

DAKTRONICS INC /SD/  
Form 10-Q  
November 30, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the Quarterly Period Ended October 27, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the Transition Period From to .

Commission File Number: 0-23246

DAKTRONICS, INC.

(Exact name of Registrant as specified in its charter)

South Dakota

(State or other jurisdiction of incorporation or  
organization)

201 Daktronics Drive

Brookings SD

(Address of principal executive offices)

(605) 692-0200

(Registrant's telephone number, including area code)

46-0306862

(I.R.S. Employer Identification Number)

57006

(Zip Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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  No

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.

Edgar Filing: DAKTRONICS INC /SD/ - Form 10-Q

|                         |  |                           |                                  |
|-------------------------|--|---------------------------|----------------------------------|
| Large accelerated filer | <input type="radio"/>  | Accelerated filer         | <input checked="" type="radio"/> |
| Non-accelerated filer   | <input type="radio"/> (Do not check if a smaller reporting company.) | Smaller reporting company | <input type="radio"/>            |

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

The number of shares of the registrant's common stock outstanding as of November 26, 2012 was 42,263,073.

---

DAKTRONICS, INC. AND SUBSIDIARIES  
 FORM 10-Q  
 For the Quarter Ended October 27, 2012

Table of Contents

|   | Page      |
|---|-----------|
| <u>Part I. Financial Information</u>  | <u>1</u>  |
| <u>Item 1. Financial Statements</u>   | <u>1</u>  |
| <u>Consolidated Balance Sheets</u> as of October 27, 2012 and April 28, 2012  | <u>1</u>  |
| <u>Consolidated Statements of Operations</u> for the Three and Six Months Ended<br>October 27, 2012 and October 29, 2011    | <u>3</u>  |
| Consolidated Statements of Comprehensive Income for the Three and Six<br>Months Ended October 27, 2012 and October 29, 2011 |           |
| <u>Consolidated Statements of Cash Flows</u> for the Six Months Ended October 27,<br>2012 and October 29, 2011              | <u>5</u>  |
| <u>Notes to the Consolidated Financial Statements</u>   | <u>6</u>  |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of<br/>         Operations</u>           | <u>16</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>27</u> |
| <u>Item 4. Controls and Procedures</u>  | <u>28</u> |
| <br>  |           |
| <u>Part II. Other Information</u>   | <u>28</u> |
| <u>Item 1. Legal Proceedings</u>  | <u>28</u> |
| <u>Item</u>   |           |
| <u>1A. Risk Factors</u>   | <u>28</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>  | <u>29</u> |
| <u>Item 3. Defaults Upon Senior Securities</u>  | <u>29</u> |
| <u>Item 4. Mine Safety Disclosures</u>  | <u>29</u> |
| <u>Item 5. Other Information</u>  | <u>29</u> |
| <u>Item 6. Exhibits</u>   | <u>29</u> |
| <br>  |           |
| <u>Signatures</u>   | <u>30</u> |
| <u>Index to Exhibits</u>  | <u>31</u> |

Table of contents

## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

## DAKTRONICS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

|  | October 27,<br>2012<br>(unaudited) | April 28,<br>2012 |
|--|------------------------------------|-------------------|
| <b>ASSETS</b>                                      |                                    |                   |
| <b>CURRENT ASSETS:</b>                             |                                    |                   |
| Cash and cash equivalents                          | \$53,094                           | \$29,423          |
| Restricted cash                                    | 49                                 | 1,169             |
| Marketable securities                              | 25,969                             | 25,258            |
| Accounts receivable, net                           | 71,189                             | 66,923            |
| Inventories  | 53,830                             | 54,924            |
| Costs and estimated earnings in excess of billings | 32,480                             | 23,020            |
| Current maturities of long-term receivables        | 4,923                              | 5,830             |
| Prepaid expenses and other assets                  | 7,000                              | 5,528             |
| Deferred income taxes                              | 11,214                             | 10,941            |
| Income tax receivables                             | 138                                | 5,990             |
| Total current assets                               | 259,886                            | 229,006           |
| Long-term receivables, less current maturities     | 11,967                             | 12,622            |
| Goodwill   | 3,336                              | 3,347             |
| Intangibles  | 1,295                              | 1,409             |
| Advertising rights, net and other assets           | 1,039                              | 1,157             |
| Deferred income taxes                              | 30                                 | 30                |
|  | 17,667                             | 18,565            |
| <b>PROPERTY AND EQUIPMENT:</b>                     |                                    |                   |
| Land   | 1,497                              | 1,497             |
| Buildings  | 56,964                             | 56,431            |
| Machinery and equipment                            | 62,748                             | 61,654            |
| Office furniture and equipment                     | 16,198                             | 15,648            |
| Computer software and hardware                     | 40,503                             | 42,172            |
| Equipment held for rental                          | 868                                | 1,003             |
| Demonstration equipment                            | 8,656                              | 9,806             |
| Transportation equipment                           | 4,143                              | 4,116             |
|  | 191,577                            | 192,327           |
| Less accumulated depreciation                      | 127,170                            | 123,931           |
|  | 64,407                             | 68,396            |
| <b>TOTAL ASSETS</b>                                | <b>\$341,960</b>                   | <b>\$315,967</b>  |

See notes to consolidated financial statements.



Table of contentsDAKTRONICS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(continued)

(in thousands, except share data)

|   | October 27,<br>2012 | April 28,<br>2012 |
|---|---------------------|-------------------|
|   | (unaudited)         |                   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                     |                   |
| <b>CURRENT LIABILITIES:</b>   |                     |                   |
| Notes payable, bank   | \$478               | \$1,459           |
| Accounts payable  | 34,661              | 33,906            |
| Accrued expenses  | 23,833              | 22,731            |
| Warranty obligations  | 13,011              | 13,049            |
| Billings in excess of costs and estimated earnings  | 17,711              | 14,385            |
| Customer deposits (billed or collected)   | 14,703              | 12,826            |
| Deferred revenue (billed or collected)  | 9,234               | 9,751             |
| Current portion of other long-term obligations  | 477                 | 359               |
| Income tax payable  | 3,322               | 665               |
| Deferred income taxes   | 57                  | 42                |
| Total current liabilities   | 117,487             | 109,173           |
| Long-term warranty obligations  | 9,833               | 9,166             |
| Long-term deferred revenue (billed or collected)  | 4,740               | 4,361             |
| Other long-term obligations, less current maturities  | 1,457               | 1,009             |
| Deferred income taxes   | 1,453               | 1,453             |
| Total long-term liabilities   | 17,483              | 15,989            |
| <b>TOTAL LIABILITIES</b>  | <b>134,970</b>      | <b>125,162</b>    |
| <b>SHAREHOLDERS' EQUITY:</b>  |                     |                   |
| Common stock, no par value, authorized 120,000,000 shares; 42,123,740 and 41,930,116 shares issued at October 27, 2012 and April 28, 2012, respectively | 35,801              | 34,631            |
| Additional paid-in capital  | 25,988              | 24,320            |
| Retained earnings   | 145,223             | 131,830           |
| Treasury stock, at cost, 19,680 shares  | (9                  | ) (9              |
| Accumulated other comprehensive (loss) income   | (13                 | ) 33              |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>   | <b>206,990</b>      | <b>190,805</b>    |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>   | <b>\$341,960</b>    | <b>\$315,967</b>  |

See notes to consolidated financial statements.



Table of contents

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

|                                      | Three Months Ended  |                     | Six Months Ended    |                     |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                      | October 27,<br>2012 | October 29,<br>2011 | October 27,<br>2012 | October 29,<br>2011 |
| Net sales                            | \$149,871           | \$135,910           | \$282,790           | \$254,607           |
| Cost of goods sold                   | 107,519             | 104,440             | 204,048             | 193,631             |
| Gross profit                         | 42,352              | 31,470              | 78,742              | 60,976              |
| Operating expenses:                  |                     |                     |                     |                     |
| Selling expense                      | 12,796              | 12,926              | 25,876              | 25,135              |
| General and administrative           | 6,850               | 6,972               | 13,431              | 13,436              |
| Product design and development       | 5,845               | 5,636               | 11,866              | 11,353              |
|                                      | 25,491              | 25,534              | 51,173              | 49,924              |
| Operating income                     | 16,861              | 5,936               | 27,569              | 11,052              |
| Nonoperating income (expense):       |                     |                     |                     |                     |
| Interest income                      | 348                 | 457                 | 779                 | 892                 |
| Interest expense                     | (36 )               | (95 )               | (123 )              | (171 )              |
| Other income (expense), net          | 150                 | (47 )               | (30 )               | (193 )              |
| Income before income taxes           | 17,323              | 6,251               | 28,195              | 11,580              |
| Income tax expense                   | 5,776               | 2,292               | 9,970               | 4,253               |
| Net income                           | \$11,547            | \$3,959             | \$18,225            | \$7,327             |
| Weighted average shares outstanding: |                     |                     |                     |                     |
| Basic                                | 42,163              | 41,792              | 42,138              | 41,759              |
| Diluted                              | 42,316              | 41,934              | 42,287              | 41,938              |
| Earnings per share:                  |                     |                     |                     |                     |
| Basic                                | \$0.27              | \$0.09              | 0.43                | 0.18                |
| Diluted                              | \$0.27              | \$0.09              | \$0.43              | \$0.17              |
| Cash dividend declared per share     | \$—                 | \$—                 | \$0.115             | \$0.11              |

See notes to consolidated financial statements.



Table of contents

DAKTRONICS, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

|   | Three Months Ended  |                     | Six Months Ended    |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | October 27,<br>2012 | October 29,<br>2011 | October 27,<br>2012 | October 29,<br>2011 |
| Net income  | \$11,547            | \$3,959             | \$18,225            | \$7,327             |
| Other comprehensive income (loss):                                  |                     |                     |                     |                     |
| Cumulative translation adjustments                                  | 219                 | (157 )              | (8 )                | (119 )              |
| Unrealized (loss) gain on available-for-sale securities, net of tax | (12 )               | 1                   | (38 )               | 54                  |
| Total other comprehensive income (loss), net of tax                 | 207                 | (156 )              | (46 )               | (65 )               |
| Comprehensive income  | \$11,754            | \$3,803             | \$18,179            | \$7,262             |

See notes to consolidated financial statements.

