DAKTRONICS INC /SD/
Form 10-Q
February 25, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended January 30, 2010

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From to .
Commission File Number: 0-23246

DAKTRONICS, INC.
(Exact name of Registrant as specified in its charter)

South Dakota	46-0306862
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

201 Daktronics Drive Brookings, SD	57006
(Address of principal executive offices)	(Zip Code)

(605) 692-0200
(Registrant's telephone number, including area 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 S No o

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

Indicate by check mark 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.

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

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

The number of shares of the registrant's common stock outstanding as of February 22, 2010 was 41,062,433.

DAKTRONICS, INC. AND SUBSIDIARIES
FORM 10-Q
For the Quarter Ended January 30, 2010

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Exhibit Index:

Ex.	10.1	Loan Agreement dated October 14, 1998 between U.S. Bank National Association and Daktronics, Inc.
Ex.	10.2	Sixth Amendment to Loan Agreement Dated January 23, 2007 by and between Daktronics, Inc. and U.S. Bank National Association
Ex.	10.3	Eighth Amendment to Loan Agreement Dated November 12, 2009 by and between Daktronics, Inc. and U.S. Bank National Association
Ex.	10.4	Renewal Revolving Note Dated November 12, 2009 between Daktronics, Inc. and U.S. Bank National Association
Ex.	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
Ex.	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.
Ex.	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).
Ex.	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).

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	January 30, 2010 (unaudited)	May 2, 2009 (note 1)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 57,306	$ 36,501
Restricted cash	1,264	1,083
Accounts receivable, less allowance for doubtful accounts	40,277	61,412
Inventories	37,494	51,400

Costs and estimated earnings in excess of billings		24,402		27,541
Current maturities of long-term receivables, less allowance for doubtful accounts		6,973		7,962
Prepaid expenses and other		5,296		5,587
Deferred income taxes		15,293		15,017
Income tax receivable		6,223		-
Property and equipment available for sale		182		470
Total current assets		194,710		206,973
Advertising rights, net		1,591		2,392
Long-term receivables, less current maturities		13,469		15,879
Investments in affiliates		530		2,541
Goodwill		3,262		4,549
Intangible and other assets		3,920		2,804
Deferred income taxes		395		311
		23,167		28,476
PROPERTY AND EQUIPMENT:				
Land		1,471		1,204
Buildings		54,821		50,810
Machinery and equipment		52,837		50,013
Office furniture and equipment		53,732		52,369
Equipment held for rental		2,353		2,423
Demonstration equipment		9,043		8,021
Transportation equipment		4,531		5,115
		178,788		169,955
Less accumulated depreciation		94,883		80,528
		83,905		89,427
TOTAL ASSETS	$	301,782	$	324,876

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DAKTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(continued)
(in thousands, except share data)

	January 30, 2010 (unaudited)		May 2, 2009 (note 1)	
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	19,339	$	30,273
Accrued expenses and warranty obligations		31,155		35,548
Current maturities of long-term debt and marketing obligations		381		367
Billings in excess of costs and estimated earnings		10,079		13,769
Customer deposits		8,964		10,007
Deferred revenue (billed or collected)		6,526		6,669

Income taxes payable	522	2,935
Total current liabilities	76,966	99,568
Long-term debt, less current maturities	13	23
Long-term marketing obligations, less current maturities	550	759
Long-term warranty obligations and other payables	4,583	4,805
Deferred income taxes	4,755	4,948
Long-term deferred revenue (billed or collected)	4,354	2,862
Total long-term liabilities	14,255	13,397
TOTAL LIABILITIES	91,221	112,965
SHAREHOLDERS' EQUITY:		
Common stock, no par value, authorized		
120,000,000 shares; 41,082,899 and 40,657,552 shares		
issued at January 30, 2010 and May 2, 2009, respectively	29,936	27,872
Additional paid-in capital	16,449	13,898
Retained earnings	164,742	170,705
Treasury stock, at cost, 19,680 shares	(9)	(9)
Accumulated other comprehensive loss	(557)	(555)
TOTAL SHAREHOLDERS' EQUITY	210,561	211,911
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 301,782	$ 324,876

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

	Three Months Ended		Nine Months Ended	
	January 30, 2010	January 31, 2009	January 30, 2010	January 31, 2009
Net sales	$ 72,406	$ 128,692	$ 301,221	$ 459,618
Cost of goods sold	61,634	94,553	226,817	331,921
Gross profit	10,772	34,139	74,404	127,697
Operating expenses:				
Selling	13,155	15,513	40,411	47,403
General and administrative	6,523	6,576	19,016	21,812
Product design and development	5,155	5,149	16,558	16,981
Gain on insurance proceeds	(1,496)	-	(1,496)	-
Goodwill impairment	1,410	-	1,410	-
	24,747	27,238	75,899	86,196
Operating income (loss)	(13,975)	6,901	(1,495)	41,501
Nonoperating income (expense):				
Interest income	376	516	1,129	1,563
Interest expense	(38)	(32)	(149)	(196)

Other income (expense), net	(265)	(699)	(1,577)	(2,378)
Income (loss) before income taxes	(13,902)	6,686	(2,092)	40,490
Income tax expense (benefit)	(5,531)	2,524	(2)	14,405
Net income (loss)	$ (8,371)	$ 4,162	$ (2,090)	$ 26,085
Weighted average shares outstanding:				
Basic	41,004	40,629	40,862	40,500
Diluted	41,004	40,953	40,862	41,178
Earnings (loss) per share:				
Basic	$ (0.20)	$ 0.10	$ (0.05)	$ 0.64
Diluted	$ (0.20)	$ 0.10	$ (0.05)	$ 0.63
Cash dividend paid per share	$ -	$ -	$ 0.095	$ 0.09

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

	Nine Months Ended	
	January 30, 2010	January 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (2,090)	$ 26,085
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	16,762	18,026
Amortization	236	236
Gain on sale of property and equipment	(993)	(977)
Stock-based compensation	2,491	2,367
Equity in losses of affiliates	1,532	1,698
Goodwill impairment	1,410	-
Provision for doubtful accounts	(270)	71
Loss on sale of equity investee	230	-
Deferred income taxes, net	(554)	(356)
Change in operating assets and liabilities	19,059	(19,520)
Net cash provided by operating activities	37,813	27,630
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(12,945)	(19,306)
Loans to equity investees	-	(499)
Purchases of equity investment	(100)	-
Purchases of receivables from equity investee, net	(1,676)	-
Proceeds from sale and insurance recoveries of property and equipment	820	3,017
Proceeds from sale of equity method investments	535	-

Net cash used in investing activities		(13,366	)		(16,788	)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from exercise of stock options		365			626	
Excess tax benefits from stock-based compensation		60			363	
Principal payments on long-term debt		(13	)		(545	)
Dividend paid		(3,874	)		(3,635	)
Net cash used in financing activities		(3,462	)		(3,191	)
EFFECT OF EXCHANGE RATE CHANGES ON CASH		(180	)		214	
INCREASE IN CASH AND CASH EQUIVALENTS		20,805			7,865	
CASH AND CASH EQUIVALENTS:						
Beginning		36,501			9,325	
Ending	$	57,306		$	17,190	
Supplemental disclosures of cash flow information:						
Cash payments for:						
Interest:	$	227		$	330	
Income taxes, net of refunds		8,752			15,417	
Supplemental schedule of non-cash investing and financing activities:						
Demonstration equipment transferred to inventory		1,062			991	
Purchase of property and equipment included in accounts payable		993			-	
Conversion of accounts receivable to equity interest in affiliate		-			1,947	
See notes to consolidated financial statements.						

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DAKTRONICS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)
(unaudited)

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

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 May 2, 2009 has been derived from the audited financial statements at that date, but 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 May 2, 2009, 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.

The consolidated financial statements include our accounts and those of our wholly-owned subsidiaries, Daktronics France SARL; Daktronics Shanghai, Ltd.; Daktronics GmbH; Star Circuits, Inc.; Daktronics Media Holdings, Inc.; MSC Technologies, Inc.; Daktronics UK, Ltd.; Daktronics Hong Kong, Ltd.; Daktronics Canada, Inc.; Daktronics Hoist, Inc.; Daktronics Beijing, Ltd; Daktronics Australia Pty Ltd; and Daktronics FZE. Intercompany balances and transactions have been eliminated in consolidation.

