DAKTRONICS INC /SD/
Form 10-K
June 12, 2014

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

FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended April 26, 2014
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From ___ to ___.
Commission File Number: 0-23246

Daktronics, Inc.
(Exact name of Registrant as specified in its charter)

South Dakota (State or other jurisdiction of incorporation or organization)	46-0306862 (I.R.S. Employer Identification No.)
201 Daktronics Drive Brookings SD (Address of principal executive offices)	57006 (Zip Code)

(605) 692-0200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the registrant's common stock held by non-affiliates at October 26, 2013 (which is the last business day at the Registrant's most recently completed second quarter), computed by reference to the closing sales price of the Registrant's common stock on the NASDAQ Stock Market on such date, was approximately $523,551,875. For purposes of determining this number, individual stockholders holding more than 10 percent of the Registrant's outstanding Common Stock are considered affiliates. This number is provided only for the purpose of this Annual Report on Form 10-K and does not represent an admission by either the Registrant or any such person as to the status of such person.

The number of shares of the Registrant's Common Stock outstanding as of June 3, 2014 was 43,231,494.

Documents Incorporated By Reference

Portions of the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held September 3, 2014 are incorporated by reference in Part III of the Form 10-K, as indicated in Items 10 through 14 of Part III.

DAKTRONICS, INC. AND SUBSIDIARIES
FORM 10-K
FOR THE FISCAL YEAR ENDED APRIL 26, 2014

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SPECIAL NOTE REGARDING FORWARD–LOOKING STATEMENTS

This Annual Report on Form 10-K (including exhibits and any information incorporated by reference herein) contains both historical and forward-looking statements that involve risks, uncertainties and assumptions. The statements contained in this report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21B of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, beliefs, intentions and strategies for the future. These statements appear in a number of places in this Report and include all statements that are not historical statements of fact regarding the intent, belief or current expectations with respect to, among other things: (i.) our competition; (ii.) our financing plans; (iii.) trends affecting our financial condition or results of operations; (iv.) our growth strategy and operating strategy; (v.) the declaration and payment of dividends; (vi.) the timing and magnitude of future contracts; (vii.) parts shortages and lead times; (viii.) fluctuations in margins; and (ix.) the seasonality of our business; (x.) the introduction of new products and technology. The words “may,” “would,” “could," "should," “will,” “expect,” “estimate,” “anticipate,” “believe,” “intend,” “plans” and similar expressions and variations thereof are intended to identify forward-looking statements. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, many of which are beyond our ability to control, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors discussed herein, including those discussed in the section of this Annual Report on Form 10-K entitled “Item 1A. Risk Factors” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and those factors discussed in detail in our other filings with the Securities and Exchange Commission.

PART I.

Item 1. BUSINESS

General Development of Business

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

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

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

In the sports and live events markets, our integrated video, scoring, and control systems have been installed at many professional, collegiate and high school facilities, in North America, and at international multi-purpose sports venues around the world.

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

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

One of our core growth strategies has been to enter geographic markets by developing a regional sales and service presence providing after-sale support to our entire product line and sales of our products. We currently have regional offices in the United States as well as internationally that support our field sales and service people, many of whom today work out of their homes.

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We occasionally acquire other businesses in order to provide access to new markets or to complement our existing products. Although these acquisitions have increased the scope of services and technology we are able to provide, our primary growth objective is to increase sales and profitability through organic growth.

We manufacture most of our products in South Dakota and Minnesota in the United States. Products for the Chinese market and most architectural lighting products are manufactured in Shanghai, China. Our Belgium location produces products for the European third-party advertising market, and our New York location produces rigging products.

Description of Business

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

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

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

We have organized our business into five business units which have a primary focus on particular markets or customer segments. There are four domestic business units (United States and Canada) – Commercial, Live Events, Schools and Theatres and Transportation. The fifth business unit, identified as International, is for all operations outside the United States and Canada. This structure allows us to focus on serving the unique needs of each of these customer groups. Live Events customers usually have a large variety of products tied into a system in a single location involving creative production services, design and event support. The Commercial business unit serves the needs created by large and remote networks of displays connected through various modes of communication. The Transportation business unit focuses on the unique needs of governmental contractors and ties into integrated systems managing the flow of travelers and vehicles. Finally, the Schools and Theatre business unit focuses on providing information displays to high schools for both sports and marquee applications, and automated rigging for theatres. The International business unit comprises all of these areas outside of North America.

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

Engineering and Product Development. The large format electronic display industry is characterized by ongoing product innovations and developments in technology and complementary services. To remain competitive, we continue to anticipate and respond to changes and developments in the industry. We have a tradition of applying engineering resources throughout our business to anticipate and respond rapidly to the system needs in the marketplace. We employ engineers and technicians in the areas of mechanical and electrical design, applications engineering, software design and customer and product support. We assign product managers to each product or product family to assist our sales staff in training and implementing product improvements and to ensure each product is designed for maximum reliability and serviceability. We also invest in new creative technologies and in companies developing new technologies.