Table of contents

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

|   | Six Months Ended    |                     |
|---|---------------------|---------------------|
|   | October 27,<br>2012 | October 29,<br>2011 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                     |                     |
| Net income  | \$18,225            | \$7,327             |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |                     |
| Depreciation  | 7,717               | 8,879               |
| Amortization  | 114                 | 131                 |
| Amortization of premium/discount on marketable securities                         | 93                  | 101                 |
| Gain on sale of property and equipment  | (11                 | ) (7                |
| Share-based compensation  | 1,654               | 1,669               |
| Excess tax benefits from share-based compensation                                 | (13                 | ) (10               |
| Provision for doubtful accounts   | (187                | ) (337              |
| Deferred income taxes, net  | (258                | ) (26               |
| Change in operating assets and liabilities  | 6,708               | 3,748               |
| Net cash provided by operating activities   | 34,042              | 21,475              |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                     |                     |
| Purchases of property and equipment   | (4,331              | ) (6,236            |
| Proceeds from sale of property and equipment                                      | 119                 | 147                 |
| Purchases of marketable securities  | (6,828              | ) (7,739            |
| Proceeds from sales or maturities of marketable securities                        | 5,992               | 4,975               |
| Net cash used in investing activities   | (5,048              | ) (8,853            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                     |                     |
| Borrowings on notes payable   | —                   | 782                 |
| Payments on notes payable   | (982                | ) —                 |
| Proceeds from exercise of stock options   | 439                 | 330                 |
| Excess tax benefits from share-based compensation                                 | 13                  | 10                  |
| Dividend paid   | (4,832              | ) (4,588            |
| Net cash used in financing activities   | (5,362              | ) (3,466            |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH   | 39                  | (4                  |
| NET INCREASE IN CASH AND CASH EQUIVALENTS   | 23,671              | 9,152               |
| <b>CASH AND CASH EQUIVALENTS:</b>   |                     |                     |
| Beginning of period   | 29,423              | 54,308              |
| End of period   | \$53,094            | \$63,460            |
| <b>Supplemental disclosures of cash flow information:</b>                         |                     |                     |
| Cash payments for:  |                     |                     |
| Interest  | \$149               | \$93                |

Edgar Filing: DAKTRONICS INC /SD/ - Form 10-Q

|   |       |       |
|---|-------|-------|
| Income taxes, net   | 1,783 | 1,290 |
| Supplemental schedule of non-cash investing and financing activities: |       |       |
| Demonstration equipment transferred to inventory                      | 367   | 32    |
| Purchase of property and equipment included in accounts payable       | 706   | 568   |

See notes to consolidated financial statements.

5

---

Table of contents

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share data)

(unaudited)

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

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

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The balance sheet at April 28, 2012 has been derived from the audited financial statements at that date, but it does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These financial statements should be read in conjunction with our financial statements and notes thereto for the year ended April 28, 2012, which are contained in our Annual Report on Form 10-K previously filed with the Securities and Exchange Commission. The results of operations for the interim periods presented are not necessarily indicative of results that may be expected for any other interim period or for the full fiscal year.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The ASU amends guidance for the presentation of comprehensive income. The amended guidance requires an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The previous option to report other comprehensive income and its components in the statement of shareholders' equity has been eliminated. Although the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under existing guidance. In the first quarter of fiscal 2013, we revised our presentation of comprehensive income to conform to the guidance in this ASU.

In September 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment. Under this new standard, entities testing goodwill for impairment now have an option of performing a qualitative assessment before having to calculate the fair value of a reporting unit. If an entity determines, on the basis of qualitative factors, that it is more-likely-than-not that the fair value of the reporting unit is less than the carrying amount, the existing quantitative impairment test is required. Otherwise, no further impairment testing is required. This ASU is effective for impairment tests after April 29, 2012. The adoption of this standard is not expected to have a material impact on our consolidated results of operations or financial condition, as this ASU impacts only the analysis to be performed.

In July 2012, the FASB issued ASU 2012-02, Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The amended guidance gives entities the option to perform a qualitative impairment assessment to determine whether it is more-likely-than-not that an indefinite lived intangible asset is impaired. An entity must identify and evaluate changes in economic, industry and entity-specific events and circumstances that could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset and whether it

is more-likely-than-not that the fair value exceeds its carrying amount. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this amended guidance is not expected to have a material impact on our consolidated results of operations or financial condition, as the ASU only impacts the analysis to be performed.

Note 2. Earnings Per Share (“EPS”)

Basic EPS is computed by dividing income (loss) attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then share in our earnings.

Table of contents

The following is a reconciliation of the income and common share amounts used in the calculation of basic and diluted EPS for the three and six months ended October 27, 2012 and October 29, 2011:

|   | Net income | Shares | Per share income |
|---|------------|--------|------------------|
| For the three months ended October 27, 2012:      |            |        |                  |
| Basic earnings per share                          | \$ 11,547  | 42,163 | \$0.27           |
| Dilution associated with stock compensation plans | —          | 153    | —                |
| Diluted earnings per share                        | \$ 11,547  | 42,316 | \$0.27           |
| For the three months ended October 29, 2011:      |            |        |                  |
| Basic earnings per share                          | \$ 3,959   | 41,792 | \$0.09           |
| Dilution associated with stock compensation plans | —          | 142    | —                |
| Diluted earnings per share                        | \$ 3,959   | 41,934 | \$0.09           |
| For the six months ended October 27, 2012:        |            |        |                  |
| Basic earnings per share                          | \$ 18,225  | 42,138 | \$0.43           |
| Dilution associated with stock compensation plans | —          | 149    | —                |
| Diluted earnings per share                        | \$ 18,225  | 42,287 | \$0.43           |
| For the six months ended October 29, 2011:        |            |        |                  |
| Basic earnings per share                          | \$ 7,327   | 41,759 | \$0.18           |
| Dilution associated with stock compensation plans | —          | 179    | (0.01 )          |
| Diluted earnings per share                        | \$ 7,327   | 41,938 | \$0.17           |

Options outstanding to purchase 2,467 shares of common stock with a weighted average exercise price of \$15.16 for the three months ended October 27, 2012 and 1,660 shares of common stock with a weighted average exercise price of \$18.97 for the three months ended October 29, 2011 were not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

Options outstanding to purchase 3,554 shares of common stock with a weighted average exercise price of \$13.15 for the six months ended October 27, 2012 and 1,625 shares of common stock with a weighted average exercise price of \$19.18 for the six months ended October 29, 2011 were not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

## Note 3. Goodwill

The changes in the carrying amount of goodwill related to each reportable segment for the six months ended October 27, 2012 were as follows:

|                                 | Live Events | Commercial | Transportation | Total    |
|---------------------------------|-------------|------------|----------------|----------|
| Balance as of April 28, 2012:   | \$ 2,435    | \$ 741     | \$ 171         | \$ 3,347 |
| Foreign currency translation    | (5 )        | (4 )       | (2 )           | (11 )    |
| Balance as of October 27, 2012: | \$ 2,430    | \$ 737     | \$ 169         | \$ 3,336 |

We perform an analysis of goodwill on an annual basis. We last performed this analysis as of October 30, 2011. The result of that analysis indicated that no goodwill impairment existed as of that date. We are presently in the process of completing this annual analysis based on the goodwill amount as of the first business day of our third quarter.

We face a number of risks to our business which can adversely impact cash flows in each of our business units and cause a significant decline in the fair values of each business unit. This decline could lead to an impairment of goodwill in some or all of our business units. Certain events, such as a worsening trend of orders and sales without a corresponding way to preserve future cash flows or a significant decline in our stock price, could cause a further

impairment in goodwill.

7

---

Table of contents

## Note 4. Inventories

Inventories consisted of the following:

|                 | October 27,<br>2012 | April 28,<br>2012 |
|-----------------|---------------------|-------------------|
| Raw materials   | \$26,524            | \$24,880          |
| Work-in-process | 7,523               | 10,581            |
| Finished goods  | 19,783              | 19,463            |
|                 | \$53,830            | \$54,924          |

## Note 5. Segment Disclosure

We have organized our business into five segments which meet the definition of reportable segments under Accounting Standards Codification ("ASC") 280-10, Segment Reporting: Commercial, Live Events, Schools and Theatres, Transportation, and the International business unit. These segments are based on the type of customer and geography.

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

Segment reports present results through contribution margin, which is comprised of gross profit less selling costs. Segment profit excludes general and administration expense, product development expense, interest income and expense, non-operating income and income tax expense. Assets are not allocated to the segments. Depreciation and amortization, excluding that portion related to non-allocated costs, are allocated to each segment based on various financial measures. In general, segments follow the same accounting policies as those described in Note 1 of our Annual Report on Form 10-K. Unabsorbed costs of domestic field sales and services infrastructure, including most field administrative staff, are allocated to the Commercial, Live Events, and Schools and Theatres business units based on cost of sales. Shared manufacturing, building and utilities and procurement costs are allocated based on payroll dollars, square footage and various other financial measures.