Investments in affiliates over which we have significant influence are accounted for by the equity method. Investments in affiliates over which we do not have the ability to exert significant influence over the investees operating and financing activities are accounted for under the cost method of accounting. We have evaluated our relationships with affiliates and have determined that these entities are either not variable interest entities or, in the case of variable interest entities, we are not the primary beneficiary and therefore they are not required to be consolidated in our consolidated financial statements. The equity method requires us to report our share of losses up to our equity investment amount, including any financial support made or committed to. At such time the equity investment is reduced to zero, we recognize losses to the extent of and as an adjustment to the other investments in the affiliate in order of seniority or priority in liquidation. Our proportional share of the respective affiliate's earnings or losses is included in other income (expense) in our consolidated statement of income.

The aggregate amount of investments accounted for under the cost method is $100. The fair value of this investment has not been estimated as there have not been any identified events or changes in circumstances that may have a significant adverse effect on its fair value and it is not practical to estimate its fair value.

We have a variable interest in Outcast Media International, Inc. ("Outcast"). The results of the variable interest analysis we completed indicated that we are not the primary beneficiary of this variable interest entity and, as a result, we are not required to consolidate it. Our interest in Outcast consists of a 37% equity interest, debt owed by Outcast to us in the amount of $1.6 million, and our guarantee of its debt as described in Note 10. Outcast operates the largest pumptop display network in the United States. Our maximum exposure to loss related to Outcast is approximately $3.2 million. During the third quarter of fiscal 2010, we had written down our equity investment to zero and began writing down the convertible note based on our ownership level of the convertible debt compared to all outstanding convertible debt of Outcast. This level of ownership is 10%.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the estimated total costs on long-term construction contracts ("construction-type contracts"), estimated costs to be incurred for product warranties, excess and obsolete inventory, the reserve for doubtful accounts, stock-based compensation, goodwill impairment and income taxes. Changes in estimates are reflected in the periods in which they become known.

Reclassifications: Certain reclassifications have been made to the fiscal year 2009 consolidated financial statements to conform to the presentation used in the fiscal 2010 consolidated financial statements. These reclassifications had no affect on shareholders' equity or net income as previously reported. We reclassified certain maintenance agreements from deferred revenue (billed or collected) to long-term deferred revenue (billed or collected) and reclassified amounts between net sales and cost of goods sold.

Restricted Cash: Restricted cash consists of deposits to secure bank guarantees issued by our Chinese subsidiary.

Software Costs: We capitalize certain costs incurred in connection with developing or obtaining internal-use software. Capitalized software costs are included in Property and Equipment on our consolidated balance sheets. Software costs that do not meet capitalization criteria are expensed immediately.

Insurance: We are self-insured for certain losses related to health and liability and workers' compensation claims, although we obtain third-party insurance to limit our exposure to these claims. We estimate our self-insured liabilities using a number of factors, including historical claims experience. Our self-insurance liability was $3,281 and $2,506 at January 30, 2010 and May 2, 2009, respectively, and is included in accrued expenses and warranty obligations in our consolidated balance sheets.

Foreign currency translation: Our foreign subsidiaries use the local currency of their respective countries as their functional currency. The assets and liabilities of foreign operations are generally translated at the exchange rates in effect at the balance sheet date. The operating results of foreign operations are translated at weighted average exchange rates. The related translation gains or losses are reported as a separate component of shareholders' equity.

Product design and development: All expenses related to product design and development are charged to operations as incurred. Our product development activities include the enhancement of existing products and the development of new products.

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

Receivables: Accounts receivable are reported net of an allowance for doubtful accounts of $1,932 and $2,164 at January 30, 2010 and May 2, 2009, respectively.

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.

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 upon the installation and acceptance of the equipment, 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.

Long-Lived Assets: Long-lived assets other than goodwill and indefinite-lived intangible assets, which are separately tested for impairment, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

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

Our impairment loss calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including forecasting useful lives of the assets and selecting the discount rate that reflects the risk inherent in future cash flows. We have not made any material changes in the accounting methodology we use to assess impairment loss during the past three fiscal years.

We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate long-lived asset impairment losses. We also believe that recent changes in indicators in our business, such as the decline in orders, the losses in the third quarter of fiscal 2010 and the impairment of goodwill, among other things, were an indicator of impairment for our business units. As a result, we tested for recoverability in accordance with ASC 360, Property, Plant, and Equipment, by comparing the undiscounted cash flows expected from the use and eventual disposition of the assets compared to the carrying amount of the assets. We grouped the assets at the lowest level for which there are identifiable cash flows that are independent of the cash flows of other assets and liabilities. Based on this analysis, the undiscounted cash flows significantly exceed the carrying amount of the long-lived assets and therefore it was determined that there was no impairment. If actual results in the future are not consistent with our estimates and assumptions used in estimating future cash flows and asset fair values, we may be exposed to future losses that could be material.

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Note 2. Recently Issued Accounting Pronouncements

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

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

In December 2007, the FASB issued ASC 805 Business Combinations. ASC 805 provides revised guidance for recognizing and measuring identifiable assets and goodwill acquired, liabilities assumed, and any noncontrolling interest in the acquiree. Some of the revised guidance of ASC 805 includes initial capitalization of acquired in-process research and development, expensing transaction and acquired restructuring costs and recording contingent consideration payments at fair value, with subsequent adjustments recorded to net earnings. It also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. We adopted ASC 805 on May 3, 2009, and any acquisitions we make in fiscal 2010 and future periods will be subject to this new accounting guidance.

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

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

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

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

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

In November 2008, the FASB ratified ASC Subtopic 350-30-35-5A, Accounting for Defensive Intangible Assets. ASC Subtopic 350-30-35-5A applies to defensive intangible assets, which are acquired intangible assets that an entity does not intend to actively use but does intend to prevent others from obtaining access to the asset. ASC

350-30-35-5A requires an entity to account for defensive intangible assets as a separate unit of accounting. Defensive intangible assets should not be included as part of the cost of an entity's existing intangible assets because the defensive intangible assets are separately identifiable. Defensive intangible assets must be recognized at fair value in accordance with ASC 805 Business Combinations and ASC 820 Fair Value Measurement and Disclosure. ASC 350-30-35-5A is effective for intangible assets acquired for fiscal years beginning after December 15, 2008. We adopted ASC 350-30-35-5A on May 3, 2009, and any intangible asset acquired after that date will be subject to this new accounting guidance.

In April 2009, the FASB issued three ASC Topics intended to provide additional application guidance and enhanced disclosures regarding fair value measurements and impairments of securities. ASC Subtopic 820-10-65-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides additional guidelines for estimating fair value in accordance with ASC Subtopic 820-10-50, Fair Value Measurements. ASC 320, Debt and Equity Securities, provides additional guidance related to the disclosure of impairment losses on securities and the accounting for impairment losses on debt securities. ASC 320 does not amend existing guidance related to other-than-temporary impairments of equity securities. ASC Topic 825 and 270, Interim Disclosures about Fair Value of Financial Instruments, increases the frequency of fair value disclosures. These ASC topics and subtopics are effective for fiscal years and interim periods ending after June 15, 2009. We adopted these ASC topics and subtopics on May 3, 2009. The adoption of these ASC topics and subtopics did not have a material impact on our consolidated financial statements.

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

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

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

In January 2010, the FASB issued ASU 2010-06, which amends ASC 820 Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends ASC 820 to add new requirements for disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in level 3 fair value measurements, and (4) the transfers between levels 1, 2, and 3 fair value measurements. ASU 2010-06 is effective for the first reporting period beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. In the period of initial adoption, entities will not be required to provide the amended disclosures for any previous periods presented for comparative purposes. However, those disclosures are required for periods ending after initial adoption. Early adoption is permitted. We are currently evaluating the impact of ASU 2010-06 on our consolidated financial statements.

Note 3. Revenue Recognition

Multiple-element arrangements: We generate revenue from the sale of equipment and related services, including customization, installation and maintenance services. In some instances, we provide some or all of such equipment and services to our customers under the terms of a single multiple-element sales arrangement. These arrangements typically involve the sale of equipment bundled with some or all of these services, but may also involve instances in which we have contracted to deliver multiple pieces of equipment over time, rather than at a single point in time.

When a sales arrangement involves multiple elements, the items included in the arrangement (deliverables) are evaluated pursuant to ASC Subtopic 605-25-25, Revenue Arrangements with Multiple Deliverables, to determine whether they represent separate units of accounting. We perform this evaluation at the inception of an arrangement and as we deliver each item in the arrangement. Generally, we account for a deliverable (or a group of deliverables) separately if the delivered item(s) has standalone value to the customer, there is objective and reliable evidence of the fair value of the undelivered items included in the arrangement, and, if we have given the customer a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) or service(s) is probable and substantially in our control.