We leverage our efforts through best practice lean product development across product lines by utilizing common technology, concepts and platforms. This alignment has driven improved product reliability, lower costs and better functionality for our customers.

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

Our manufacturing operations include component manufacturing and system manufacturing (metal fabrication, electronic assembly, sub-assembly and final assembly). We flex our production capacity through varying work hours and strategic outsourcing.

We use a modular approach for manufacturing displays. Standard product modules are designed to be used in a variety of different products. This modular approach reduces parts inventory and improves manufacturing efficiency. We inventory a limited supply of finished standard products. Custom projects are built according to the customer's specifications through the use of common components. Product modules are designed so a custom product may include a significant percentage of standard components to maximize reliability and ease of service. A key strategy of ours is to increase standardization and commonality of parts and manufacturing processes across product lines through product platform strategies.

Our order entry, production, customer service and many other functions are also consolidated through an enterprise resource planning system and a service operations system to facilitate the sales, design, production, and delivery process.

Our plants are loosely aligned with the five business units described above. This alignment has been critical to allow us to respond to the different types of customers in the different business units in areas such as lead times and product consolidation. Furthermore, we have decentralized to these plants certain functions such as materials planning and scheduling. Our goal is to generally align sales, marketing, engineering and manufacturing into a cohesive business unit with a focus on customers while not losing the synergies of shared resources. On the other hand, given the cyclical nature of some parts of our business, we also needed to balance and maintain our ability to manufacture the same products across our plants so we can smooth out the peaks and valleys of customer demand of the various business units.

Our manufacturing facilities have embraced lean manufacturing techniques throughout all areas. We have also placed significant emphasis on lean techniques in the non-manufacturing areas. Although there are direct costs associated with implementing lean techniques, the goal of doing so is to eliminate waste and timely deliver products to a customer while maintaining minimal inventory and eliminating non-value added tasks.

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

Professional Services. Our professional services are essential to continued market penetration and growth. Professional services we provide in addition to technical contracting include event support, content creation, product maintenance, marketing assistance, training on hardware and software, control room design, and continuing technical support for operators of complicated display systems.

Customer Service and Support. We offer limited warranties on our products against failure due to defective parts or workmanship for periods generally ranging from one to five years after the first sale or installation, depending on the product or type of customer. In addition, we offer service agreements of various scopes. To serve our customers we provide help-desk access, parts repair and replacement, display monitoring and on-site support. We staff our technical help desk with experienced technicians who are on-call 24 hours a day to support events and sites. Our field service personnel and third party service partners are trained to provide on-site support. We use third party service partners to allow us to respond to changes in volume of service. Service volume peaks in the late summer and early fall.

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

General Description of Our Products and Technologies

Our range of products spans from message displays, to scoreboards, to audio systems, to large complex systems. The two principal components of our systems are the display and the controller. We produce displays varying in complexity, size and resolution. The physical dimensions of a display depend on the size of the viewing area, the distance from the viewer to the display, and the amount and type of information to be displayed. Generally, for longer distance viewing, the light sources, or pixels, are larger and spaced farther apart. The type of display may also depend on the location of the viewing audience. For example, arena scoreboards may have a viewing angle nearly as wide as 180 degrees, compared with roadside displays, which typically are viewed from a passing vehicle only within a narrow angle from the display. We customize our products according to the design specifications of the customer and the conditions of the environment in which our products function.

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The controller uses computer hardware and our software products to compile information provided by the operator and other integrated sources and then processes the information, graphics or animation to be presented on the displays.

Product Families and Technologies

Our products are comprised of the following primary product families, all of which include control systems and software:

- Video display systems
- Scoring and timing systems
- Message displays
- ITS dynamic message signs
- Audio systems
- Digital billboards
- Digit and price displays
- Automated rigging and hoists

Each of these product families is described below.

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

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

We offer a wide range of pixel spacing, ranging from four millimeter to twenty-six millimeter. The four millimeter application provides the user with the greatest pixel density and shortest viewing distance, while the twenty-six millimeter is the most cost effective for physically large displays with longer viewing distances. In addition, the uniformity of colors across the display is important to the quality of the video image. Our unique display control circuitry, along with our proprietary manufacturing and calibration procedures, provide uniform colors across the display.

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

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

Our video systems may use a network of displays to deliver a pre-programmed schedule of advertisements, relevant entertainment information and sports scores, including video, audio, graphics and live data to viewers in concourses and club areas. The network can be integrated with the main video displays through the control system, providing complete control. Daktronics digital display networks can incorporate flat-panel screens, LED message displays, LED video screens and even numeric scoreboards to provide an even better game day experience.