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



Table of contents

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

|                                    | Three Months Ended  |                     | Six Months Ended    |                     |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                    | October 27,<br>2012 | October 29,<br>2011 | October 27,<br>2012 | October 29,<br>2011 |
| Net sales:                         |                     |                     |                     |                     |
| Commercial                         | \$39,773            | \$43,704            | \$78,130            | \$76,407            |
| Live Events                        | 50,604              | 46,664              | 95,113              | 85,181              |
| Schools & Theatres                 | 21,688              | 17,239              | 39,861              | 35,721              |
| Transportation                     | 17,571              | 12,439              | 34,167              | 23,939              |
| International                      | 20,235              | 15,864              | 35,519              | 33,359              |
|                                    | 149,871             | 135,910             | 282,790             | 254,607             |
| Contribution margin:               |                     |                     |                     |                     |
| Commercial                         | 8,566               | 7,449               | 14,768              | 11,987              |
| Live Events                        | 8,073               | 6,021               | 15,149              | 9,429               |
| Schools & Theatres                 | 3,434               | 1,409               | 6,011               | 4,809               |
| Transportation                     | 6,025               | 2,795               | 12,004              | 6,139               |
| International                      | 3,458               | 870                 | 4,934               | 3,477               |
|                                    | 29,556              | 18,544              | 52,866              | 35,841              |
| Non-allocated operating expenses:  |                     |                     |                     |                     |
| General and administrative         | 6,850               | 6,972               | 13,431              | 13,436              |
| Product design and development     | 5,845               | 5,636               | 11,866              | 11,353              |
| Operating income                   | 16,861              | 5,936               | 27,569              | 11,052              |
| Nonoperating income (expense):     |                     |                     |                     |                     |
| Interest income                    | 348                 | 457                 | 779                 | 892                 |
| Interest expense                   | (36                 | ) (95               | ) (123              | ) (171              |
| Other income (expense), net        | 150                 | (47                 | ) (30               | ) (193              |
| Income before income taxes         | 17,323              | 6,251               | 28,195              | 11,580              |
| Income tax expense                 | 5,776               | 2,292               | 9,970               | 4,253               |
| Net income                         | \$11,547            | \$3,959             | \$18,225            | \$7,327             |
| Depreciation and amortization:     |                     |                     |                     |                     |
| Commercial                         | \$1,213             | \$1,517             | \$2,493             | \$3,198             |
| Live Events                        | 1,161               | 1,257               | 2,265               | 2,568               |
| Schools & Theatres                 | 562                 | 581                 | 1,138               | 1,220               |
| Transportation                     | 345                 | 339                 | 669                 | 700                 |
| International                      | 222                 | 166                 | 359                 | 330                 |
| Unallocated corporate depreciation | 452                 | 499                 | 907                 | 994                 |
|                                    | \$3,955             | \$4,359             | \$7,831             | \$9,010             |

Table of contents

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

|                    | Three Months Ended  |                     | Six Months Ended    |                     |
|--------------------|---------------------|---------------------|---------------------|---------------------|
|                    | October 27,<br>2012 | October 29,<br>2011 | October 27,<br>2012 | October 29,<br>2011 |
| Net sales:         |                     |                     |                     |                     |
| United States      | \$ 125,835          | \$ 117,630          | \$ 241,494          | \$ 215,728          |
| Outside U.S.       | 24,036              | 18,280              | 41,296              | 38,879              |
|                    | \$ 149,871          | \$ 135,910          | \$ 282,790          | \$ 254,607          |
|                    |                     |                     |                     |                     |
|                    | October 27,<br>2012 | April 28,<br>2012   |                     |                     |
| Long-lived assets: |                     |                     |                     |                     |
| United States      | \$ 62,506           | \$ 66,350           |                     |                     |
| Outside U.S.       | 1,901               | 2,046               |                     |                     |
|                    | \$ 64,407           | \$ 68,396           |                     |                     |

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

#### Note 6. Commitments and Contingencies

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

As of October 27, 2012, we did not believe that there was a reasonable possibility that any material loss for these various claims or legal actions, including reviews, inspections or other legal proceedings, if any, had been incurred. Accordingly, no accrual or disclosure of a potential range of loss has been made related to these matters. In the opinion of management, the ultimate liability of all unresolved legal proceedings is not expected to have a material effect on our financial position, liquidity or capital resources.

**Guarantees:** In connection with the sale of equipment to various customers, we have entered into contractual arrangements whereby we agreed to repurchase equipment at the end of the lease term at a fixed price. Our total obligations under these fixed price arrangements were \$1,285 as of October 27, 2012 and April 28, 2012. We have recognized a guarantee liability in accrued expenses for the amount of \$185 in accordance with the provisions of ASC 460, Guarantees, in connection with these arrangements.

Warranties: We offer a standard parts coverage warranty for periods varying from one to five years for most of our products. We also offer additional types of warranties that include on-site labor, routine maintenance and event support. In addition, the terms of warranties on some installations can vary from one to ten years. The specific terms and conditions of these warranties vary primarily depending on the type of the product sold. We estimate the costs that may be incurred under the warranty obligations and record a liability in the amount of such estimated costs at the time the revenue is recognized. Factors that affect our estimate of the cost of our warranty obligations include historical experience and expectations of future conditions. We periodically assess the adequacy of our recorded warranty reserves and, to the extent that we experience any changes in warranty claim activity or costs associated with servicing those claims, our warranty obligation is adjusted accordingly.

Table of contents

Changes in our warranty liability for the six months ended October 27, 2012 consisted of the following:

|  | Amount   |
|--|----------|
| Beginning accrued warranty costs   | \$22,215 |
| Warranties issued during the period  | 5,349    |
| Settlements made during the period   | (7,320 ) |
| Changes in accrued warranty costs for pre-existing warranties during the period, including expirations | 2,600    |
| Ending accrued warranty costs  | \$22,844 |

Performance guarantees: We have entered into standby letter of credit agreements, bank guarantees and surety bonds with financial institutions relating to the guarantee of future performance on contracts, primarily construction type contracts. As of October 27, 2012, we had outstanding letters of credit agreements, bank guarantees and surety bonds in the amount of \$3,989 and \$27,897, respectively. Performance guarantees are issued to certain customers to guarantee the operation and installation of the equipment and our ability to complete a contract. These performance guarantees have various terms, which are generally less than one year.

Leases: We lease vehicles and office space for various sales and service locations throughout the world, including manufacturing space in the United States and China and various equipment. Some of these leases, including the lease for manufacturing facilities in Sioux Falls, South Dakota, include provisions for extensions or purchase. The lease for the facilities in Sioux Falls, South Dakota can be extended for an additional three years past its current term, which ends December 31, 2016, and it contains an option to purchase the property subject to the lease from January 1, 2015 to December 31, 2016 for \$8,400, which approximates fair value. If the lease is extended, the purchase option increases to \$8,600 for the year ending December 31, 2017 and \$8,800 for the year ending December 31, 2018. Rental expense for operating leases was \$1,450 and \$1,683 for the six months ended October 27, 2012 and October 29, 2011, respectively.

Future minimum payments under noncancelable operating leases, excluding executory costs such as management and maintenance fees, with initial or remaining terms of one year or more consisted of the following at October 27, 2012:

| Fiscal years ending | Amount  |
|---------------------|---------|
| 2013                | \$1,539 |
| 2014                | 2,483   |
| 2015                | 1,884   |
| 2016                | 1,667   |
| 2017                | 849     |
| Thereafter          | 77      |
|                     | \$8,499 |

Purchase commitments: From time to time, we commit to purchase inventory, advertising, and various other products and services over periods that extend beyond one year. As of October 27, 2012, we were obligated under the following conditional and unconditional purchase commitments, which included \$1,000 in conditional purchase commitments.

| Fiscal years ending | Amount |
|---------------------|--------|
| 2013                | \$745  |
| 2014                | 1,142  |
| 2015                | 399    |
| 2016                | 300    |
| 2017                | 250    |
| Thereafter          | 200    |

\$3,036

Allowance for doubtful accounts: During the first quarter of fiscal 2013, we became aware of circumstances that could cause an increase in our allowance for doubtful accounts in an amount between \$0 and \$2,500. These circumstances arose out of a contract for which payment by our customer is dependent on funding from a local government entity that is not under any legal obligation to pay our customer. Subsequently, we have received additional information and payment security, which reduces our non-payment risk to remote and therefore, we have not increased our allowance for doubtful accounts.

Table of contents

Note 7. Income Taxes

We are subject to U.S. Federal income tax as well as the income taxes of multiple state jurisdictions. As a result of the completion of examinations by the Internal Revenue Service on prior years and the expiration of statutes of limitations, fiscal years 2009, 2010, 2011 and 2012 are the only years remaining open under statutes of limitations. Certain subsidiaries are also subject to income tax in several foreign jurisdictions which have open tax years varying by jurisdiction beginning in fiscal 2004.

As of October 27, 2012, we had \$458 of unrecognized tax benefits that would affect our effective tax rate if recognized. We recognize interest and penalties related to income tax matters in income tax expense.

Note 8. Fair Value Measurement

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

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

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

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

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

Table of contents

The following table sets forth by Level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis at October 27, 2012 and April 28, 2012 according to the valuation techniques we used to determine their fair values. There have been no transfers of assets or liabilities among the fair value hierarchies presented.

|  | Fair Value Measurements |          |          |
|--|-------------------------|----------|----------|
|  | Level 1                 | Level 2  | Total    |
| Balance as of October 27, 2012:          |                         |          |          |
| Cash and cash equivalents                | \$53,094                | \$—      | \$53,094 |
| Restricted cash                          | 49                      | —        | 49       |
| Available-for-sale securities:           |                         |          |          |
| Certificates of deposit                  | —                       | 7,405    | 7,405    |
| U.S. Government securities               | 6,028                   | —        | 6,028    |
| U.S. Government sponsored entities       | —                       | 4,702    | 4,702    |
| Municipal obligations                    | —                       | 7,834    | 7,834    |
| Derivatives - currency forward contracts | —                       | (7       | ) (7     |
|  | \$59,171                | \$19,934 | \$79,105 |
| Balance as of April 28, 2012:            |                         |          |          |
| Cash and cash equivalents                | \$29,423                | \$—      | \$29,423 |
| Restricted cash                          | 1,169                   | —        | 1,169    |
| Available-for-sale securities:           |                         |          |          |
| Certificates of deposit                  | —                       | 7,657    | 7,657    |
| U.S. Government securities               | 7,556                   | —        | 7,556    |
| U.S. Government sponsored entities       | —                       | 4,505    | 4,505    |
| Municipal obligations                    | —                       | 5,540    | 5,540    |
| Derivatives - currency forward contracts | —                       | (95      | ) (95    |
|  | \$38,148                | \$17,607 | \$55,755 |

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

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

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

**Certificates of deposit:** Consists of time deposit accounts with original maturities of less than three years and various yields. The fair value of these securities was measured based on valuations observed in less active markets than Level 1 investments from a third party financial institution. The carrying amount approximates fair value.