When items included in a multiple-element arrangement represent separate units of accounting and there is objective and reliable evidence of fair value for all items included in the arrangement, we allocate the arrangement consideration to the individual items based on their relative fair values. If there is objective and reliable evidence of the fair value(s) of the undelivered item(s) in an arrangement, but no such evidence for the delivered item(s), we use the residual method to allocate the arrangement consideration. In either case, the amount of arrangement consideration allocated to the delivered item(s) is limited to the amount that is not contingent on us delivering additional products or services. Once we have determined the amount, if any, of arrangement consideration allocable to the delivered item(s), we apply the applicable revenue recognition policy, as described elsewhere herein, to determine when such amount may be recognized as revenue.

We generally determine if objective and reliable evidence of fair value for the items included in a multiple-element arrangement exists based on whether we have vendor-specific objective evidence (VSOE) of the price for which we sell an item on a standalone basis. If we do not have VSOE for the item, we will use the price charged by a competitor selling a comparable product or service on a standalone basis to similarly situated customers, if available.

If we cannot account for the items included in a multiple-element arrangement as separate units of accounting, they are combined and accounted for as a single unit of accounting, generally resulting in a delay in the recognition of revenue for the delivered item(s) until we have provided the undelivered item(s) or service(s) to the customer.

Construction-type contracts: Earnings on construction-type contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. Operating expenses are charged to operations as incurred and are not allocated to contract costs. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are probable and estimable.

Equipment other than construction-type contracts: We recognize revenue on equipment sales, other than construction-type contracts, when title passes, which is usually upon shipment and then only if the terms of the arrangement are fixed and determinable and collectability is reasonably assured. We record estimated sales returns and discounts as a reduction of net sales in the same period revenue is recognized.

Long-term receivables and advertising rights: We occasionally sell and install our products at facilities in exchange for the rights to sell or to retain future advertising revenues. For these transactions, we recognize revenue for the amount of the present value of the future advertising payments if enough advertising is sold to obtain normal margins on the contract, and we record the related receivable in long-term receivables. On those transactions where we have not sold the advertising for the full value of the equipment at normal margins, we record the related cost of equipment as advertising rights. Revenue to the extent of the present value of the advertising payments is recognized in long-term receivables when it becomes fixed and determinable under the provisions of the applicable advertising contracts. At the time the revenue is recognized, costs of the equipment are recognized based on an estimate of overall margin expected.

In cases where we receive advertising rights as opposed to only cash payments in exchange for the equipment, revenue is recognized as it becomes earned and the related costs of the equipment are amortized over the term of the advertising rights, which are owned by us. On these transactions, advance collections of advertising revenues are recorded as deferred revenue.

The cost of advertising rights, net of amortization, was $1,591 as of January 30, 2010 and $2,392 as of May 2, 2009.

Product maintenance: In connection with the sale of our products, we also occasionally sell separately priced extended warranties and product maintenance contracts. The revenue related to such contracts is deferred and recognized ratably as net sales over the terms of the contracts, which vary up to 10 years. We record unrealized revenue in the deferred revenue (billed or collected) in the liability section of the balance sheet. Deferred revenue (billed or collected) excludes unrealized revenue from contractual obligations that will be billed by us in future periods.

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Software: We typically sell our proprietary software bundled with video displays and certain other products, but we also sell our software separately. Pursuant to ASC 985-605, Software/Revenue Recognition, revenues from software license fees on sales, other than construction-type contracts, are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed and determinable and collection is probable. For sales of software included in construction-type contracts, the revenue is recognized under the percentage-of-completion method starting when all of these criteria have been met.

Services: Revenues generated by us for services such as event support, control room design, on-site training, equipment service and technical support for our equipment are recognized as net sales when the services are performed. Net sales from services offerings which are not included in construction-type contracts approximated 9.1% and 5.5% of net sales for the nine months ended January 30, 2010 and January 31, 2009, respectively.

Rentals: We rent display equipment to our customers under short-term rental agreements, generally for periods no longer than 12 months. Revenues generated by us for equipment rentals are recognized over the period of the rental agreement.

Derivatives: We utilize derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates on those transactions that are denominated in currency other than our functional currency, which is the U.S. dollar. We enter into currency forward contracts to manage these economic risks. ASC 815, Accounting for Derivative Instruments and Hedging Activities, as amended, requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that do not qualify for hedge accounting must be adjusted to fair value through earnings. If a derivative qualifies for hedge accounting, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in the fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in accumulated other comprehensive gain (loss) until the hedged item is recognized in earnings.

To protect against the reduction in value of forecasted foreign currency cash flows resulting from export sales over the next year, we have instituted a foreign currency cash flow hedging program which requires us to hedge currency risk whenever funds are expected to be converted to U.S. Dollars. Actual forward contracts that satisfy this requirement occur infrequently. We hedge portions of our forecasted revenue denominated in foreign currencies with forward contracts. When the dollar strengthens significantly against the foreign currencies, the decline in value of future foreign currency revenue is partially offset by gains in the value of the forward contracts. Conversely, when the dollar weakens, the increase in the value of future foreign currency cash flows is partially offset by losses in the value of the forward contracts.

There were no derivatives outstanding as of January 30, 2010.

Note 4. Earnings Per Share ("EPS")

Basic EPS is computed by dividing income available 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 shared in our earnings.

A reconciliation of the income and common share amounts used in the calculation of basic and diluted EPS for the three and nine months ended January 30, 2010 and January 31, 2009 follows:

	Net Income	Shares	Per Share Amount
For the three months ended January 30, 2010 :			
Basic earnings per share	$ (8,371)	41,004	$ (0.20)
Dilution associated with stock compensation plans	-	-	-
Diluted earnings per share	$ (8,371)	41,004	$ (0.20)
For the three months ended January 31, 2009:			
Basic earnings per share	$ 4,162	40,629	$ 0.10
Dilution associated with stock compensation plans	-	324	-
Diluted earnings per share	$ 4,162	40,953	$ 0.10
For the nine months ended January 30, 2010 :			
Basic earnings per share	$ (2,090)	40,862	$ (0.05)
Dilution associated with stock compensation plans	-	-	-
Diluted earnings per share	$ (2,090)	40,862	$ (0.05)
For the nine months ended January 31, 2009:			

Basic earnings per share	$	26,085	40,500	$	0.64
Dilution associated with stock compensation plans		-	678		(0.01)
Diluted earnings per share	$	26,085	41,178	$	0.63

Options outstanding to purchase 3,464 shares of common stock with a weighted average exercise price of $12.89 during the three and nine months ended January 30, 2010 were not included in the computation of diluted earnings per share because the weighted average exercise price of those instruments exceeded the average market price of the common shares during the year and because of the loss recorded for the periods.

Options outstanding to purchase 1,859 shares of common stock with a weighted average exercise price of $17.98 during the quarter ended January 31, 2009 and 820 shares of common stock with a weighted average exercise price of $25.82 for the nine months ended January 31, 2009 were not included in the computation of diluted earnings per share because the weighted average exercise price of those instruments exceeded the average market price of the common shares during the year.

Note 5. Goodwill and Other Intangible Assets

We account for goodwill and intangible assets in accordance with ASC 350, Goodwill and Other Intangible Assets. Under these provisions, goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment or a decline in value may have occurred. In conducting our impairment testing, we compare the fair value of each of our business units (reporting unit) to the related carrying value. If the fair value of a reporting unit exceeds its carrying value, goodwill is not impaired. If the carrying value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized. We conduct our impairment testing as of the first business day of the third quarter each year.

We utilize an income approach to estimate the fair value of each reporting unit. We selected this method because we believe that it most appropriately measures our income producing assets. We considered using the market approach and cost approach, but concluded they were not appropriate in valuing our reporting units given the lack of relevant and available market comparisons. The income approach is based on the projected cash flows which are discounted to their present value using discount factors that consider the timing and risk of the forecasted cash flows. We believe that this approach is appropriate because it provides a fair value estimate based upon the reporting units' expected long-term operating cash performance. This approach also mitigates the impact of the cyclical trends that occur in the industry. Fair value is estimated using internally-developed forecasts and assumptions. The discount rate used is the average estimated value of a market participant's cost of capital and debt, derived using customary market metrics. Other significant assumptions include terminal value margin rates, future capital expenditures, and changes in future working capital requirements. We also compare and reconcile our overall fair value to our market capitalization. While there are inherent uncertainties related to the assumptions used and to our application of these assumptions to this analysis, we believe that the income approach provides a reasonable estimate of the fair value of our reporting units. The foregoing assumptions to a large degree were consistent with our long-term performance with limited exceptions. We believe that our future investments for capital expenditures as a percent of revenue will decline in future years due to our improved utilization resulting from lean initiatives, and we believe that long-term receivables will decrease as we grow. We also have assumed that through this economic downturn, our markets have not contracted for the long term; however it may be a number of years before they fully recover. These assumptions could deviate materially from actual results.