Our GKD MediaMesh® product can turn any building facade into a dynamic communications medium while not concealing the architecture behind it. This display can be mounted over a solid facade or in front of windows resulting in a finished solution that is free from visible cabling, and delivers a clean, semi-transparent viewing experience for those within the building. The stainless steel, textile-like mesh provides a modern, urban feel while the thin-profile design – less than one inch in depth – provides an elegant, refined structural appearance.

Our line of ProPixel® LED architectural lighting and display products include our freeform video elements, which are available as individual pixels or strips of pixels, assembled and interconnected to transform structures into stunning visual landmarks. Flexible mounting platforms allow designers to transform structures into full-motion video displays and to create various effects. These elements

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can be structured in various resolutions depending on the application. The freeform video elements are managed by our various controllers, depending on the specific application.

The primary control components for video displays in live event applications are our Show Control Software Suite, proprietary digital media players and proprietary video processors. These control components provide advanced capability for the display of live video and real time content on our displays.

Our Show Control Software Suite is an integrated display control system enabling flexible, intuitive display control and event management for large video applications. The Show Control Software Suite can operate entire networks of displays from a single, intuitive control interface. Features such as smart buttons allow users to instantly deliver media clips, camera feeds, and streaming information to any display in a network.

Daktronics digital media players store recorded video clips and can function as a still store and character generator. Managed through our Show Control Software Suite, the digital media player provides instant access to any video, animation, graphic or real-time data file on a player. It also controls the overall picture settings of any Daktronics LED display, making it the most feature-rich product of its kind in the live events industry.

We also provide a proprietary video processing system developed specifically for LED display technology. For larger venues hosting live events, the Show Control Software Suite, digital media player and video processor are typically part of a larger system with cameras, switches and other components. These systems provide the ability to show instant replays, live action video, prerecorded video clips, and overlays of scoring, timing and statistical information. We occasionally package our components with control components from other suppliers to provide a complete video production solution.

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

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

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

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

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

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

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

GalaxyPro® displays are full-matrix outdoor displays capable of displaying text, graphics and animation, as well as prerecorded video clips. The product was developed to meet the video needs of the commercial market, primarily large retail market applications such as auto dealerships and shopping centers. GalaxyPro® displays are offered in full color with pixel spacing ranging from sixteen to twenty-six millimeters. GalaxyPro® displays are capable of producing 68 billion colors, have excellent color uniformity across the display and

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are fully compatible with our Venus® 1500 display control software. The modular design of the product allows us to configure a display to readily meet the size requirements of each customer.

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

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

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

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

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

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

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

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

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

Additionally, we provide automated rigging for theatre applications, primarily in high schools and similar venues. The strengths of our automated rigging systems include safety and ease of operation. The theatre rigging control system includes intuitive touch screens and menus to control the integrated hoist systems. These features enhance safety and operation of a theatre production, which allows for timed and easy to control changes in scenery, lighting and sound.

Financial Information about Segments and Geographic Areas

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Sales outside the U.S. during fiscal years 2014, 2013 and 2012 were approximately 18 percent, 17 percent and 17 percent of our net sales, respectively. Since 2000, we have acquired or opened international offices in Canada, China, France, the United Arab Emirates, Germany, Australia, Japan, Brazil, Spain, Singapore, Macau, Hong Kong, Belgium and the United Kingdom.

Our operations in countries outside the U.S. are accompanied by various risks, including financial risks. Relationships with customers and terms of sale vary by country, often with longer-term receivables than are typical in the U.S. However, we typically secure the receivables from outside the U.S. with a letter of credit, bank guarantee or partial payment in advance. Currency exchange rate fluctuations can affect net sales from, and the profitability of, operations outside the U.S. We attempt to hedge these exposures to reduce the effects of foreign currency fluctuations on net earnings. In addition, although we do not have the intention to do so, the repatriation of certain earnings of our foreign subsidiaries may result in substantial U.S. tax cost.

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

Sources of Raw Materials

Materials used in the production of our video display system are sourced from around the world. We source some of our materials, such as LEDs and power supplies, from a limited number of suppliers, primarily due to the proprietary nature of the material. The loss of one of these key suppliers or a flaw in the supplied material could have an adverse impact on our business and operations. However, our sourcing group works to implement strategies to mitigate the associated risks. From time to time, we enter into pricing agreements or purchasing contracts under which we agree to purchase a minimum amount of product in exchange for guaranteed price terms over the length of the contract, which generally does not exceed one year.

Intellectual Property

As new products are developed, we may apply for patents to document our rights to the technology so other parties cannot later claim ownership (a defensive strategy) and to also allow us to pursue infringement claims against competitors for protection due to patent violations (an offensive strategy).