**U.S. Government securities:** Consists of U.S. Government treasury bills, notes, and bonds with original maturities of less than three years and various yields. The fair value of these securities was measured using quoted market prices in active markets.

**U.S. Government sponsored entities:** Consist of Fannie Mae and Federal Home Loan Bank investment grade debt securities that trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing

basis. The fair value of these securities was measured based on valuations observed in less active markets than Level 1 investments. The contractual maturities of these investments vary from one month to three years.

Municipal obligations: Consist of investment grade municipal bonds that trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The contractual maturities of these investments vary from two to three years. The fair value of these bonds was measured based on valuations observed in less active markets than Level 1 investments.

Derivatives – currency forward contracts: Consists of currency forward contracts that trade with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The fair value of these securities was measured based on valuation from a third party bank. See Note 11 for more information regarding our derivatives.



Table of contents

The fair value measurement standard also applies to certain non-financial assets and liabilities that are measured at fair value on a nonrecurring basis. For example, certain long-lived assets such as goodwill, intangible assets and property, plant and equipment are measured at fair value in connection with business combinations or when an impairment is recognized and the related assets are written down to fair value. We did not make any material business combinations or recognize significant impairment losses during the first six months of fiscal 2013 or during fiscal 2012.

## Note 9. Marketable Securities

We have a cash management program which provides for the investment of cash balances not used in current operations. We classify our investments in marketable securities as available-for-sale in accordance with the provisions of ASU 320, Investments – Debt and Equity Securities. Marketable securities classified as available-for-sale are reported at fair value with unrealized gains or losses, net of tax, reported in accumulated other comprehensive (loss) income. As it relates to fixed income marketable securities we do not intend to sell any of these investments and it is not more likely than not that we will be required to sell any of these investments before recovery of the entire amortized cost basis. The cost of securities sold is based on the specific identification method. Where quoted market prices are not available, we use the market price of similar types of securities that are traded in the market to estimate fair value.

As of October 27, 2012 and April 28, 2012, our available-for-sale securities consisted of the following:

|                                    | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|------------------------------------|----------------|------------------|-------------------|------------|
| Balance as of October 27, 2012:    |                |                  |                   |            |
| Certificates of deposit            | \$7,403        | \$2              | \$—               | \$7,405    |
| U.S. Government securities         | 5,998          | 30               | —                 | 6,028      |
| U.S. Government sponsored entities | 4,701          | 1                | —                 | 4,702      |
| Municipal obligations              | 7,817          | 17               | —                 | 7,834      |
|                                    | \$25,919       | \$50             | \$—               | \$25,969   |
| Balance as of April 28, 2012:      |                |                  |                   |            |
| Certificates of deposit            | \$7,657        | \$—              | \$—               | \$7,657    |
| U.S. Government securities         | 7,507          | 49               | —                 | 7,556      |
| U.S. Government sponsored entities | 4,503          | 2                | —                 | 4,505      |
| Municipal obligations              | 5,517          | 23               | —                 | 5,540      |
|                                    | \$25,184       | \$74             | \$—               | \$25,258   |

Realized gains or losses on investments are recorded in our consolidated statements of operations within other expense, net. Upon the sale of a security classified as available-for-sale, the security's specific unrealized gain (loss) is reclassified out of "accumulated other comprehensive (loss) income" into earnings based on the specific identification method. In the six months ended October 27, 2012 and October 29, 2011, the reclassifications from accumulated other comprehensive (loss) income to net assets were immaterial. Realized gains and losses on sales and maturities of investments were immaterial in the six months ended October 27, 2012 and October 29, 2011.

All available-for-sale securities are classified as current assets, as they are readily available to support our current operating needs. The contractual maturities of available-for-sale debt securities as of October 27, 2012 were as follows:

|                            | Less than 12 months | Greater than 12 months | Total   |
|----------------------------|---------------------|------------------------|---------|
| Certificates of deposit    | \$4,691             | \$2,714                | \$7,405 |
| U.S. Government securities | 3,004               | 3,024                  | 6,028   |

|                                    |          |          |          |
|------------------------------------|----------|----------|----------|
| U.S. Government sponsored entities | —        | 4,702    | 4,702    |
| Municipal obligations              | 2,696    | 5,138    | 7,834    |
|                                    | \$10,391 | \$15,578 | \$25,969 |

Note 10. Receivables

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

Accounts receivable are reported net of an allowance for doubtful accounts of \$2,211 and \$2,398 at October 27, 2012 and April 28, 2012, respectively.

Table of contents

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

In connection with certain sales transactions, we have entered into sales contracts with installment payments exceeding six months and sales type leases. The present value of these contracts and leases is recorded as a receivable as the revenue is recognized in accordance with generally accepted accounting principles, and profit is recognized to the extent that the present value is in excess of cost. We generally retain a security interest in the equipment or in the cash flow generated by the equipment until the contract is paid. The present value of long-term contracts and lease receivables, including accrued interest and current maturities, was \$16,890 and \$18,452 as of October 27, 2012 and April 28, 2012, respectively. Contract and lease receivables bearing annual interest rates of 5.8 to 10.0 percent are due in varying annual installments through May 2023. The face amount of long-term receivables was \$19,762 as of October 27, 2012 and \$21,494 as of April 28, 2012. Included in accounts receivable as of October 27, 2012 and April 28, 2012 was \$504 and \$783, respectively, of retainage on construction-type contracts, all of which is expected to be collected in one year.

## Note 11. Derivative Financial Instruments

We utilize derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates on those transactions that are denominated in currencies other than our functional currency, which is the U.S. dollar. We enter into currency forward contracts to manage these economic risks. We account for all derivatives on the balance sheet as an asset or liability measured at fair value, and changes in fair values are recognized in earnings unless specific hedge accounting criteria are met for cash flow or net investment hedges. As of October 27, 2012 and April 28, 2012, we had not designated any of our derivative instruments as accounting hedges, and thus we recorded the changes in fair value in other income (expense), net.

The foreign currency exchange contracts in aggregated notional amounts in place to exchange United States Dollars at October 27, 2012 and April 28, 2012 were as follows:

|  | October 27, 2012 |                  | April 28, 2012 |                  |
|--|------------------|------------------|----------------|------------------|
|  | U.S. Dollars     | Foreign Currency | U.S. Dollars   | Foreign Currency |
| Foreign Currency Exchange Forward Contracts: |                  |                  |                |                  |
| U.S. Dollars/Australian Dollars              | 2,619            | 2,548            | 3,315          | 3,269            |
| U.S. Dollars/Canadian Dollars                | 575              | 571              | 870            | 868              |
| U.S. Dollars/Singapore Dollars               | —                | —                | 96             | 121              |
| U.S. Dollars/Brazilian Reais                 | —                | —                | 242            | 436              |
| U.S. Dollars/Euros                           | —                | —                | 130            | 99               |

As of October 27, 2012 and April 28, 2012, there was a net liability of \$7 and \$95, respectively, representing the fair value of foreign currency exchange forward contracts, which was determined using Level 2 inputs from a third party bank.



Table of contents

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (including exhibits and any information incorporated by reference herein) contains both historical and forward-looking statements that involve risks, uncertainties and assumptions. The statements contained in this Report that are not purely historical are forward-looking statements that are subject to the safe harbors created under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, beliefs, intentions and strategies for the future. These statements appear in a number of places in this Report and include all statements that are not historical statements of fact regarding our intent, belief or current expectations with respect to, among other things: (i) our financing plans; (ii) trends affecting our financial condition or results of operations; (iii) our growth strategy and operating strategy; (iv) the declaration and payment of dividends; (v) the timing and magnitude of future contracts; (vi) parts shortages and longer lead times; (vii) fluctuations in margins; and (viii) the introduction of new products and technology. The words "may," "would," "could," "should," "will," "expect," "estimate," "anticipate," "believe," "intend," "plans" and similar expressions and variations thereof are intended to identify forward-looking statements. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, many of which are beyond our ability to control, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors discussed herein, including those discussed in our filings with the Securities and Exchange Commission, including in our Annual Report on Form 10-K for the fiscal year ended April 28, 2012 in the section entitled "Item 1A. Risk Factors."

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

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

OVERVIEW

We design, manufacture and sell a wide range of display systems to customers throughout the world. We focus our sales and marketing efforts on markets, geographical regions and products. Our five segments consist of four domestic business units and an International business unit. The four domestic business units consist of Live Events, Commercial, Schools and Theatres, and Transportation.

Our net sales and profitability historically have fluctuated due to the impact of large product orders, such as display systems for professional sports facilities and colleges and universities, as well as the seasonality of the sports market.

Net sales and gross profit percentages also have fluctuated due to other seasonal factors, including the impact of holidays, which primarily affects our third quarter. Our gross margins on large custom and standard orders tend to fluctuate more than small standard orders. Large product orders that involve competitive bidding and substantial subcontract work for product installation generally have lower gross margins. Although we follow the percentage of completion method of recognizing revenues for large custom orders, we nevertheless have experienced fluctuations in operating results and expect that our future results of operations will be subject to similar fluctuations.

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

For a summary of recently issued accounting pronouncements and the affects of those pronouncements on our financial results, refer to Note 1 of the Notes to the Consolidated Financial Statements, which is included elsewhere in this Report.

Table of contents

GENERAL

Our business, especially the large video display business in all of our business units, is very competitive, and generally our margins on these large contracts are similar across the business units over the long-term. There are, however, differences that arise in the short term among the business units, which are discussed more fully in the following analysis.

Overall, our business growth is driven by the market demand for large format electronic displays and the depth and quality of our products, including related control systems, the depth of our service offerings and our technology that serve these market demands. This growth, however, is partially offset by declines in product prices caused by increasing competition. Within each business unit, there are also key growth drivers that apply uniquely to that business unit.

Commercial Business Unit: Over the long-term, we believe that the following factors are important growth drivers to our Commercial business unit:

The continued deployment of digital billboards, which we believe can expand as billboard companies continue developing new sites for digital billboards and start to replace digital billboards which are reaching end of life. This growth is dependent on there being no adverse changes in the digital billboard regulatory environment, which could restrict future deployments of billboards, as well as maintaining our current market share of the business that is concentrated in a few large billboard companies.