We performed an analysis of goodwill as of the first business day of our third quarter in fiscal 2010. In addition, due to revisions in our forward-looking 12 month forecast during the month of January 2010, resulting from lower than expected order bookings and increased near-term uncertainty, primarily in our Live Events business unit, the significance of orders being delayed in all business units and the decline in our stock price, we believed that an additional goodwill impairment test was required as of January 31, 2010. Based on our test, we determined that the goodwill associated with the Schools and Theatres business unit, totaling $685 was impaired and that the goodwill associated with our International business unit of $725 was impaired. Because step two of the goodwill impairment testing is not complete, an estimated impairment charge of $1,410 was recorded as of January 30, 2010. Given the timing of the circumstances which led to the impairment we were unable to complete the step two fair value computations as this requires us to obtain appraisals of various assets. The impairment testing will be complete by the end of the fourth quarter of fiscal 2010 at which time any adjustments to the estimate will be recorded.

Goodwill was $3,262 at January 30, 2010, and $4,549 at May 2, 2009. Of the total of goodwill as of January 30, 2010, $2,388 related to the Live Events business unit, $716 related to the Commercial business unit and $158 related to the Transportation business unit. Goodwill increased $123 during fiscal 2010 as a result of the impact of foreign currency translation on goodwill denominated in functional currencies other than the U.S. dollar. The fair value, carrying value after impairment and the percentage in excess of carrying value of each business unit as of January 30, 2010 is as follows:

	Estimated Fair Value	Carrying Value	Percentage of Fair Value in Excess of Carrying Value
Live Events	187,000	92,024	51%
Schools & Theatre	31,000	31,593	(2%)
Commercial	121,000	45,985	62%
Transportation	66,000	26,183	60%
International	9,000	10,803	(20%)

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 fair values of each business unit. This decline could lead to an impairment of goodwill to some or all of our business units. Since the fair values of the business units are based in part on the market price of our common stock, a significant decline in the market price of our stock may offset the benefits of the foregoing efforts and lead to an impairment. Notwithstanding the foregoing, events could cause an impairment in goodwill in other business units if the trend of orders and sales worsens and we are unable to respond in ways that preserve future cash flows or if our stock price declines significantly.

As required by ASC 350, intangibles with finite lives are amortized. Included in intangible assets are non-compete agreements and various patents and trademarks. The net value of intangible assets is included as a component of intangible and other assets in the accompanying consolidated balance sheets. Estimated amortization expense based on intangibles as of January 30, 2010 is $315, $288, $245, $228 and $228 for the fiscal years ending 2010, 2011, 2012, 2013 and 2014, respectively, and $552 thereafter. The following table sets forth the gross carrying amount and accumulated amortization of intangible assets by major intangible class as of January 30, 2010:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Patents	$ 2,282	$ 761	$ 1,521
Non-compete agreements	348	262	86
	401	-	401

Registered trademarks			
Other	87	75	12
	$ 3,118	$ 1,098	$ 2,020

Note 6. Inventories

Inventories consist of the following:

	January 30, 2010	May 2, 2009
Raw materials	$ 13,499	$ 20,644
Work-in-process	5,570	7,561
Finished goods	16,934	23,195
Finished goods subject to deferred revenue arrangements	1,491	-
	$ 37,494	$ 51,400

Finished goods subject to deferred revenue arrangements represent inventory provided to customers on a trial basis and contain contractual provisions which make a purchase probable.

Note 7. Segment Disclosure

We have five business units which meet the definition of reportable segments under ASC 280, Segment Reporting: Commercial, Live Events, Schools and Theatres, Transportation and International.

Our Commercial segment primarily consists of sales of our PS-X, HD-X, Galaxy® and Valo™ product lines to resellers (primarily sign companies), outdoor advertisers, national retailers, quick-serve restaurants, casinos and petroleum retailers. Our Live Events segment primarily consists of sales of integrated scoring and video display systems to college and professional sports facilities and mobile PST display technology to video rental organizations and other live events type venues. Our Schools and Theatres segment primarily consists of sales of scoring systems, Galaxy® and PS-X display systems to primary and secondary education facilities and sales of our Vortek® automated rigging systems for theatre applications. Our Transportation segment primarily consists of sales of our Vanguard® and Galaxy® product lines to governmental transportation departments, airlines and other transportation related customers. Finally, our International segment primarily consists of sales of all product lines to geographies 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. Costs of domestic field sales and services infrastructure, including most field administrative staff, are allocated to the Commercial, Live Events and Schools and Theatres segments based on cost of sales. Shared manufacturing, building and utilities and procurement costs are allocated based on direct hours, square footage and other various financial measures. Beginning in fiscal 2010, we ceased allocation of general and administrative and product development expenses to reflect our management approach to these costs. Fiscal 2009 segment results have been retroactively adjusted to conform to these changes.

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

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

	Three Months Ended January 30, 2010	January 31, 2009	Nine Months Ended January 30, 2010	January 31, 2009
Net sales				
Commercial	$ 20,903	$ 35,436	$ 69,011	$ 131,619
Live Events	22,773	63,281	125,617	204,772
Schools & Theatres	12,325	12,490	49,526	52,151
Transportation	8,087	5,002	31,307	23,301
International	8,318	12,483	25,760	47,775
Net Sales	72,406	128,692	301,221	459,618
Contribution margin				
Commercial	80	3,781	4,448	21,293
Live Events	(2,186)	14,645	18,046	51,141
Schools & Theatres	(1,044)	(1,828)	3,612	1,996
Transportation	964	240	7,213	1,658
International	(111)	1,787	760	4,206
Total Contribution Margin	(2,297)	18,625	34,079	80,294
Non-allocated operating expenses				
General & Administrative	6,523	6,576	19,016	21,812
Product Development	5,155	5,148	16,558	16,981
Operating income (loss)	(13,975)	6,901	(1,495)	41,501
Nonoperating income (expense):				
Interest income	376	516	1,129	1,563
Interest expense	(38)	(32)	(149)	(196)
Other income (expense), net	(265)	(699)	(1,577)	(2,378)
Income (loss) before income taxes	(13,902)	6,686	(2,092)	40,490
Income tax expense (benefit)	(5,531)	2,524	(2)	14,405
Net income (loss)	$ (8,371)	$ 4,162	$ (2,090)	$ 26,085
Depreciation and amortization				
Commercial	$ 1,794	$ 2,015	$ 5,443	$ 5,953
Live Events	1,905	2,340	5,641	6,685
Schools & Theatres	713	799	2,163	2,440
Transportation	449	460	1,360	1,441
International	325	189	765	508
Unallocated corporate depreciation	1,217	430	1,626	1,235

	$ 6,403	$ 6,233	$ 16,998	$ 18,262

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

	United States	Others	Total
Net sales for three months ended:			
January 30, 2010	$ 62,902	$ 9,504	$ 72,406
January 31, 2009	114,577	14,115	128,692
Net sales for nine months ended:			
January 30, 2010	$ 270,521	$ 30,700	$ 301,221
January 31, 2009	400,691	58,927	459,618
Long-lived assets at:			
January 30, 2010	$ 82,863	$ 1,042	$ 83,905
May 2, 2009	88,302	1,125	89,427

Note 8. Share-Based Compensation

Stock incentive plans: During fiscal 2008, we established the 2007 Stock Incentive Plan ("2007 Plan") and ceased granting options under the 2001 Incentive Stock Option Plan, the 2001 Outside Directors Option Plan ("2001 Plans"), the 1993 Incentive Stock Option Plan, as amended, and the 1993 Outside Directors Option Plan, as amended ("1993 Plans"). The 2007 Plan provides for the issuance of stock-based awards, including stock options, restricted stock, restricted stock units and deferred stock, to employees, directors and consultants. Stock options issued to employees under the plans generally have a ten-year life, an exercise price equal to the fair market value on the grant date and a five-year vesting period. Stock options granted to outside directors under these plans have a seven-year life, an exercise price equal to the fair market value on the date of grant and a three-year vesting period, provided that they remain on the Board. The restricted stock granted to members of the Board of Directors vests in one year, provided that they remain on the Board. The restricted stock units granted to employees vest over five years provided that they remain employed with the company. As with stock options, restricted stock cannot be transferred during the vesting period.

The total number of shares of stock reserved and available for distribution under the 2007 Plan is 4,000 shares.

We also have an employee stock purchase plan ("ESPP"), which enables employees to contribute up to 10% of their compensation toward the purchase of our common stock at the end of the participation period at a purchase price equal to 85% of the lower of the fair market value of the common stock on the first or last day of the participation period.