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

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

Seasonal Nature of the Business

Our sales and profitability historically have fluctuated due to the seasonality of our business and variability due to the impact of large product orders, such as large commercial display systems and display systems for facilities where professional, major college, or international sports events take place. As a result of the seasonality of the business, primarily due to the sports market, net sales and net income tend to be lower in the third quarter of a fiscal year.

The seasonality of the sports business is caused by sales related to facilities for football, basketball and hockey in the summer and fall and for baseball in the early to late spring, leaving a slower time in the winter. This seasonal effect can be compounded by large product orders in the sports markets and by the effects of holidays during our third fiscal quarter. The effects of seasonality are generally not as great in our Commercial, International and Transportation business units, although the impact of large orders in those markets and the implications of weather during the winter months of the northern hemisphere can cause fluctuations in net sales and profits.

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

Working Capital Items

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Overall, changes in operating assets and liabilities impact the timing and levels of working capital. Generally, we contractually require down payments or progress payments on orders from our customers. Some of the inventory components have long-lead times and therefore, we stock inventory in preparation for anticipated projects. Large projects can cause significant fluctuations in the short term in inventory, accounts receivables, accounts payable, customer deposits, costs and earnings in excess of billings and various other operating assets and liabilities. Working capital balances are also impacted by the seasonality of the sports business.

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

Customers

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

Markets	Types of Customers
Live Events	Large colleges and universities, professional sports teams and facilities, national and international sports games and federations, civic arenas and convention centers, live entertainment venues, staging and rental, and motor racing.
Schools and Theatres	Elementary and secondary schools, small colleges and universities, local recreation centers and theatres.
Commercial	Retailers and outdoor advertisers, auto dealers, gaming facilities, petroleum retailers, restaurants and quick-serve restaurants, shopping centers, worship venues, and spectaculars.
Transportation	State and local departments of transportation, airlines, airports and related industries, parking facilities and transit authorities.

We have a large and diverse worldwide customer base and generally are not economically dependent on any single customer, however, there are important customers within each of our business units and the loss of one or more customers could have an adverse effect on us. Within our Commercial business unit, two major customers account for more than 50 percent of our digital billboard sales niche.

Backlog

Our backlog consists of contractually obligating sales agreements or purchase orders we expect to fill within the next 24 months. Backlog was approximately $171.6 million as of April 26, 2014 and $141.3 million as of April 27, 2013. Because sales agreements and purchase orders may be subject to extended delivery schedules and have variable estimated profitability, our backlog is not necessarily indicative of future net sales or net income. Although orders for many of our products may be shipped within 90 days, other orders may take longer depending on the customer's project schedule or other factors. Contracts related to new construction projects generally tend to have the longest lead times from contract signing to product delivery.

Government and Other Regulation

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

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

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

Our supply chain and sales distribution channels subject us to various trade compliance regulations. We believe we are in material compliance with these applicable governmental law and regulations.

In the United States and other countries, various laws and regulations require us to evaluate our supply chain for the origins of certain material. We are currently evaluating our supply chain for those materials.

In some countries in which we operate, such as China, there are various laws and regulations which may affect our operations. These include restrictions or limitations on our ability to withdraw our capital investment, underdeveloped legal frameworks to enforce our rights, including payment collections, and different levels of enforcement and consistency of laws.

Competition

The electronic display industry is highly fragmented. Intense competition in the industry comes from a variety of sources. Our video systems, especially those systems comprised of many displays networked together, are highly complex and visible and thus require a high standard of performance difficult for other industry participants to achieve and maintain over the long-term.

Each of our business units tends to have a different set of competitors. Some competitors compete only in our transportation business and some primarily compete in the high school market, for example. Video display competitors compete for our live events, international, and commercial video business. Asian-based competitors continue to expand their presence beyond Asia to compete more directly with us in all product areas. These competitors generally offer products and solutions at a lower price.

Because a large screen electronic display is often part of our customer's advertising budget, we may also compete with other forms of advertising, such as on-line advertising, television, print media or static display signs.

There are generally more competitors in product categories and applications requiring less complicated display systems, such as the high school scoreboard market, the text and graphics display market and the market for less customized video displays. As the needs of customers increase and the display systems become more complex, there are generally fewer competitors. However, due to the high profile nature of larger complex display systems, the competition is intense on those projects.

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

Research and Development

We believe our engineering and product development capability and experience are a very important factor to continue to develop the most up-to-date digital displays and control system solutions desired by the market. Product development expenses for fiscal years 2014, 2013 and 2012 were $23.4 million, $23.1 million and $23.5 million, respectively.