The growing interest in our standard display products that are used in many different retail-type establishments, among other types of applications. The demand in this area is driven by retailers and other types of commercial establishments desire to attract the attention of motorists and others into their storefront. It is also driven by the need to communicate messages to the public. Furthermore, we believe that in the future there will be increased demand from national accounts, including retailers, quick serve restaurants and other types of nationwide organizations, which could lead to increasing sales.

Increasing interest in spectaculars, which include very large and sometimes highly customized displays as part of entertainment venues such as casinos, amusement parks and Times Square type locations.

The introduction of architectural lighting products for commercial buildings, which real estate owners use to add accents or effects to an entire side or circumference of a building to communicate messages or to decorate the building.

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

Facilities spending more on larger display systems.

Lower product costs, which are driving an expansion of the marketplace.

Our product and service offerings, which remain the most integrated and comprehensive offerings in the industry.

The competitive nature of sports teams, which strive to out-perform their competitors with display systems.

The desire for high-definition video displays, which typically drives larger displays or higher resolution displays, both of which increase the average transaction size.

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

Increasing demand for video systems in high schools as school districts realize the revenue generating potential of these displays versus traditional scoreboards.

Increasing demand for different types of displays, such as message centers at schools to communicate to students, parents and the broader community.

- The use of more sophisticated displays in more athletic venues, such as aquatics in schools.

Transportation Business Unit: Over the long-term, we believe that growth in the Transportation business unit will result from increasing applications of electronic displays to manage commuters, including roadway, airport, parking, transit and other applications. This growth is highly dependent on government spending, primarily federal government spending.

International Business Unit: Over the long-term, we believe that growth in the International business unit will result from achieving greater penetration in various geographies, building products more suited to individual markets, and the reasons listed in each of the other business units to the extent they apply outside the United States.

Each of our business units is impacted by adverse economic conditions in different ways and to different degrees. The effects of an adverse economy are generally less severe on our sports related business as compared to our other businesses, although in severe economic downturns, the sports business can be severely impacted. Our Commercial and International business units are highly dependent on economic conditions in general.



Table of contents

The cost and selling prices of our products have decreased over time and are expected to continue to decrease in the future. As a result, each year we must sell more products to generate the same or a greater level of net sales as in previous fiscal years. This price decline has been significant as a result of increased competition across all business units.

## RESULTS OF OPERATIONS

## COMPARISON OF THE THREE MONTHS ENDED OCTOBER 27, 2012 AND OCTOBER 29, 2011

## Net Sales

| (in thousands)     | Three Months Ended  |                     | Percent Change |
|--------------------|---------------------|---------------------|----------------|
|                    | October 27,<br>2012 | October 29,<br>2011 |                |
| Net Sales:         |                     |                     |                |
| Commercial         | \$39,773            | \$43,704            | (9.0 )%        |
| Live Events        | 50,604              | 46,664              | 8.4            |
| Schools & Theatres | 21,688              | 17,239              | 25.8           |
| Transportation     | 17,571              | 12,439              | 41.3           |
| International      | 20,235              | 15,864              | 27.6           |
|                    | \$149,871           | \$135,910           | 10.3 %         |
| Orders:            |                     |                     |                |
| Commercial         | \$32,035            | \$33,358            | (4.0 )%        |
| Live Events        | 34,195              | 44,488              | (23.1 )        |
| Schools & Theatres | 14,465              | 13,475              | 7.3            |
| Transportation     | 7,496               | 12,342              | (39.3 )        |
| International      | 22,141              | 14,132              | 56.7           |
|                    | \$110,332           | \$117,795           | (6.3 )%        |

Commercial: The decrease in net sales for the three months ended October 27, 2012 compared to the same period one year ago was the net result of:

A decrease in sales of large custom video contracts, due to a multi-million dollar custom video project converting to sales in the second quarter of fiscal 2012. The level of large custom contract orders and sales in this niche is subject to volatility and, during the second quarter of fiscal 2013, we did not have the same level of large video projects to convert to sales.

An increase in sales of on-premise advertising displays resulting from orders for a national account customer replacement program.

Sales in our billboard niche were relatively flat.

The decrease in orders for the three months ended October 27, 2012 compared to the same period one year ago was the net result of:

An increase in orders for large custom video projects net of a decline in orders for on-premise advertising displays due to order timing and, to some degree, the economic uncertainty.

A decrease in orders for our national account business and outdoor advertising customers resulting from variability in timing of orders being booked.

Live Events: The increase in net sales for the three months ended October 27, 2012 compared to the same period one year ago was the result of the higher order volume in the first quarter of fiscal 2013, which we converted to net sales during the second quarter of fiscal 2013.

Orders decreased for the three months ended October 27, 2012 compared to the same period one year ago due to order timing as a number of expected orders have pushed into our third quarter of fiscal 2013.

Schools and Theatres: The increase in net sales for the three months ended October 27, 2012 compared to the same period one year ago was primarily the result of increased demand in video projects which converted to sales in the second quarter of fiscal 2013.

The increase in orders for the three months ended October 27, 2012 compared to the same period one year ago appears to be resulting from an overall improvement in the market, which we believe is related to less impact of public school spending pressures and the growing interest in video systems in high schools. In addition, orders for video projects increased by 92 percent over the second quarter of fiscal 2012.

Table of contents

Transportation: The increase in net sales for the three months ended October 27, 2012 compared to the same period one year ago was the result of an increase of \$4.6 million in sales related to orders under a large procurement contract and some production on an order booked during the first quarter of fiscal 2013 for a major airport.

The decrease in orders for the three months ended October 27, 2012 compared to the same period one year ago is the result of order timing.

International: The increase in net sales in our International business unit for the three months ended October 27, 2012 compared to the same period one year ago is the result of a significant increase in orders booked during the first and second quarters of fiscal 2013 compared to the same period of the previous year. There were a number of orders that were delayed in booking in the fourth quarter of fiscal 2012 that ultimately booked in the first quarter of fiscal 2013, which led to a higher level of sales during the first half of fiscal 2013.

The increase in orders for the three months ended October 27, 2012 compared to the same period one year ago is the result of a \$6.1 million order for a large architectural lighting project and orders for two international sports stadiums in excess of \$3 million.

## Backlog

The product order backlog as of October 27, 2012 was \$128 million as compared to \$137 million as of October 29, 2011 and \$164 million at the end of first quarter of fiscal 2013. Historically, our backlog varies due to the timing of large orders and customer delivery schedules for these orders. The backlog increased from one year ago in our Transportation and Schools and Theatres business units and decreased in our Commercial, Live Events and International business units.

Backlog is not a measure defined by U.S. generally accepted accounting principles, and our methodology for determining backlog may vary from the methodologies used by other companies in determining their backlog amounts. Our backlog is equal to the amount of net sales expected to be recognized in future periods on standard product and contract sales that are evidenced by an arrangement, with prices that are fixed and determinable and with collectability reasonably assured. Arrangements in our backlog may be canceled, modified or otherwise altered. Lead times for orders in our backlog can range from a week to several years. Most standard product lead time is less than 8 weeks, but large contracts can range from twelve weeks to more than a year. Thus, overall backlog is not directly indicative of sales in future quarters.

## Gross Profit

|                    | Three Months Ended |                           |                | October 29, 2011 |                           |   |
|--------------------|--------------------|---------------------------|----------------|------------------|---------------------------|---|
|                    | October 27, 2012   |                           |                | October 29, 2011 |                           |   |
| (in thousands)     | Amount             | As a Percent of Net Sales | Percent Change | Amount           | As a Percent of Net Sales |   |
| Commercial         | \$12,038           | 30.3                      | % 9.8          | % \$10,964       | 25.1                      | % |
| Live Events        | 11,421             | 22.6                      | 24.1           | 9,200            | 19.7                      |   |
| Schools & Theatres | 6,022              | 27.8                      | 43.7           | 4,191            | 24.3                      |   |
| Transportation     | 6,881              | 39.2                      | 85.1           | 3,717            | 29.9                      |   |
| International      | 5,990              | 29.6                      | 76.3           | 3,398            | 21.4                      |   |
|                    | \$42,352           | 28.3                      | % 34.6         | % \$31,470       | 23.2                      | % |

The increase in our gross profit percentage for the three months ended October 27, 2012 compared to the same period one year ago was the net result of:

An increase of approximately two percentage points in margin on product sales because of sales mix. During the second quarter of fiscal 2013 we produced a higher volume of standard orders with higher margins versus the same quarter of fiscal 2012.

An increase of approximately one percentage point due to lower manufacturing conversion costs resulting from increased manufacturing utilization and decreased component costs.

An increase of approximately one percentage point due to lower warranty costs as a percentage of net sales.

An increase of approximately one percentage point due to the increased services infrastructure utilization and other cost containment measures.

Commercial: The gross profit percent increase for the three months ended October 27, 2012 compared to the same period one year ago was the result of an improvement of reseller and national account business due to sales mix, increased manufacturing and services infrastructure utilization, and a reduction of warranty costs as a percentage of sales, partially offset by a small decline in the outdoor advertising niche due to competitive market pressures on pricing.

Table of contents

Live Events: The gross profit percent increase for the three months ended October 27, 2012 compared to the same period one year ago was the result of improvements from manufacturing utilization, a reduction of warranty costs as a percentage of sales, and improved margin based on sales mix.

Schools and Theatres: The gross profit percent increase for the three months ended October 27, 2012 compared to the same period one year ago was the result of higher gross profit percentages on product sales mix, increased manufacturing utilization, and lower warranty costs as a percentage of sales.

Transportation: The gross profit percent increase for the three months ended October 27, 2012 compared to the same period one year ago was the net result of an increase of approximately four percentage points in margin on product sales because of sales mix and profitability on the contracts produced this quarter, increased manufacturing and services infrastructure utilization and a decrease in warranty expenses as a percentage of sales.

International: The gross profit percent increase for the three months ended October 27, 2012 compared to the same period one year ago was primarily the result of improved margins on product sales mix.