A summary of the share-based compensation expense for stock options, restricted stock and our ESPP that we recorded in accordance with ASC 718 Compensation-Stock Compensation is as follows:

	Three Months Ended		Nine Months Ended	
	January 30, 2010	January 31, 2009	January 30, 2010	January 31, 2009
Cost of sales	$ 112	$ 106	$ 363	$ 307
Selling	248	261	781	796

General and administrative	276	273	890	852
Product development and design	143	133	457	412
	$779	$773	$2,491	$2,367

As of January 30, 2010, there was $6,872 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under all of our equity compensation plans. Total unrecognized compensation cost may be adjusted for future changes in estimated forfeitures. We expect to recognize that cost over a weighted average period of five years.

Note 9. Comprehensive Income

We follow the provisions of ASC 220, Reporting Comprehensive Income, which establishes standards for reporting and displaying comprehensive income and its components. Comprehensive income reflects the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For us, comprehensive income represents net income adjusted for foreign currency translation adjustments and net unrealized gains and losses on derivative instruments, as applicable. The foreign currency translation adjustment included in comprehensive income has not been tax affected, as the investments in foreign affiliates are deemed to be permanent.

A summary of comprehensive income is as follows:

	Three Months Ended		Nine Months Ended	
	January 30, 2010	January 31, 2009	January 30, 2010	January 31, 2009
Net income (loss)	$ (8,371)	$ (4,162)	$(2,090)	$26,085
Net foreign currency translation adjustment	22	(97)	(2)	(197)
Net unrealized gain on derivatives	-	10	-	10
Total comprehensive income (loss)	$ (8,349)	$ (4,075)	$(2,092)	$25,898

Note 10. Commitments and Contingencies

Securities litigation: Our company and two of our executive officers are named as defendants in a consolidated class action filed in the U.S. District Court for the District of South Dakota in November 2008 on behalf of a class of investors who purchased our stock in the open market between November 15, 2006 and April 5, 2007. In an Amended Consolidated Complaint filed on April 13, 2009 (“Complaint”), the plaintiffs allege that the defendants made false and misleading statements of material facts about our business and expected financial performance in the company’s press releases, its filings with the Securities and Exchange Commission, and conference calls, thereby inflating the price of the company’s common stock. The Complaint alleges claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (“Exchange Act”). The Complaint seeks compensatory damages on behalf of the alleged class in an unspecified amount, reasonable fees and costs of litigation, and such other and further relief as the Court may deem just and proper. On June 5, 2009, we filed a motion to dismiss the Complaint. In July 2009, the plaintiffs filed a memorandum of law in opposition to our motion to dismiss. In September 2009, we filed a reply memorandum in support of the notice to dismiss. Briefing on the motion is underway.

We believe that we, and the other defendants, have meritorious defenses to the claims made in the Complaint, and we intend to contest these actions vigorously. We are not able to predict the ultimate outcome of this litigation, but regardless of the merits of the claims, it may be costly and disruptive. The total costs cannot be reasonably estimated at this time. Securities class action litigation can result in substantial costs and divert our management’s attention and resources, which may have a material adverse effect on our business, financial condition and results of operations, including our cash flow.

In the third quarter of fiscal 2008, our Board of Directors received letters from lawyers acting on behalf of three of our shareholders. The letters demanded that our company pursue claims against our officers, directors, and unspecified others for allegedly wrongful conduct based upon the same general events as are alleged in the Complaint. The Board referred the demands to a special committee of independent directors for investigation and action. The special committee concluded its investigation and determined that it would not be in the best interests of the company to take any action on the allegations contained in the demands at this time and that it will continue to monitor the matter and revisit the demands if more information becomes available.

Other litigation: We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, based upon consultation with legal counsel, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial statements.

Guarantees: In connection with the sale of equipment to a financial institution, we entered into a contractual arrangement whereby we agreed to repurchase equipment at the end of the lease term at a fixed price of approximately $1,100. We have recognized a guarantee liability in the amount of $200 under the provisions of ASC 460, Guarantees, in the accompanying financial statements.

In connection with our investment in Outcast, we guaranteed its outstanding debt of approximately $3,688. This debt matures at various times through calendar year 2012, at which time our guarantee will expire, subject to the debt being repaid by Outcast. We would be obligated to perform under the terms of the guarantee should Outcast default under the debt. Our guarantee obligation is generally limited to 50% of the amounts outstanding, and we would have recourse back to Outcast under a reimbursement agreement. The guarantee was undertaken to support Outcast's rollout of LCD displays in connection with its core business. The total amount accrued relating to the guarantee liability under the provisions of ASC 460 was $72 as of January 30, 2010. In addition to the foregoing, Outcast is obligated to pay us on approximately $1,600 of loans that matured during the third quarter of fiscal 2010. Outcast's ability to pay these debts is contingent on obtaining funding or a renegotiation of the debt. We have entered into a forbearance agreement and a non-binding letter of intent whereby we agreed to defer repayment of the amounts owed to the end of February 2010 in exchange for a guarantee of the $1,060 senior debt owed by Outcast to a third party who is also an indirect investor in Outcast. The letter of intent is expected to result in all debts getting repaid, our convertible note of $500 being converted to equity in Outcast, and all of our equity interest being transferred to a newly-formed limited partnership, in exchange for partnership units. We also have received non-binding verbal commitments for a significant amount of money to be invested in Outcast to repay the debts and release us from any obligations under the guarantee. Based on the foregoing, we have not reserved any amounts against the loans or guarantees. If Outcast is unable to close on these arrangements, we may incur losses to the extent of the loans and the guarantees. Approximately $1,060 is secured by the assets of Outcast and a guarantee by a third party, which we believe adequately secures that debt; however, the ultimate recovery cannot be certain if Outcast and other guarantors cannot satisfy their obligations.

Warranties: We offer a standard parts coverage warranty for periods varying from one to five years for all of our products. We also offer additional types of warranties that include on-site labor, routine maintenance and event support. In addition, the term of warranty on some installations can vary from one to 10 years. The specific terms and conditions of these warranties vary primarily depending on the type of the product sold. We estimate the costs that may be incurred under the warranty and record a liability in the amount of such costs at the time the product revenue is recognized. Factors that affect our warranty liability include historical and anticipated claims costs. We periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

During the third quarter of fiscal 2009, we discovered a warranty issue caused by our finishing process for certain products which causes the paint on aluminum surfaces to peel under certain conditions. This issue related to various products painted during the period beginning in January 2008 and extending through December 2008. In January 2008, as a result of changes in environmental laws and regulations, we changed our painting process and the products used to clean and prime aluminum, which is the key component used in our displays. The products and processes we implemented were based on representations from certain suppliers and testing that we performed. During the second quarter of fiscal 2010, we were able to quantify the claim and determined that the actual costs incurred or expected to be incurred are at the low end of the range of estimates accrued in previous periods. As of January 30, 2010, we had accrued $283 for remaining claims.

Changes in our product warranties for the nine months ended January 30, 2010 consisted of the following:

	Amount
Beginning accrued warranty costs	$ 18,205
Warranties issued during the period	2,241
Settlements made during the period	(4,034)
Changes in accrued warranty costs for pre-existing warranties during the period, including expirations	717
Ending accrued warranty costs	$ 17,129

Leases: We lease office space for sales and service locations, vehicles and equipment, primarily office equipment. Rental expense for operating leases was $2,470 and $2,527 for the nine months ended January 30, 2010 and January 31, 2009, 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 January 30, 2010:

Fiscal years ending	Amount
2010	$ 860
2011	2,929
2012	1,831
2013	1,119
2014	773
Thereafter	1,839
Total	$ 9,351

Purchase commitments: From time to time, we commit to purchase inventory and advertising rights over periods that extend beyond a year. As of January 30, 2010, we were obligated to purchase inventory and advertising rights through fiscal 2013 as follows:

Fiscal years ending	Amount
2010	$ 654
2011	1,010
2012	842
2013	800
2014	336
Thereafter	1,000
Total	$ 4,642

In October 2009, our subsidiary Star Circuits, Inc., which produces circuit boards for use in our products, had a fire which damaged or destroyed its key production equipment and building mechanical and structural components. Operations have been stopped in this facility until new equipment is installed and building repair is completed, which is estimated to be in the fourth quarter of fiscal 2010. Our insurance policies and coverages entitle us to receive payments for business interruption, as well as recoveries for damage to the building and equipment as a result of the fire. The total extent of the property damage and other expected costs to rebuild and cover losses are estimated to be approximately $3.3 million. This estimate is subject to change based on the final insurance settlement and analysis of losses. We have been able to source the circuit boards from an outside vendor.

