markets. This effect is also impacted by the sources of raw materials from international sources. We will continue to monitor and minimize our exposure to currency fluctuations and, when appropriate, use financial hedging techniques, including foreign currency forward contracts and options, to minimize the effect of these fluctuations. However, exchange rate fluctuations as well as differing economic conditions, changes in political climates, differing tax structures and other rules and regulations could adversely affect our financial results in the future.

During fiscal 2010, the United States dollar has been generally weaker throughout the year relative to the currencies of the foreign countries in which we operate, although the fluctuations have not been significant. The overall weakness of the United States dollar had a positive impact on our International business unit's revenue and net earnings because the foreign denominations translated into more United States dollars. This has also translated to net gains on advances made by us to our foreign subsidiaries. It is not possible to determine the exact impact of foreign currency exchange rate changes on net sales. However, if there were to be a 1% additional weakening of the United States dollar as compared to all other currencies, we would gain an additional $0.1 million.

Interest Rate Risks

Our exposure to market rate risk for changes in interest rates relates primarily to our debt and long-term accounts receivable. We maintain a blend of both fixed and floating rate debt instruments. As of May 1, 2010, our outstanding debt was less than $0.9 million, substantially all of which was in fixed rate obligations. Each 100 basis point increase or decrease in interest rates would have an insignificant annual effect on variable rate debt based on the balances of such debt as of May 1, 2010. For fixed rate debt, interest rate changes affect our fair market value but do not impact earnings or cash flows.

In connection with the sale of certain display systems, we have entered into various types of financing with customers. The aggregate amounts due from customers include an imputed interest element. The majority of these financings carry fixed rates of interest. As of May 1, 2010, our outstanding long-term receivables were $19.7 million. Each 25 basis point increase in interest rates would have an associated annual opportunity cost of approximately $0.1 million.

The following table provides maturities and weighted average interest rates on our financial instruments that are sensitive to changes in interest rates, including debt obligations. Weighted average variable interest rates are based on implied forward rates in the yield curve at the reporting date.

	Fiscal Years (dollars in thousands)											
	2011		2012		2013		2014		2015		Thereafter	
Assets:												
Long-term receivables, including current maturities:												
Fixed-rate	$6,232		$3,303		$2,980		$1,683		$1,588		$3,904	
Average interest rate	7.6	%	8.1	%	8.0	%	8.2	%	8.4	%	8.3	%
Liabilities:												
Long- and short-term debt												
Fixed-rate	$28		$-		$-		$-		$-		$-	
Average interest rate	0.0	%	0.0	%	0.0	%	0.0	%	0.0	%	0.0	%
Long-term marketing obligations, including current portion												
Fixed-rate	$294		$282		$177		$134		$7		$-	
Average interest rate	8.7	%	8.7	%	8.7	%	8.9	%	8.4	%	0.0	%

The carrying amounts reported on the balance sheet for long-term receivables and long and short-term debt approximate their fair values.

Approximately $61.1 million of our cash balances are denominated in United States dollars. Cash balances in foreign currencies are operating balances maintained in accounts of our foreign subsidiaries. A portion of the cash held in foreign accounts is used to collateralize outstanding bank guarantees issued by the foreign subsidiary.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Daktronics, Inc.

We have audited the accompanying consolidated balance sheets of Daktronics, Inc. and subsidiaries (the Company) as of May 1, 2010 and May 2, 2009, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended May 1, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daktronics, Inc. and subsidiaries as of May 1, 2010 and May 2, 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 1, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of May 1, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 16, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Minneapolis, Minnesota
June 16, 2010

- 37 -

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

ASSETS	May 1, 2010	May 2, 2009
CURRENT ASSETS:		
Cash and cash equivalents	$ 63,603	$ 36,501
Restricted cash	1,264	1,083
Accounts receivable, less allowance for doubtful accounts	45,018	61,412
Inventories	35,673	51,400
Costs and estimated earnings in excess of billings	25,233	27,541
Current maturities of long-term receivables	6,232	7,962
Prepaid expenses and other	5,838	5,587
Deferred income taxes	12,578	15,017
Income tax receivables	7,444	-
Property and equipment available for sale	182	470
Total current assets	203,065	206,973
Property and equipment, net	80,885	89,427
Advertising rights, net	1,348	2,392
Long-term receivables, less current maturities	13,458	15,879
Investments in affiliates	100	2,541
Goodwill	3,323	4,549
Intangible and other assets	3,610	2,804
Deferred income taxes	62	311
	$ 305,851	$ 324,876
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 23,149	$ 30,273
Accrued expenses and warranty obligations	33,443	35,548

Current maturities of long-term debt and marketing obligations	322	367
Billings in excess of costs and estimated earnings	13,105	13,769
Customer deposits	9,348	10,007
Deferred revenue (billed or collected)	7,766	6,669
Income taxes payable	361	2,935
Total current liabilities	87,494	99,568
Long-term debt, less current maturities	-	23
Long-term marketing obligations, less current maturities	600	759
Long-term warranty obligations and other payables	4,229	4,805
Deferred income taxes	2,167	4,948
Long-term deferred revenue (billed or collected)	4,308	2,862
Total long-term liabilities	11,304	13,397
SHAREHOLDERS' EQUITY		
Common stock, no par value, authorized		
120,000,000 shares; 41,063,219 and 40,657,552 shares		
issued at May 1, 2010 and May 2, 2009, respectively	29,936	27,872
Additional paid-in capital	17,731	13,898
Retained earnings	159,842	170,705
Treasury stock, at cost, 19,680 shares	(9)	(9)
Accumulated other comprehensive loss	(447)	(555)
	207,053	211,911
	$ 305,851	$ 324,876