## Selling Expense

| (in thousands)     | Three Months Ended<br>October 27, 2012 |                              |                   | October 29, 2011 |                              |  |
|--------------------|--|------------------------------|-------------------|------------------|------------------------------|--|
|                    | Amount                                 | As a Percent<br>of Net Sales | Percent<br>Change | Amount           | As a Percent<br>of Net Sales |  |
| Commercial         | \$3,472                                | 8.7 %                        | (1.2 )%           | \$3,515          | 8.0 %                        |  |
| Live Events        | 3,348                                  | 6.6                          | 5.3               | 3,179            | 6.8                          |  |
| Schools & Theatres | 2,589                                  | 11.9                         | (6.9 )            | 2,781            | 16.1                         |  |
| Transportation     | 855                                    | 4.9                          | (7.3 )            | 922              | 7.4                          |  |
| International      | 2,532                                  | 12.5                         | 0.1               | 2,529            | 15.9                         |  |
|                    | \$12,796                               | 8.5 %                        | (1.0 )%           | \$12,926         | 9.5 %                        |  |

Selling expenses were slightly lower in the three months ended October 27, 2012 compared to the same period one year ago as a result of our cost containment efforts offsetting nearly \$0.7 million in increased personnel costs, including salary, taxes, and employee benefits.

Commercial: Commercial selling expenses decreased approximately one percent in the second quarter of fiscal 2013 compared to the same period one year ago. The decrease was the result of reductions in convention expenses and travel and entertainment expenses, offset by an increase in personnel costs.

Live Events: Selling expenses increased by approximately five percent in the second quarter of fiscal 2013 compared to the same period in fiscal 2012. This was primarily the result of an increase in the cost of employee benefits due to an increase in workers compensation claims.

Schools and Theatres: Selling expenses decreased approximately seven percent compared to the same period in fiscal 2012. This was mainly due to a decrease in bad debt expense.

Transportation: Selling expenses declined approximately seven percent for the second quarter of fiscal 2013 compared to the same period one year ago. The decline for the second quarter was due to cost reductions in travel and entertainment and convention expenses.

International: Selling expenses remained flat compared to the same period in fiscal 2012 due to increases in personnel costs, including taxes and benefits that were offset by reductions in various other expenses consistent with those noted above.

Other Operating Expenses

| (in thousands)                 | Three Months Ended<br>October 27, 2012 |                              |                   | October 29, 2011 |                              |   |
|--------------------------------|--|------------------------------|-------------------|------------------|------------------------------|---|
|                                | Amount                                 | As a Percent<br>of Net Sales | Percent<br>Change | Amount           | As a Percent<br>of Net Sales |   |
| General and administrative     | \$6,850                                | 4.6                          | % (1.7            | )% \$6,972       | 5.1                          | % |
| Product design and development | \$5,845                                | 3.9                          | % 3.7             | % \$5,636        | 4.1                          | % |

Table of contents

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. General and administrative expenses in the second quarter of fiscal 2013 as compared to the same period one year ago remained relatively flat as increases in payroll costs, including taxes and benefits, were offset by net decreases in information system related maintenance expenses, professional services expenses and various other expenses. These reductions in expenses were due to one-time costs incurred in the second quarter of fiscal 2012 and continued traction on our initiatives to reduce variable spending during the current year as a part of our strategic goals to improve operating income.

Product design and development expenses consist primarily of salaries, other employee-related costs, facilities and equipment-related costs and supplies. Product development investments in the near term are focused on video technology with a range of pixel pitches for outdoor applications using LED surface mount technology, which offer improved performance at a lower cost point over our current offerings. In addition, we continue to focus on a new full-color family of Vanguard displays for the transportation market and various other products to standardize display components and control systems for both single site displays and networked displays. Our costs for product development represent an allocated amount of costs based on time charges, materials costs and overhead of our engineering departments. Generally, a significant portion of our engineering time is spent on product development, while the rest is allocated to large contract work and included in cost of goods sold.

The increase in product development expense in the second quarter of fiscal 2013 as compared to the same period one year ago was due to the increase in time allocated to product development efforts of \$0.6 million for new product offering development, partially offset by a decrease of \$0.2 million in costs of material used to prototype and test new products and a decrease of \$0.2 million in various other expenses.

## Other Income and Expenses

| (in thousands)              | Three Months Ended<br>October 27, 2012 |                              |                   | October 29, 2011 |                              |   |
|-----------------------------|--|------------------------------|-------------------|------------------|------------------------------|---|
|                             | Amount                                 | As a Percent<br>of Net Sales | Percent<br>Change | Amount           | As a Percent<br>of Net Sales |   |
| Interest income, net        | \$312                                  | 0.2                          | % (13.8 )%        | \$362            | 0.3                          | % |
| Other income (expense), net | \$150                                  | 0.1                          | % (419.1 )%       | \$(47 )          | —                            | % |

Interest income, net: We generate interest income through short-term cash investments, marketable securities, and 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. Interest expense is comprised primarily of interest costs on long-term marketing obligations and the unused portion of our line of credit.

Interest income was relatively flat in the second quarter of fiscal 2013 compared to the same period one year ago. Interest expense decreased slightly in the second quarter of fiscal 2013 as compared to the same period in fiscal 2012 due to reduced levels of outstanding debt on our line of credit.

Other income (expense), net: We realized an increase of \$0.2 million in income from the net result of other income and expenses for the second quarter of fiscal 2013 as compared to the same period one year ago due to a decrease in foreign currency losses for changes in the fair value of currency hedges, which are generally offset by net gains in the hedged transactions and various other non-operating gains.

## Income Taxes

Our effective tax rate was 33.3 percent for the second quarter of fiscal 2013 as compared to 36.7 percent for the second quarter of fiscal 2012. The primary difference was a one-time two percentage points decrease in tax rates due to an international tax change and the remaining difference was due to the effective rate mix in various jurisdictions.

Our effective tax rate can vary significantly due to the mix of pre-tax income and permanent adjustments to taxable income in different countries and the estimate of the annual effective rate in each country.



Table of contents

## COMPARISON OF THE SIX MONTHS ENDED OCTOBER 27, 2012 AND OCTOBER 29, 2011

## Net Sales

| (in thousands)     | Six Months Ended    |                     | Percent Change |
|--------------------|---------------------|---------------------|----------------|
|                    | October 27,<br>2012 | October 29,<br>2011 |                |
| Net Sales:         |                     |                     |                |
| Commercial         | \$78,130            | \$76,407            | 2.3 %          |
| Live Events        | 95,113              | 85,181              | 11.7           |
| Schools & Theatres | 39,861              | 35,721              | 11.6           |
| Transportation     | 34,167              | 23,939              | 42.7           |
| International      | 35,519              | 33,359              | 6.5            |
|                    | \$282,790           | \$254,607           | 11.1 %         |
| Orders:            |                     |                     |                |
| Commercial         | \$76,634            | \$80,599            | (4.9)%         |
| Live Events        | 84,894              | 83,823              | 1.3            |
| Schools & Theatres | 37,923              | 31,648              | 19.8           |
| Transportation     | 39,532              | 28,016              | 41.1           |
| International      | 44,891              | 33,899              | 32.4           |
|                    | \$283,874           | \$257,985           | 10.0 %         |

Commercial: The increase in net sales for the six months ended October 27, 2012 compared to the same period one year ago was the net result of:

- An increase in sales of on-premise advertising displays, which was primarily due to an increase in orders for a national account customer replacement program, as previously disclosed.
- A decrease in sales for large video display projects due to the lower volume of demand for custom video orders.
- A small increase in sales to outdoor advertising companies.

The decrease in orders for the six months ended October 27, 2012 compared to the same period one year ago was the net result of:

- A decrease in demand for large video display systems.
- A decrease in orders for standard Galaxy® displays used in on-premise advertising other than our national accounts business, which we attribute to soft economic conditions.
- An increase of outdoor advertising company orders for new or replacement billboards.

Live Events: The increase in net sales for the six months ended October 27, 2012 compared to the same period one year ago was the net result of the near record level of orders booked in the first quarter of fiscal 2013 as compared to the first quarter of fiscal 2012, which we converted to sales.

Schools and Theatres: The increase in net sales for the six months ended October 27, 2012 compared to the same period one year ago was the result of schools demonstrating more willingness this year than in fiscal 2012 to move forward with projects and the increasing demand in video projects for high schools.

Transportation: The increase in net sales for the six months ended October 27, 2012 compared to the same period one year ago was driven by sales recorded from a large procurement contract compared to the previous year. In addition, orders for the first half of fiscal 2013 were significantly higher than the previous year primarily due to an order for

\$21 million in video displays at the LAX Bradley International Terminal in Los Angeles.

International: The increase in net sales for the six months ended October 27, 2012 compared to the same period one year ago was the result of a significant increase in orders during the first half of fiscal 2013 compared to fiscal 2012. The increase in orders was being driven by orders from a number of outdoor advertising companies located around the world, a \$6 million large architectural lighting project and orders for two international sports stadiums totaling in excess of \$3 million.

Table of contents

## Gross Profit

| (in thousands)     | Six Months Ended<br>October 27, 2012 |                              |                   | October 29, 2011 |                              |   |
|--------------------|--------------------------------------|------------------------------|-------------------|------------------|------------------------------|---|
|                    | Amount                               | As a Percent<br>of Net Sales | Percent<br>Change | Amount           | As a Percent<br>of Net Sales |   |
| Commercial         | \$21,887                             | 28.0                         | % 15.5            | % \$18,944       | 24.8                         | % |
| Live Events        | 21,658                               | 22.8                         | 38.0              | 15,691           | 18.4                         |   |
| Schools & Theatres | 11,210                               | 28.1                         | 11.4              | 10,067           | 28.2                         |   |
| Transportation     | 13,612                               | 39.8                         | 73.9              | 7,828            | 32.7                         |   |
| International      | 10,375                               | 29.2                         | 22.8              | 8,446            | 25.3                         |   |
|                    | \$78,742                             | 27.8                         | % 29.1            | % \$60,976       | 23.9                         | % |

The increase in our gross profit percentage for the six months ended October 27, 2012 compared to the same period one year ago was the net result of the following:

• An increase of approximately two percentage points in margin on product sales.