During the third quarter, we have received or settled on $2.5 million in insurance proceeds related to this incident. Additional recoveries may result related to business interruption claims to be settled in the fourth quarter of fiscal 2010. Due to the fire, gross assets were written down by approximately $713, along with the associated accumulated depreciation on those assets in the amount of $379, resulting in a net book value decrease in assets of about $333. As of January 30, 2010, we had invested $555 to replace the manufacturing equipment and had incurred $710 in cleaning the damaged facility and replacing destroyed operating assets. In addition, we decided to move this operation to a newly-acquired facility adjacent to our main campus. We had committed to purchasing this new facility in fiscal 2007. We have invested $3.2 million in the building and will invest approximately $700 in building improvements for the new location. Insurance proceeds received to reimburse costs to reconstruct the facility, replace manufacturing equipment, supplies and contents resulted in gains of $1,496 for the quarter ended January 30, 2010, or $0.04 per share, net of taxes. Additionally, we recorded $512 in business interruption reimbursements for extra expenses incurred during the non-operating period. At January 30, 2010, approximately $2,351 was included in accounts receivable for insurance reimbursements. Subsequent to January 30, 2010, we received $1,840 of this receivable.

Note 11. Income Taxes

As of January 30, 2010, we did not have material 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. We do not expect our unrecognized tax benefits to change significantly over the next 12 months.

Our company, along with our subsidiaries, is subject to U.S. Federal income tax as well as income taxes of multiple state jurisdictions. As a result of the completion of exams by the Internal Revenue Service on prior years, fiscal years 2006, 2007, 2008 and 2009 are the only years remaining open under statutes of limitations. Certain subsidiaries are also subject to income tax in foreign jurisdictions which have open tax years varying by jurisdiction extending back to 2003. We operate under a tax holiday in China that will expire in fiscal 2012. At this time, we are unable to predict how the expiration of the tax holiday will impact us in the future.

Our annual statutory rate on a domestic basis is approximately 38%. Our overall effective rate for the third quarter of fiscal 2010 was approximately 40%. On a year to date basis, the effective rate was approximately 1%. The difference on a year-to-date basis between the domestic statutory rate and the actual effective rate is due primarily to the mix between foreign and domestic income. The difference between the year to date effective rate and the quarterly rate as of January 30, 2010, is the result of other adjustments made during the third quarter of fiscal 2010 which have a much greater percentage impact on the smaller year-to-date pre-tax income as compared to the pre-tax income for the quarter and the difference in mix between foreign and domestic income. Congress has not reinstated the tax credit for research and development activities which expired on December 31, 2009. This has had an adverse impact on our effective tax rate as the credit was approximately $0.9 million in the prior year. As of December 31, 2009, we are therefore not recognizing any future benefits until such time as it is reinstated.

Note 12. Fair Value Measurement

The carrying amounts reported on our consolidated balance sheets for cash and cash equivalents approximate their fair values due to the highly liquid nature of the instruments. The fair values for fixed-rate contracts receivable are estimated using discounted cash flow analyses 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. The fair value on these notes approximates their carrying values. The carrying amounts reported for variable rate long-term debt and marketing obligations approximate fair value. Fair values for fixed-rate long-term debt 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 debt and marketing obligations reported on our consolidated balance sheets approximates fair value.

In September 2006, the FASB issued ASC 820, which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. ASC 820 also expands disclosures about fair-value measurements. We adopted ASC 820 on April 27, 2008 for all financial assets and liabilities and any other assets and liabilities that are recognized or disclosed at fair value on a recurring basis. Although the adoption of ASC 820 did not impact our financial condition, results of operations or cash flows, ASC 820 requires us to provide additional disclosures within our condensed consolidated financial statements.

ASC 820 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 and 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 three levels of inputs that may be utilized when measuring fair value, consisting of level 1 inputs (using quoted prices in active markets for identical assets or liabilities), level 2 inputs (using inputs other than level 1 prices, such as quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability), and level 3 inputs (unobservable inputs supported by little or no market activity based on our own assumptions used to measure assets and liabilities). A financial asset or liability's classification within this hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Our financial assets as of January 30, 2010 measured at fair value on a recurring basis were $52,023, which consisted of money market funds. We used level 1 inputs to determine the fair value of our financial assets. We had no other significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to this initial recognition except as discussed in Note 5 and Note 1 as it relates to goodwill and long-lived assets.

Note 13. Exit or Disposal Costs

During the second quarter of fiscal 2009, we closed our Canadian manufacturing facilities. This plant was engaged primarily in the manufacture of our portable Vanguard displays for roadside traffic management. We have also discontinued these Vanguard products. In the second quarter of fiscal 2009, we recorded the costs associated with this closure of approximately $1,100 on a pre-tax basis. This included approximately $700 related to inventory reserves, approximately $200 in severance costs and approximately $100 in lease termination costs, all of which have been included in cost of goods sold within our Transportation market. All costs related to the closure were settled in fiscal year 2009.

Note 14. SUBSEQUENT EVENTS

We have evaluated the existence of both recognized and unrecognized subsequent events through February 25, 2010, the filing date of this Quarterly Report on Form 10-Q, and we have none to report.

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; and (iv) the declaration and payment of dividends. The words "may," "would," "could," "should," "will," "expect," "esti "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 risk and uncertainties, many of which are beyond our ability to control, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors discussed herein, including those discussed in detail in our filings with the Securities and Exchange Commission, including in our Annual Report on Form 10-K for the fiscal year ended May 2, 2009 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.

OVERVIEW

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

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

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

We operate on a 52 to 53 week fiscal year, with our fiscal year ending on the Saturday closest to April 30 of each year. Within each fiscal year, each quarter is comprised of 13 week periods following the beginning of each fiscal year. In each 53 week year, each of the last three quarters is comprised of a 13 week period, and an additional week is added to the first quarter of that fiscal year. When April 30 falls on a Wednesday, the fiscal year ends on the preceding Saturday. Fiscal 2010 contains 52 weeks and fiscal 2009 contained 53 weeks.

For a summary of recently issued accounting pronouncements and the effects of those pronouncements on our financial results, refer to note 2 of the notes to our consolidated financial statements, which are included elsewhere in this report.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Revenue recognition on long-term construction-type contracts. Earnings on construction-type contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are capable of being estimated. Generally, construction-type contracts we enter into have fixed prices established, and to the extent the actual costs to complete construction-type contracts are higher than the amounts estimated as of the date of the financial statements, the resulting gross margin would be negatively affected in future quarters when we revise our estimates. Our practice is to revise estimates as soon as such changes in estimates are known. We do not believe there is a reasonable likelihood that there will be a material change in future estimates or assumptions we use to determine these estimates.

Allowance for doubtful accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. To identify impairment in customers' ability to pay, we review aging reports, contact customers in connection with collection efforts and review other available information. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to determine the allowance for doubtful accounts. As of January 30, 2010 and May 2, 2009, we had an allowance for doubtful accounts balance of approximately $1.9 million and $2.2 million, respectively.

Warranties. We have recognized a reserve for warranties on our products equal to our estimate of the actual costs to be incurred in connection with our performance under the warranties. Generally, estimates are based on historical experience taking into account known or expected changes. If we would become aware of an increase in our estimated warranty costs, additional reserves may become necessary, resulting in an increase in costs of goods sold. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to determine our reserve for warranties. As of January 30, 2010 and May 2, 2009, we had approximately $17.1 million and $19.8 million reserved for these costs, respectively.

Extended warranty and product maintenance. We recognize deferred revenue related to separately priced extended warranty and product maintenance agreements. The deferred revenue is recognized ratably over the contractual term. If we would become aware of an increase in our estimated costs under these agreements in excess of our deferred revenue, additional reserves may be necessary, resulting in an increase in costs of goods sold. In determining if additional reserves are necessary, we examine cost trends on the contracts and other information and compare that to the deferred revenue. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to determine estimated costs under these agreements. As of January 30, 2010 and May 2, 2009, we had $10.9 million and $9.5 million of deferred revenue related to separately priced extended warranty and product maintenance agreements, respectively.