Environmental Concerns

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

Employees

As of April 26, 2014, we employed approximately 2,280 full-time employees and approximately 390 part-time and temporary employees. Of these employees, approximately 980 were in manufacturing, 560 were in sales and marketing, 510 were in customer service, 380 were in engineering and 240 were in general and administrative. None of our employees are represented by a collective bargaining agreement. We believe employee relations are good.

Available Information

We make available, free of charge, on or through our website (http://investor.daktronics.com), our annual, quarterly and current reports and any amendments to those reports as soon as reasonably practicable after we electronically file such reports with the Securities and Exchange Commission ("SEC"). The reports are also available through a link to the SEC website at http://www.sec.gov. Information contained on our website or linked through it is not part of this Report.

Item 1A. RISK FACTORS

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

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

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

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

Our quarterly operating results may vary significantly, which could have a material effect on the price of our common stock. Our quarterly revenues and earnings have varied in the past and are likely to vary in the future. Contracts we enter into generally stipulate customer-specific delivery terms and may have contract cycles of a year or more, which subjects the timing of revenue recognition to many factors beyond our control. In addition, the timing and size of large contract orders and delivery may not be predictable or repeatable. Furthermore, because significant portions of our operating costs are fixed, an unanticipated delay or cancellation of orders in backlog may have a significant negative impact on our quarterly operating results. Factors causing our operating results to vary may include new product introductions, variations in product and project mix and delivery due date changes. Therefore, quarterly operating results may be subject to significant variations, and operating results in one quarter may not be indicative of future operating results.

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

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

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

Price fluctuations in and shortage of raw materials and components could adversely affect our operating margin. We purchase large quantities of raw materials and components including, but not limited to, aluminum, LEDs, power supplies, circuit boards and various other electronic components. Materials comprise the largest component of our cost of goods sold. Any interruption in the supply of or increase in the cost of the raw materials or components could have a material adverse effect on our business, operating results and financial condition. Although we are sometimes able to pass such price increases to our customers, our success in offsetting higher raw material and component costs with price increases is largely influenced by competitive and economic conditions and could vary significantly depending on the market served. As of the date of this Report, there were no material parts shortages in the marketplace impacting our business.

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

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

Our international operations are exposed to additional risk and uncertainties, including unfavorable political developments, weak foreign economies, and compliance with foreign governmental requirements, which may impact our results of operations. For fiscal years 2014, 2013 and 2012, revenue outside the United States represented approximately 18 percent, 17 percent and 17 percent of our consolidated net sales, respectively. Our operations and earnings throughout the world have been and may in the future be adversely affected by changes in trade, monetary and fiscal policies, laws and regulations, or other activities of U.S. and non-U.S. governments, agencies, and similar organizations. These conditions include, but are not limited to, changes in a country's or region's economic or political conditions; trade regulations affecting production, pricing and marketing of products; local labor conditions and regulations; reduced protection of intellectual property rights in some countries; changes in the regulatory or legal environment; restrictions on currency exchange activities; and burdensome taxes and tariffs and other trade barriers. International risks and uncertainties also include changing social and economic conditions, terrorism, political hostilities and war, difficultly in enforcing agreements or collecting receivables and increased transportation and other shipping costs. The likelihood of such occurrences and their overall effect on us vary greatly from country to country and are not predictable. These factors may result in a decline in net sales or profitability and could adversely affect our ability to expand our business outside of the United States.

We may fail to continue to attract, develop and retain key management and other key employees, which could negatively impact our operating results. We depend on the performance of our senior management team and other key employees, including experienced and skilled technical personnel. The loss of certain members of our senior management, including our Chief Executive Officer, could negatively impact our operating results and ability to execute our business strategy. Our future success will also depend in part upon our ability to attract, train, motivate and retain qualified personnel.

We may not be able to utilize our capacity efficiently or accurately plan our capacity requirements, which may negatively affect our business and operating results. We increase our production capacity and the overhead supporting production based on anticipated market demand. Market demand, however, has not always developed as expected or remained at a consistent level. The potential underutilization risk can decrease our profitability.

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

- Changes in the demand for and mix of products our customers buy.
- Our ability to add and train our manufacturing staff in advance of demand.

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- The market’s pace of technological change.
- Variability in our manufacturing productivity.
- Long lead times for our plant and equipment expenditures, requiring major financial commitments well in advance of actual production requirements.