• An increase of approximately two percentage points as a result of significantly lower manufacturing conversion costs and higher utilization.

Commercial: The gross profit percent increase in the Commercial business unit for the six months ended October 27, 2012 compared to the same period one year ago was primarily the net result of:

• Higher manufacturing utilization from the increased production volumes associated with higher sales, which increased gross profit percentages by approximately one and a half percentage points.

• An increase in the gross profit on large video display contracts, which added approximately one percentage point to gross margin.

• Improved services infrastructure utilization, which increased gross profit by approximately one percentage point.

Live Events: The gross profit percent increase in the Live Events business unit for the six months ended October 27, 2012 compared to the same period one year ago was the net result of:

• Improvement in gross profit margin on product sales mix, which added approximately one percentage point to gross margin.

• Increased manufacturing utilization from the overall higher sales volumes, which increased gross profit percentages by approximately three percentage points.

Schools and Theatres: The gross profit percent in the Schools and Theatres business unit for the six months ended October 27, 2012 compared to the same period one year ago was relatively unchanged.

Transportation: The gross profit percent increase in the Transportation business unit for the six months ended October 27, 2012 compared to the same period one year ago was the net result of:

• An increase in the gross profit percentage on product sales, which added approximately three percentage points to the overall gross profit percentage.

• Increased manufacturing utilization from the overall higher sales volumes, which increased gross profit percentages by approximately four percentage points.

International: The gross profit percent increase in the International business unit for the six months ended October 27, 2012 compared to the same period one year ago was the net result of:

An increase in the gross margin on product sales, which increased the overall gross profit by approximately seven percentage points. This increase was the result of a number of factors, including increased demand for higher quality products in large video displays and architectural lighting applications that provide higher margins.

A decrease of approximately two percentage points as a result of higher warranty expenses that occurred during the first quarter of fiscal 2013 due to one significant claim.

Table of contents

## Selling Expense

| (in thousands)     | Six Months Ended<br>October 27, 2012 |                              |                   | October 29, 2011 |                              |   |
|--------------------|--------------------------------------|------------------------------|-------------------|------------------|------------------------------|---|
|                    | Amount                               | As a Percent<br>of Net Sales | Percent<br>Change | Amount           | As a Percent<br>of Net Sales |   |
| Commercial         | \$7,118                              | 9.1                          | % 2.3             | % \$6,958        | 9.1                          | % |
| Live Events        | 6,510                                | 6.8                          | 4.0               | 6,262            | 7.4                          |   |
| Schools & Theatres | 5,199                                | 13.0                         | (1.1 )            | 5,258            | 14.7                         |   |
| Transportation     | 1,608                                | 4.7                          | (4.7 )            | 1,688            | 7.1                          |   |
| International      | 5,441                                | 15.3                         | 9.5               | 4,969            | 14.9                         |   |
|                    | \$25,876                             | 9.2                          | % 2.9             | % \$25,135       | 9.9                          | % |

The increase in selling expenses in the first six months of fiscal 2013 compared to the same period one year ago was the net result of the following:

• A \$1.5 million increase in personnel costs, including taxes and benefits, primarily in our International and Commercial business units to support the growth in orders.

• A decrease of \$0.4 million in travel and entertainment and trade show costs as a result of our cost reduction efforts.

• A net decrease in various other expenses of \$0.4 million.

**Commercial:** The increase in selling expenses for the first six months of fiscal 2013 compared to the same period in fiscal 2012 was a result of a \$0.4 million increase in personnel costs, including taxes and benefits, which were partially offset by \$0.2 million decrease in various other expenses. The increase in personnel costs was the result of increased benefit costs and salary increases in the last six months of fiscal 2012.

**Live Events:** The increase in selling expenses for the first six months of fiscal 2013 compared to the same period in fiscal 2012 was a result of an increase of \$0.3 million in the cost of employee benefits primarily related to workers compensation claims.

**Schools & Theatres:** Selling expenses for the first six months of fiscal 2013 compared to the same period in fiscal 2012 were relatively unchanged even with an increase in sales due to our cost containment efforts.

**Transportation:** Selling expenses for the first six months of fiscal 2013 compared to the same period one year ago remained relatively flat as a result of cost containment efforts offsetting other variable expenses.

**International:** The increase in selling expenses for the first six months of fiscal 2013 compared to the same period one year ago was the net result of:

• A \$0.4 million increase in personnel costs, including taxes and benefits due to increases in headcount from the previous year to support our growth in international orders for fiscal 2013.

• A net increase of \$0.1 million in various other expenses.

## Other Operating Expenses

| (in thousands)             | Six Months Ended<br>October 27, 2012 |                              |                   | October 29, 2011 |                              |   |
|----------------------------|--------------------------------------|------------------------------|-------------------|------------------|------------------------------|---|
|                            | Amount                               | As a Percent<br>of Net Sales | Percent<br>Change | Amount           | As a Percent<br>of Net Sales |   |
| General and administrative | \$13,431                             | 4.7                          | % —               | % \$13,436       | 5.3                          | % |

Edgar Filing: DAKTRONICS INC /SD/ - Form 10-Q

|                                |          |     |   |     |   |          |     |   |
|--------------------------------|----------|-----|---|-----|---|----------|-----|---|
| Product design and development | \$11,866 | 4.2 | % | 4.5 | % | \$11,353 | 4.5 | % |
|--------------------------------|----------|-----|---|-----|---|----------|-----|---|

General and administrative expenses in the first six months of fiscal 2013 remained flat as compared to the same period one year ago.

Table of contents

The increase in product development expense in the first six months of fiscal 2013 as compared to the same period one year ago was the net result of the following:

An increase in personnel costs, including taxes and benefits, of \$0.9 million, as a result of slight increases in headcount, salary and benefit costs due to normal variations within the business and our continued focus to support the growth of our display and control system platforms.

A decrease in material costs related to product development of \$0.2 million as a result of timing of projects for prototyping new products and the prototype stage of development.

A decrease of \$0.2 million in various other expenses.

## Other Expense

| (in thousands)       | Six Months Ended<br>October 27, 2012 |                              |                   | October 29, 2011 |                              |    |
|----------------------|--------------------------------------|------------------------------|-------------------|------------------|------------------------------|----|
|                      | Amount                               | As a Percent<br>of Net Sales | Percent<br>Change | Amount           | As a Percent of<br>Net Sales |    |
| Interest income, net | \$656                                | 0.2                          | % (9.0 )%         | \$721            | 0.3                          | %  |
| Other expense, net   | \$(30 )                              | —                            | % (84.5 )%        | \$(193 )         | (0.1                         | )% |

Interest income, net: Interest income declined slightly for the six months ended October 27, 2012 as compared to the same period in fiscal 2012 primarily due to lower levels of long-term receivables.

Interest expense decreased for the six months ended October 27, 2012 compared to the six months ended October 29, 2011 as a result of repayments on borrowings in China during the first quarter of fiscal 2013.

Other expense, net: The decrease of more than \$0.1 million for the six months ended October 27, 2012 as compared to the same period one year ago was mainly due to the decrease in foreign currency losses for changes in the fair value of currency hedges.

## Income Taxes

The effective tax rate was approximately 35.4 percent for the first six months of fiscal 2013 as compared to 36.7 percent for the first six months of fiscal 2012. In comparing the first six months of fiscal 2013 to the same period in fiscal 2012, changes in the effective tax rate were due to the net impact of the following items:

An increase in the effective tax rate of approximately two percentage points as a result of a favorable adjustment in the first quarter of fiscal 2012 to the estimated benefit of the research and development tax credit.

A decrease in the annual estimated effective tax rate of approximately 2.5 percentage points as a result of the impact of non-deductible meals and entertainment and stock compensation expense on a higher projected income compared to similar level expenses on a lower projected income in fiscal 2012.

- A decrease in the effective tax rate of approximately 0.5 percentage points due to the impact of lower state income taxes as a result of an increase in the amount of foreign income not subject to state income taxes.

A decrease in the tax rate due to approximately 1.2 percentage points decrease in tax rates due to an international tax change.

- Various other items, which have a greater impact on the effective rate due to higher income before taxes but which are not material to the overall effective tax rate.

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 because different taxing jurisdictions have different statute of limitations. The United States Internal Revenue Service (IRS) is currently in the process of examining our U.S. federal tax returns for fiscal years 2009 and 2010. The Chinese tax authorities recently completed an audit of tax returns for calendar years prior to 2012 in connection with a transfer of location of our business address in China.



Table of contents

## LIQUIDITY AND CAPITAL RESOURCES

| (in thousands)                            | Six Months Ended    |                     | Percent Change |   |
|---|---------------------|---------------------|----------------|---|
|   | October 27,<br>2012 | October 29,<br>2011 |                |   |
| Net cash provided by (used in):           |                     |                     |                |   |
| Operating activities                      | \$34,042            | \$21,475            | 58.5           | % |
| Investing activities                      | (5,048 )            | (8,853 )            | (43.0          | ) |
| Financing activities                      | (5,362 )            | (3,466 )            | 54.7           |   |
| Effect of exchange rate changes on cash   | 39                  | (4 )                | (1,075.0       | ) |
| Net increase in cash and cash equivalents | \$23,671            | \$9,152             | 158.6          | % |

Cash flows from operating activities: The increase in cash from operating activities for the first six months of fiscal 2013 as compared to the first six months of fiscal 2012 was the net result of the following:

• An increase in net income of \$10.9 million plus \$3.0 million in changes in net operating assets and liabilities, adjusted by depreciation and amortization of \$1.2 million.

• The most significant drivers of the change in net operating assets and liabilities were the net result of the following:

• A net \$8.5 million increase from taxes due to the decrease in our income tax receivable of \$5.9 million and an increase in our income tax payable of \$2.7 million.

• A net change in various other operating assets and liabilities, which decreased cash from operations by \$1.8 million.

Overall, changes in operating assets and liabilities can be impacted by the timing of cash flows on large orders, which can cause significant fluctuations in the short term in inventory, accounts receivables, accounts payable, customer deposits, costs and earnings in excess of billings and various other operating assets and liabilities.