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

The following table sets forth the percentage of net sales represented by items included in our consolidated statements of income for the periods indicated:

	Three Months Ended		Nine Months Ended	
	January 30, 2010	January 31, 2009	January 30, 2010	January 31, 2009
Net sales	100.0%	100.0%	100.0%	100.0%

Cost of goods sold	85.1%	73.6%	75.3%	72.3%
Gross profit	14.9%	26.4%	24.7%	27.7%
Operating expenses	34.2%	21.1%	25.2%	18.7%
Operating income (loss)	(19.3%)	5.3%	(0.5%)	9.0%
Interest income	0.5%	0.4%	0.3%	0.3%
Income expense	0.0%	0.0%	0.0%	0.0%
Other income (expense), net	(0.4%)	(0.5%)	(0.5%)	(0.5%)
Income (loss) before income taxes	(19.2%)	5.2%	(0.7%)	8.5%
Income tax expense (benefit)	(7.6%)	2.0%	0.0%	3.1%
Net income (loss)	(11.6%)	3.2%	(0.7%)	5.7%

NET SALES

Net sales decreased 43.7% to $72.4 million for the three months ended January 30, 2010 as compared to $128.7 million for the same period of fiscal 2009. Net sales decreased 34.5% to $301.2 million for the nine months ended January 30, 2010 as compared to $459.6 million for the same period of fiscal 2009. The first three and nine months of fiscal 2009 had one more week than the first three and nine months of fiscal 2010, which impacts the comparison between the periods.

The following table sets forth net sales and orders by customer market for the periods indicated:

	Three Months Ended		Nine Months Ended	
	January 30, 2010	January 31, 2009	January 30, 2010	January 31, 2009
Net Sales				
Commercial	$ 20,903	$ 35,436	$ 69,011	$ 131,619
Live Events	22,773	63,281	125,617	204,772
Schools & Theatres	12,325	12,490	49,526	52,151
Transportation	8,087	5,002	31,307	23,301
International	8,318	12,483	25,760	47,775
Total Net Sales	$ 72,406	$ 128,692	$ 301,221	$ 459,618
Orders				
Commercial	$ 21,892	$ 24,491	$ 65,554	$ 114,163
Live Events	32,280	70,373	113,729	190,695
Schools & Theatres	10,280	10,414	48,076	47,056
Transportation	9,403	10,899	25,473	28,820
International	8,628	9,310	32,336	33,983
Total Orders	$ 82,483	$ 125,487	$ 285,168	$ 414,717

Commercial Market. For the third quarter of fiscal year 2010, net sales decreased 41.0%, and for the first nine months of fiscal year 2010, net sales decreased 47.6% as compared to the same periods of last fiscal year. For the third quarter of fiscal 2010, net sales in all areas of this market decreased. Net sales to outdoor advertising (digital billboard) customers decreased by approximately $6.8 million or approximately 59.1% as compared to the third quarter of fiscal 2009, and for the first nine months of fiscal year 2010, net sales declined $50.4 million or approximately 77.5% as compared to the first nine months of fiscal 2009. Net sales in our reseller niche, which includes primarily sales of our Galaxy® products and sales for large custom contracts, declined by approximately $5.4 million or approximately 31.4% for the third quarter of fiscal year 2010 and $8.8 million or approximately 18.9% for the first nine months of fiscal 2010.

In the early part of the third quarter of fiscal 2009, we were notified that our largest customer in our outdoor advertising niche was decreasing its spending on digital billboards from approximately $100 million annually to approximately $15 million annually, effective for calendar year 2009. We were one of two primary vendors of digital billboards for this customer. This corresponded to a decline in our orders overall from outdoor advertising customers, which started to become evident late in the second quarter of fiscal 2009. It is our belief that economic conditions and limited credit availability caused this overall decline. Although we believe that this niche still represents a long-term growth opportunity, we do not expect to see it rebound until some time in calendar year 2011, based on industry reports. It is important to note that the outdoor advertising business has a number of constraints in addition to the current economic conditions, primarily the challenges of achieving adequate returns on investments on digital displays, which limit locations suitable for digital displays, and regulatory constraints, which we expect to be a long-term factor that limits deployment of digital displays.

The decline in the reseller niche both for the third quarter and year-to-date in fiscal 2010 was due to a lower level of sales of standard Galaxy displays as well as a decline in sales of large video display systems. We attribute the decline in sales of Galaxy displays to the weaker economic conditions in the first three quarters of fiscal 2010 as compared to the same period of fiscal 2009. As compared to the second quarter of fiscal 2010, orders in the reseller niche decreased slightly in the third quarter of fiscal 2010 and we are expecting them to increase in the fourth quarter of fiscal 2010 led by opportunities in large video display systems. The level of custom contract orders in this niche is subject to volatility as described elsewhere and therefore it is difficult to project; however, we are seeing a growing number of opportunities. Net sales and orders also decreased in the third quarter of fiscal 2010 as compared to the second quarter of fiscal 2010 as a result of delayed booking of orders, primarily in the national account niche. Some of this delay appears to be resulting from aggressive competition causing, customers to hesitate and evaluate opportunities more carefully. Overall in the Commercial market, we have seen net sales decline sequentially each quarter since the first quarter of fiscal 2009 until the second quarter of fiscal 2010. Net sales in the Commercial business unit decline historically in the third quarter due to the lower number of working days in the quarter and seasonality. Although it appears as though sales may be rebounding, we cannot be certain that this trend will continue, given the volatile nature of the current economic conditions and competitive forces. For the long-term, we believe that this market will be a growth area for the company.

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

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

Order bookings in the Commercial market were down approximately 10.6% for the third quarter of fiscal 2010 as compared to the third quarter of fiscal 2009. For the first nine months of fiscal 2010, orders declined by approximate 42.6% as compared to the same period of fiscal 2009. The decline was caused by declines in both the reseller and outdoor advertising market for the reasons described above.

Live Events Market. Net sales in the Live Events market decreased by approximately 64.0% in the third quarter of fiscal 2010 as compared to the same quarter of fiscal 2009 and on a year-to-date basis were down approximately 38.7%. The decrease in net sales for the third quarter and year-to-date for fiscal 2010 as compared to the same periods in fiscal 2009 was the result of a decline in revenues from large new construction contracts exceeding $5 million as explained in prior filings, which led to the significant growth during fiscal year 2009. These large contracts contributed approximately $4.3 million and $29.9 million in net sales during the third quarter and first nine months of fiscal year 2010 compared to approximately $32.3 million and $116.8 million for the same periods in fiscal 2009. In addition, orders and net sales were less than expected as a result of expected orders related to professional baseball facilities being delayed for the season. We believe this was due to economic concerns and various other factors. Overall, we believe that these orders are not lost but only delayed until the period preceding the next baseball season or until approximately December 2010 through March 2011. This dynamic is causing us to increase our uncertainty as to what the ramifications will be for the fall sports season which we expect to become apparent in the first quarter of fiscal 2011.

During the fourth quarter of fiscal 2009, we began to see more significant competitive pressure, primarily aggressive pricing by multiple competitors in the Live Events marketplace, that we believe is not sustainable for the long-term. Although, it appears that these pressures may be declining somewhat, it is generally too early to assume that to be the case. In addition, over the next 24 months, most professional sport leagues are expected to be renegotiating labor contracts with players. This could negatively impact orders during this period. Until these pressures are reduced or eliminated, they are likely to adversely affect our ability to book orders and our gross profit margin. As a result of these competitive factors and general economic conditions, it is difficult to forecast net sales for the rest of fiscal 2010 and into fiscal 2011. In addition, although our Live Events business is typically resistant to economic conditions, the severity of the current economic environment may impact this business. There have been transactions which have been delayed due to economic conditions, as previously described, which has had a significant negative impact on our business. However, over the long term, we expect to see growth, assuming that the economy improves and we are successful at counteracting competitive pressures.

Order bookings in the Live Events market were down more than 54.1% in the third quarter of fiscal 2010 as compared to the same period in fiscal 2009 and on a year-to-date basis, were down approximately 40.4% due to the decrease in large orders, competitive pressures, which we believe have caused us to lose orders we otherwise would have earned, and various other factors, all as explained above.

Our expectations regarding growth over the long term in large sports venues is due to a number of factors, including facilities trending to spend more on larger display systems; our product and services offerings, which remains the most integrated and comprehensive offerings in the industry; and our field sales and service network, which is important to support our customers. In addition, we benefit from the competitive nature of sports teams, which strive to out-perform their competitors with display systems. This impact has and is expected to continue to be a driving force in increasing transaction sizes in new construction and major renovations. Growth in the large sports venues is also driven by the desire for high-definition video displays, which typically drives larger displays or higher resolution displays, both of which increase the average transaction size. We believe that the effects of the economy are generally less likely to have a significant adverse impact on the sports market as compared to our other markets because our products are generally revenue-generation tools (through advertising) for facilities, and the sports business is generally considered to be less sensitive to economic cycles, although the severity of the current economic conditions have caused a significant impact. Net sales in our sports marketing and mobile and modular portion of this market were less than 1% of total net sales and thus were not material in both the third quarters of fiscal 2010 and fiscal 2009.