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

Regulations related to the use of conflict-free minerals may increase our costs and cause us to incur additional expenses. The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve the transparency and accountability of the use by public companies in their products of minerals originating from the conflict zones of the Democratic Republic of Congo (DRC) and adjoining countries and to prevent the sourcing of such “conflict” minerals. As a result, the SEC enacted annual disclosure and reporting requirements for public companies that use these minerals in their products, which apply to us. Under the final rules, which first apply to public companies for the 2013 calendar year, we are required to conduct due diligence to determine the source of any conflict minerals used in our products. Because our supply chain is broad-based and complex, we may not be able to verify the origins for all minerals used in our products. We may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins of all minerals used in our products through the due diligence procedures we are implementing. In addition, the rules could reduce the number of suppliers who provide components and products containing conflict-free minerals and thus could increase the cost of the components used in manufacturing our products and the costs of our products to us. Any increased costs and expenses could have a material adverse impact on our financial condition and results of operations.

Our actual results could differ from the estimates and assumptions used to prepare our financial statements. In preparing our financial statements, our management is required under U.S. generally accepted accounting principles ("GAAP") to make estimates and assumptions as of the dates of the financial statements. These estimates and assumptions affect the reported values of assets, liabilities, revenue, and expenses and disclosure of contingent assets and liabilities. Areas requiring significant estimates by our management include the recognition of contract revenue, costs, profit or losses in applying the principles of percentage of completion; estimated amounts for warranty costs, collectability of billed and unbilled accounts receivable and the amount of any allowance for doubtful accounts; the amount of estimated liabilities; the valuation of assets acquired plus liabilities, goodwill, and intangible assets assumed in acquisitions; and the valuation of stock-based compensation. Our actual results could differ from our estimates of such results, which could have a material negative impact on our financial condition and results of operation.

If our internal control over financial reporting is found to be inadequate, our financial results may not be accurate, raising concerns for investors and potentially adversely affecting our stock price. Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to evaluate and determine the effectiveness of our internal controls over financial reporting. We have dedicated a significant amount of time and resources to ensure compliance with this legislation for the fiscal years ended April 26, 2014, April 27, 2013 and April 28, 2012 and will continue to do so for future periods. We may encounter problems or delays in completing the review and evaluation, implementing improvements, or receiving a positive attestation from our independent registered public accounting firm. In addition, our assessment of internal controls may identify deficiencies in our internal controls over financial reporting or other matters which may raise concerns for investors and therefore adversely affect our stock price.

Our future results may be affected by legal compliance risks related to the U.S. Foreign Corrupt Practices Act and other anti-bribery and anti-corruption laws for the countries in which we operate. We are required to comply with the United States Foreign Corrupt Practices Act, which prohibits United States companies from engaging in bribery or making other prohibited payments to foreign officials for the purpose of obtaining or retaining business. It also requires us to maintain specific record-keeping standards and adequate internal accounting controls. Foreign companies, including some of our competitors, are not subject to these prohibitions and requirements. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time to time in many jurisdictions, including the Middle East and the People's Republic of China ("China"). If our competitors engage in these practices, they may receive preferential treatment from companies or governmental agencies, resulting in a competitive advantage for securing business from these companies or government officials who might give them priority in obtaining new licenses or permits, which would put us at a disadvantage. In addition, although we inform our personnel through training sessions, policies and other means that such practices are illegal, we cannot assure our employees or agents will not engage in such conduct for which we may be held responsible even if we are not aware of such conduct. If our employees or agents are found to have engaged in such practices, we could suffer severe fines and penalties.

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

Our operations in China subject us to risks and uncertainties relating to China's laws and regulations. We have offices and manufacturing facilities and make sales to customers in China which encompass many different activities. Under its current leadership, the government of China has been pursuing economic reform policies, including encouraging foreign trade and investment and greater economic decentralization. However, the government of China may not continue to pursue such policies or may reverse or otherwise change such policies. Despite progress in developing its legal system, China does not have a comprehensive and highly developed system of laws, particularly with respect to foreign investment activities and foreign trade. Enforcement of existing and future laws and contracts is uncertain, and the implementation and interpretation of them may be inconsistent. As the Chinese legal system develops, the promulgation of new laws, changes to existing laws and the preemption of local regulations by national laws may adversely affect foreign investors and foreign companies with operations in China, such as ours. In addition, some government policies and rules are not published or communicated in local districts in a timely manner, if at all. If they are published, they may not be followed consistently by local districts. As a result, we may inadvertently operate our business in violation of new rules and policies without having any knowledge of their existence. These uncertainties could limit the legal protections available to us. Any litigation or other proceeding in China may be protracted and result in substantial costs and diversion of resources and management attention. Furthermore, a significant portion of our business in China involves contracts with government bodies, which can significantly inhibit our ability to enforce a contract through litigation or similar means.