Cash flows from investing activities: The decrease in cash used in investing activities for the first six months of fiscal 2013 as compared to the same period in fiscal 2012 was the result of the net effect of the following:

• A decrease in the net cash invested in marketable securities, net of maturities. Our investment approach has remained consistent year over year as we try to maintain a consistent level of marketable securities and, therefore, the change was the result of the timing of investment decisions and transfers of excess cash to be invested in marketable securities.

• A decrease in purchases of property and equipment of \$1.9 million. During the first six months of fiscal 2013, we invested \$2.1 million in manufacturing equipment, \$0.5 million in product demonstration equipment, \$0.9 million in information systems infrastructure, including software, and \$0.8 million in other assets. Capital expenditures are expected to be less than \$14 million for the 2013 fiscal year as a whole.

Cash flows from financing activities: The increase in cash used by financing activities for the first six months of fiscal 2013 as compared to the same period in fiscal 2012 was the result of an increase in dividends paid to shareholders as explained elsewhere in this Report and net repayments of our short-term debt obligations.

Other Liquidity and Capital Resource Discussion: Included in receivables and costs in excess of billings as of October 27, 2012 was approximately \$3.4 million of retainage on long-term contracts, all of which is expected to be collected within one year.

Working capital was \$142.4 million at October 27, 2012 and \$119.8 million at April 28, 2012. The increase in working capital was primarily the result of higher sales and the corresponding increase in accounts receivable and cost

and estimated earnings in excess of billings. We have historically financed working capital needs through a combination of cash flow from operations and borrowings under bank credit agreements.

We have used and expect to continue to use cash reserves and, to a lesser extent and primarily in China, 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 a 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.

We have a credit agreement with a U.S. bank that 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, which was amended on November 9, 2012, is due on November 15, 2013. The interest rate ranges from LIBOR plus 125 basis points to LIBOR plus 175 basis points depending on the ratio of our interest-bearing debt to EBITDA. EBITDA

Table of contents

is defined as net income before income taxes, interest expense, depreciation and amortization. The effective interest rate was 1.5 percent at October 27, 2012. We are assessed a loan fee equal to 0.125 percent per annum of any non-used portion of the loan. As of October 27, 2012, there were no advances under the line of credit.

The credit agreement is unsecured and requires us to be in compliance with the following financial ratios:

- A minimum fixed charge coverage ratio of at least 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 have an additional credit agreement with another U.S. bank that was also amended on November 9, 2012 and expires on November 15, 2013 that is intended to support our credit needs outside of the United States. The facility provides for a line of credit that was increased to \$35.0 million and includes facilities for letters of credit and bank guarantees and to secure foreign loans for our international subsidiaries. The U.S. credit agreement is unsecured and is cross collateralized with the \$35.0 million line of credit described above. It contains the same covenants as the credit agreement for that line of credit. As of October 27, 2012, there was \$0.5 million of advances outstanding under the China credit facility.

We were in compliance with all applicable covenants as October 27, 2012 and April 28, 2012. The minimum fixed charge coverage ratio as of October 27, 2012 was 96-to-1, and the ratio of interest-bearing debt to EBITDA as of October 27, 2012 was 0.03-to-1.

On May 24, 2012, our Board of Directors declared a semi-annual dividend of \$0.115 per share on our common stock for the fiscal year ended April 28, 2012, which was paid on June 25, 2012.

On November 29, 2012, our Board of Directors declared a semi-annual dividend payment of \$0.115 and a special dividend of \$0.50 per share on our common stock for holders on December 10, 2012 and payable on December 20, 2012. Although we expect to continue to pay dividends for the foreseeable future, any and all subsequent dividends will be reviewed regularly and declared by the Board at its discretion.

We are sometimes required to obtain performance bonds for display installations, and we have a bonding line available through a surety company that provides for an aggregate of \$100.0 million in bonded work outstanding. At October 27, 2012, we had \$27.9 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 our credit facilities or seek other means of financing. We anticipate that we will be able to obtain any needed funds under commercially reasonable terms from our current lenders 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.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Foreign Currency Exchange Rates

Through October 27, 2012, 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. For the second quarter and year to date

of fiscal 2013, net sales originating outside the United States were 16.0 percent and 14.6 percent of total net sales, respectively, of which a portion was denominated in Canadian dollars, Euros, Chinese renminbi, British pounds, Australian dollars, Brazilian reais 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 U.S. 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 U.S. dollars, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. This effect is also impacted by 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 ability to effectively hedge exchange rate fluctuations in the future.

Table of contents

## Interest Rate Risks

Our exposure to market rate risk for changes in interest rates relates primarily to our debt, marketing obligations and long-term accounts receivable. We maintain a blend of both fixed and floating rate debt instruments. As of October 27, 2012, our outstanding debt was \$0.5 million, substantially all of which was in variable 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 October 27, 2012. As of October 27, 2012, our outstanding marketing obligations were \$0.7 million, substantially all of which were in fixed rate obligations.

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 October 27, 2012, our outstanding long-term receivables were \$16.9 million. Each 25 basis point increase in interest rates would have an associated annual opportunity cost of \$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.

|   | Fiscal Years (in thousands) |         |         |         |         |            |
|---|-----------------------------|---------|---------|---------|---------|------------|
|   | 2013                        | 2014    | 2015    | 2016    | 2017    | Thereafter |
| Assets:   |                             |         |         |         |         |            |
| Long-term receivables, including current maturities:        |                             |         |         |         |         |            |
| Fixed-rate  | \$2,676                     | \$3,941 | \$3,511 | \$2,869 | \$1,790 | \$2,103    |
| Average interest rate                                       | 8.1                         | % 8.0   | % 8.0   | % 7.8   | % 8.2   | % 8.3      |
| Liabilities:  |                             |         |         |         |         |            |
| Long- and short-term debt:                                  |                             |         |         |         |         |            |
| Variable-rate   | \$478                       | \$—     | \$—     | \$—     | \$—     | \$—        |
| Average interest rate                                       | 6.5                         | %       |         |         |         |            |
| Long-term marketing obligations, including current portion: |                             |         |         |         |         |            |
| Fixed-rate  | \$106                       | \$378   | \$163   | \$68    | \$2     | \$2        |
| Average interest rate                                       | 8.3                         | % 8.9   | % 8.9   | % 8.8   | % 6.5   | %          |

Of our cash balances at October 27, 2012, \$45.3 million were 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 subsidiaries.

## Item 4. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our “disclosure controls and procedures,” as that term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as of October 27, 2012, which is the end of the period covered by this Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of October 27, 2012, our disclosure controls and procedures were effective.

Based on the evaluation described in the foregoing paragraph, our Chief Executive Officer and Chief Financial Officer concluded that during the quarter ended October 27, 2012, there was no change in our internal control over financial

reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

Not applicable.

### Item 1A. RISK FACTORS

The discussion of our business and operations included in this Quarterly Report on Form 10-Q should be read together with the risk factors described in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended April 28, 2012. They describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties, together with other factors described elsewhere in this Report, have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a

28

---

Table of contents

material and adverse manner. New risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect our financial condition or financial results.

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

Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

Certain of the following exhibits are incorporated by reference from prior filings. The form with which each exhibit was filed and the date of filing are as indicated below.

- 10.1 Eleventh Amendment to Loan Agreement dated November 9, 2012 by and between the Company and U.S. Bank National Association (1)
  - 10.2 Renewal Revolving Note Dated November 9, 2012 between the Company and U.S. Bank National Association. (1)
  - 10.3 Fourth Amendment to Loan Agreement dated November 9, 2012 by and between the Company and Bank of America, N.A. (1)
  - 10.4 Reaffirmation and Second Amendment to Unlimited Guaranty Agreement dated November 9, 2012 by and between the Company and Bank of America, N.A. (1)
  - 10.5 Amended and Restated Revolving Note Dated November 9, 2012 between the Company and Bank of America, N.A. (1)
  - 10.6 Separation Agreement dated October 7, 2012 by and between the Company and William R. Retterath. (2)
  - 31.1 Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*
  - 31.2 Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*
  - 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350). \*
  - 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350). \*
- 101 The following financial information from our Quarterly Report on Form 10-Q for the period ended October 27, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.\* (3)
- (1)

Incorporated by reference to the exhibit with the same exhibit number filed with our Current Report on Form 8-K filed on November 9, 2012.

- (2) Incorporated by reference to Exhibit 10.1 filed with our Current Report on Form 8-K filed on October 12, 2012. Consists of a management contract or compensatory plan or arrangement.  
Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”), or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.
  - (3) Act of 1934 (the “Exchange Act”), or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.
- \* Filed herewith electronically.



Table of contents

SIGNATURES

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

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

Date: November 30, 2012

Table of contents

Index of Exhibits

Certain of the following exhibits are incorporated by reference from prior filings. The form with which each exhibit was filed and the date of filing are as indicated below.

- 10.1 Eleventh Amendment to Loan Agreement dated November 9, 2012 by and between the Company and U.S. Bank National Association (1)
- 10.2 Renewal Revolving Note Dated November 9, 2012 between the Company and U.S. Bank National Association. (1)
- 10.3 Fourth Amendment to Loan Agreement dated November 9, 2012 by and between the Company and Bank of America, N.A. (1)
- 10.4 Reaffirmation and Second Amendment to Unlimited Guaranty Agreement dated November 9, 2012 by and between the Company and Bank of America, N.A. (1)
- 10.5 Amended and Restated Revolving Note Dated November 9, 2012 between the Company and Bank of America, N.A. (1)
- 10.6 Separation Agreement dated October 7, 2012 by and between the Company and William R. Retterath. (2)
- 31.1 Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*
- 31.2 Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \*
- 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350). \*
- 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350). \*
- 101 The following financial information from our Quarterly Report on Form 10-Q for the period ended October 27, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.\* (3)
  - (1) Incorporated by reference to the exhibit with the same exhibit number filed with our Current Report on Form 8-K filed on November 9, 2012.
  - (2) Incorporated by reference to Exhibit 10.1 filed with our Current Report on Form 8-K filed on October 12, 2012. Consists of a management contract or compensatory plan or arrangement. Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”), or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.
  - (3) Act of 1934 (the “Exchange Act”), or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

\* Filed herewith electronically.