Schools and Theatres Market. Net sales in the Schools and Theatres market decreased 1.3% in the third quarter of fiscal 2010 as compared to the same quarter in fiscal 2009 and on a year-to-date basis were down approximately 5.0% compared to the same period one year ago. Orders for the market decreased 1.3% for the third quarter of fiscal 2010 as compared to the third quarter of fiscal 2009 but, on a year-to-date basis, were up approximately 2.2%. We are seeing more sales opportunities for the next three quarters in video systems in this business unit, however, like the Live Events business unit, there is some uncertainty over how the economy will impact this business unit. It is possible that we could experience growth in fiscal 2011 as compared to 2010, if the orders that we are pursuing develop. For the long-term, we believe that this business presents growth opportunities. Based on the results year-to-date, we expect that orders and net sales for this market will end fiscal 2010 near the levels of fiscal 2009.

Transportation Market. Net sales in the Transportation market increased approximately 61.7% in the third quarter of fiscal 2010 as compared to the same period in fiscal 2009 and on a year-to-date basis were up approximately 34.4% compared to the same period one year ago. Orders for the third quarter of fiscal 2010 were down approximately 13.7% over the same period in fiscal 2009 but, on a year-to-date basis, were up approximately 11.6% over the same period in fiscal 2009. The decrease in orders in the third quarter of fiscal 2010 does not appear to be a reflection of the current poor economic conditions in the United States. Rather, we believe it is more a reflection of timing differences on when the orders have been or are expected to be booked and competitive changes in the marketplace. The increase in net sales is the result of the factors impacting orders and timing as driven by our customers and our larger backlog going into fiscal 2010 as compared to fiscal year 2009. In January 2010, we received a notice of award of a contract from a customer for up to approximately $25 million over a five-year period. This award requires a minimum commitment of approximately $9 million, which we expect to deliver over 24 months beginning in mid to late fiscal 2011. The award is subject to final contract execution. Based on this award, we believe that we will continue seeing growth in this business unit in fiscal 2011. However, similar to the other business units, it appears that the competitive environment has become more intense as a limited number of competitors have become more aggressive in pricing. Although we expect that this pricing pressure is not sustainable, it is likely to have an adverse impact on our net sales and gross profit margins in the current fiscal year. Notwithstanding the foregoing, we expect that net sales and orders in the Transportation market will grow in fiscal 2010 as compared to fiscal 2009.

International Market. Net sales in the International market in the third quarter of fiscal 2010 as compared to the third quarter of fiscal 2009 were down approximately 33.4% and, on a year-to-date basis, were down approximately 46.1%. Orders were down approximately 7.3% for the third quarter of fiscal 2010 as compared to the third quarter of fiscal 2009 and, on a year-to-date basis, were down approximately 4.8%. The decrease in net sales for the first nine months of fiscal 2010 as compared to the first nine months of fiscal 2009 was attributable, in part, to large orders booked in the fourth quarter of fiscal 2008 for a rail station in Beijing and a network of displays in the U.K. that converted to net sales in the first quarter of fiscal 2009. Due to the focus on large contracts in this market and the small number of contracts actually booked, volatility is not unusual. Overall, we have made considerable investments in growing our business internationally, where we do not have the same market share as we do domestically. As stated in prior filings, in the second half of fiscal 2009, we began to see more competitive pressures in this area similar to the competitive pressures described above in the Live Events market because the competitors tend to overlap. We believe that this had an adverse impact on our order bookings in the second half of fiscal 2009 and the first three quarters of fiscal 2010. In spite of the foregoing, it appears that this market may be seeing some strengthening, as our opportunities seem to be increasing. If this strengthening converts to additional orders in the future, we expect that they will be at lower contract gross profit levels as compared to fiscal 2009.

Advertising Revenues. We occasionally sell products in exchange for the advertising revenues generated from use of the products. These sales represented less than 1.0% and 1.7% of net sales for the first nine months of fiscal 2010 and 2009, respectively. The gross profit percent on these transactions has typically been higher than the gross profit percent on other transactions of similar size, although the selling expenses associated with these transactions also are typically higher.

Backlog. The order backlog as of January 30, 2010 was approximately $100 million as compared to $128 million as of January 31, 2009 and $90 million at the beginning of the third quarter of fiscal 2010. Historically, our backlog varies due to the timing of large orders. The decline in backlog is the result of the lower level of order bookings as previously described across all markets coupled with the differences in net sales during the periods. Backlog varies significantly quarter-to-quarter due to the effects of large orders, and significant variations can be expected, as explained previously. In addition, our backlog is not necessarily indicative of future sales or net income.

GROSS PROFIT

As compared to the third quarter of fiscal 2009, gross profit decreased 68.4% to $10.8 million for the third quarter of fiscal 2010 as compared to $34.1 million for the third quarter of fiscal 2009. For the first nine months of fiscal 2010, gross profit decreased 41.7% to $74.4 million compared to $127.7 million for the first nine months of fiscal 2009. As a percent of net sales, gross profit was 14.9% and 24.7% for the three and nine months ended January 30, 2010 as compared to 26.4% and 27.7% for the three and nine months ended January 31, 2009. The decrease in gross profit dollars was primarily the result of lower sales. The decline in gross profit margin percent was primarily the result of higher manufacturing costs as a percentage of sales, higher inventory writedowns and additional product liability costs. Going into the third quarter of fiscal 2010, we had expected net sales to be significantly higher than the reported amount of $72.4 million. Our manufacturing conversion costs, which are generally fixed in the short term, adversely impacted gross margin percents by more than four percentage points due to the lower than expected level of sales. In addition, incremental product maintenance costs and inventory write-downs reduced gross margin by more than two percentage points. On the positive side, we reduced our manufacturing costs again on a sequential basis by more than $1.1 million. Since the first quarter of fiscal 2009, we have reduced manufacturing costs by 28.3%. We expect gross profit margins to increase in future quarters.

We are and have been over the past two years investing significant resources into standardizing our large video display product line, which we believe contained excessive custom design, increasing our risk of warranty costs. In addition, to reduce the level of warranty exposure, we have invested in enhanced product reliability testing equipment and personnel to implement more rigorous product testing procedures and to continue to enhance our quality processes in manufacturing. We believe that we have made progress in gaining control over our warranty costs but cannot be certain that new issues will not arise, including those described in the notes to the consolidated financial statements.

We strive toward higher gross margins as a percent of net sales, although depending on the actual mix, the performance of larger projects, and our ability to execute on the business and level of future sales, margin percentages may not increase. We continue to examine areas for cost reduction, including personnel costs, and we believe that we can make reductions in manufacturing costs in the future that will positively impact gross profit. However, any improvements in gross profit margin percents are subject to volatility based on issues described herein and in our risk factors as contained in our Annual Report on Form 10-K for the fiscal year ended May 2, 2009.

Gross profit in our Commercial market declined to approximately 11% in the third quarter of fiscal 2010 from approximately 22% in the same period of fiscal 2009. For the first nine months of fiscal 2010, gross profit margin was approximately 20% as compared to 26% for the same period of fiscal 2009. The decline for the third quarter of fiscal 2010 as compared to the same period in fiscal 2009 was primarily due to competitive factors, an increase in warranty reserves in the outdoor advertising business, and a decline in margins for national accounts due to competitive factors and higher manufacturing costs. On a year-to-date basis, gross profit margins declined due to lower margins in the outdoor advertising marketplace for these same reasons.

Gross profit in our Live Events market decreased to approximately 6% in the third quarter of fiscal 2010 as compared to approximately 30% in the third quarter of fiscal 2009. For the first nine months of fiscal 2010, the gross profit margin was approximately 23% as compared to 31% for the same period of fiscal 2009. The decrease for the first nine months of fiscal 2010 compared to the same period of fiscal 2009 was primarily the result of lower margins on sales due to the competitive factors described above and the costs of excess capacity in manufacturing and other areas. The third quarter of fiscal 2010 had lower margins due to the cost of excess capacity in manufacturing and other areas and due to higher warranty costs and lower project margins due to competitive pressures.

Gross profit in our Schools and Theatres market increased to approximately 21% in the third quarter of fiscal 2010 from approximately 13% in the third quarter of fiscal 2009. For the first nine months of fiscal 2010, gross profit was 27% compared to 24% for the same period in fiscal 2009. This improvement on a year-to-date basis resulted from higher margins on our standard products, primarily scoreboards and Galaxy displays, as a result of tighter controls over discounting and some cost reductions in manufacturing. In addition, warranty related costs decreased in the third quarter of fiscal 2010 compared to the third quarter of fiscal 2009 due to the reduced costs related to the paint issue in fiscal 2010 as mentioned elsewhere in this report. This improvement was partially offset by lower margins in services and other areas.