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

The terms and conditions of our credit facility impose restrictions on our operations, and if we default on our credit facility, it could have a material adverse effect on our results of operations and financial condition. The terms and conditions of our credit facilities impose restrictions limiting, among other things, our ability to incur debt, merge, sell assets, make distributions (including cash dividends) and create or incur liens. The availability of credit facilities is also subject to certain covenants as explained in "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations." Our ability to comply with the covenants may be affected by events beyond our control, and we cannot assure we will achieve operating results and maintain a financial position meeting the requirements of the credit facility. A breach of any of these covenants could result in a default under the facilities. In the event of a default, the bank could elect to declare any outstanding principal amount of the credit facilities and term debt, any and all accrued interest thereon and any or all other amounts payable under the credit facilities to be immediately due and payable, which would have an adverse effect on our results of operations and financial condition. As of April 26, 2014, we were in compliance with all financial and other covenants of our credit facilities.

Maintaining adequate bonding and letter of credit capacity is necessary for us to successfully bid on and win some contracts. In line with industry practice, we are often required to provide performance or payment bonds to our customers. These bonds indemnify the customer should we fail to perform our obligations under the contract. If a bond is required for a particular project, and we are unable to obtain an appropriate bond, we cannot pursue that project. Historically, we have had adequate bonding and letter of credit capacity; however, as is typically the case, the issuance of a bond is at the surety's sole discretion and the issuance of the letter of credit is based on the company's credit worthiness. Our failure to provide bonds at all or on a timely basis could negatively affect our ability to procure projects and our business, financial condition and results of operations.

Prevailing economic, financial and business conditions and other factors could impair our ability to operate our business, satisfy our debt obligations, and impact our customers' and vendors' business. It is anticipated that borrowings from our existing credit facilities and cash provided by operating activities should provide sufficient funds to finance our capital expenditures, working capital and otherwise meet operating expenses and debt service requirements as they become due. However, if additional capital is required, there can be no assurance we will be able to obtain such capital when needed or on satisfactory terms, if at all. In addition, market conditions can negatively impact our clients' ability to fund their projects and can impact our vendors, suppliers, and subcontractors and may not allow them to perform their obligations to us, potentially adversely impacting our business, financial condition, and results of operations.

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We may make future acquisitions, which may be difficult to integrate, divert management resources, result in unanticipated costs or dilute our shareholders. Part of our business strategy is to acquire or invest in companies, businesses, products or technologies complementing our current products, enhancing our market coverage or technical capabilities, or offering growth opportunities. Additional risks potentially associated with acquisitions include the following:

- Difficulty integrating the purchased company, products, businesses or technologies into our own business
- Incurring substantial unanticipated integration costs
- Difficult, time-consuming and costly to integrate management information and accounting systems of an acquired business into our current systems
- Assimilating the acquired businesses may divert management attention and financial resources from our other operations, disrupting our ongoing business
- Entering markets in which we have limited prior experience
- Loss of key employees, particularly those of the acquired entity
- Retaining or developing the acquired businesses' customers
- Adversely affect our existing business relationships with suppliers
- Failure to effectively analyze our return on investment
- Inability to indemnify assumed liabilities for infringement of intellectual property rights or other claims

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

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

We may be unable to protect our intellectual property rights effectively, or may infringe upon the intellectual property of others. We rely on a variety of intellectual property rights we use in our products and services. We may not be able to successfully preserve our intellectual property rights in the future, and these rights could be invalidated, circumvented or challenged. In addition, the laws of some foreign countries in which our products and services have been or may be sold do not protect intellectual property rights to the same extent as the laws of the United States.

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

Intellectual property litigation is very costly and could result in substantial expense and diversions of our resources, whether or not we prevail, both of which could adversely affect our business, financial condition or results of operations. In addition, there may be no effective legal recourse against infringement of our intellectual property by third parties, whether due to limitations on enforcement of rights in foreign jurisdictions or as a result of other factors.

The outcome of pending and future claims and litigation can have a material adverse impact on our business, financial condition, and results of operations. We can be a party to litigation in the normal course of business. Litigation and regulatory proceedings are subject to inherent uncertainties, and unfavorable rulings can and do occur. Pending or future claims against us could result in professional liability, product liability, criminal liability, warranty obligations or other liabilities to the extent we are not insured against a loss or our insurance fails to provide adequate coverage and could have a material adverse impact on our business, financial condition, and results of operations.

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

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

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

The protections we have adopted and to which we are subject may discourage takeover offers favored by our shareholders. We have adopted and are subject to several provisions of the South Dakota Business Corporation Act (SD Act) that could have the effect of discouraging takeover offers. Of the 120,000,000 shares of capital stock authorized in our articles of incorporation, 5,000,000 shares are undesignated. Our Board of Directors may issue the undesignated shares on terms and with the rights, preferences and designations determined by the Board without shareholder action, which could be used to discourage takeover attempts. Our articles of incorporation provide for a classified board consisting of three classes of directors. Our classified board generally makes it more difficult to replace directors and to acquire our company. We have adopted a shareholder rights plan providing for the exercise of common stock purchase rights when a person becomes the beneficial owner of 15 percent or more of our outstanding common stock (subject to certain exceptions). In addition, we are governed by the anti-takeover provisions of the SD Act, which may deny shareholders the receipt of a premium on their common stock, which in turn may have a depressive effect on the market price of our common stock. In general, shares of a corporation acquired in a "control share acquisition," as defined in the SD Act, have no voting rights unless voting rights are approved in a prescribed manner. There are also provisions prohibiting a public South Dakota corporation from engaging in a "business combination" with an "interested shareholder," both as defined in the SD Act, for a period of four years after the date of the transaction in which the person became an interested shareholder unless the business combination is approved in a prescribed manner. The SD Act also limits the voting rights of shares acquired in specified types of acquisitions and restricts specified types of business combinations. The existence or issuance of "blank check" stock, the classified Board, the existence of our shareholder rights plan and the effect of the anti-takeover provisions of the SD Act, individually or in the aggregate, may discourage potential takeover attempts and delay, deter or prevent a change in control. They also may make the removal of management more difficult, which could deprive our shareholders of opportunities to sell their shares at prices higher than prevailing market prices.

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

Our directors and executive officers have substantial influence over us and could limit the ability of our other shareholders to affect the outcome of key transactions, including changes of control. Dr. Aelred Kurtenbach serves as our Chairman of the Board. Mr. Reece Kurtenbach, Dr. Aelred Kurtenbach's son, serves as our Chief Executive Officer. In addition, Dr. Aelred Kurtenbach has two other children who serve as our Vice President of Human Resources and as our Vice President of Manufacturing. Together, these individuals, in the aggregate, beneficially owned 8.65 percent of our outstanding common stock as of June 03, 2014, assuming the exercise by them of all of their options that were currently exercisable or that vest within 60 days of June 03, 2014. In addition, our other executive officers and directors, in the aggregate, beneficially owned an additional 5.05 percent of our outstanding common stock as of June 03, 2014, assuming the exercise by them of all of their options currently exercisable or that vest within 60 days of June 03, 2014. These Kurtenbach family members and our other executive officers and directors and their affiliated entities, if acting together, are able to influence significantly all matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other significant corporate transactions. These shareholders may have interests differing from other shareholders and they may vote in a way with which other shareholders disagree, unfavorably affecting other shareholders' interests. The concentration of ownership of our common stock may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our shareholders of an opportunity to receive a premium for their common stock as part of a sale of our company, and may adversely affect the market price of our common stock. This concentration of ownership of our common stock may also have the effect of influencing the completion of a change in control not necessarily in the best interests of all of our shareholders.

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our principal real estate properties are located in areas we deem necessary to meet sales, service and operating requirements. We consider all of the properties to be both suitable and adequate to meet our requirements for the foreseeable future.

We own various buildings used for manufacturing, sales and service space in Brookings, South Dakota, totaling approximately 773,000 square feet; a building in Redwood Falls, Minnesota, totaling approximately 120,000 square feet; and a building in Rupelmonde, Belgium, totaling approximately 40,000 square feet. We lease a facility in Sioux Falls, South Dakota, comprising approximately 145,000 square feet. The lease contains an option to purchase the building from January 1, 2015 through December 31, 2016. We lease approximately 90,500 square feet in a building in Shanghai, China for sales, service and manufacturing.

The remaining sales and service offices located throughout the United States, Canada, Europe, South America, and the Asia-Pacific regions are small offices, generally consisting of less than 10,000 square feet leased under operating leases. These lease obligations expire on various dates, with the longest commitment extending to fiscal 2019. We believe all of our leases will be renewable at market terms, at our discretion as they become due or that suitable alternative space will be available to lease under similar terms and conditions.

Item 3. LEGAL PROCEEDINGS

We are involved in a variety of legal actions relating to various matters during the normal course of business. Although we are unable to predict the ultimate outcome of these legal actions, it is the opinion of management that the disposition of these matters, taken as a whole, will not have a material adverse effect on our financial condition or results of operations.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Our common stock is quoted on The NASDAQ Global Select Market under the symbol "DAKT." As of June 03, 2014, we had 1,217 shareholders of record. Following are the high and low sales prices for our common stock for each quarter within the last two fiscal years.

	Fiscal Year 2014			Fiscal Year 2013		
	Sales Price		Cash	Sales Price		Cash
	High	Low	Dividends Declared	High	Low	Dividends Declared
1st Quarter	$11.49	$9.63	$0.120	$8.39	$6.39	$0.115
2nd Quarter	12.35	10.45	0.090	9.91	7.36	—
3rd Quarter	15.80	11.73	0.090	11.73	8.03	0.615
4th Quarter	14.63	13.06	0.090	12.40	9.57	