HOULIHAN LOKEY, INC.
Form DEF 14A
July 26, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

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Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
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o Soliciting Material under §240.14a-12
Houlihan Lokey, Inc.
(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
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July 26, 2017

Dear Stockholder,

We cordially invite you to attend our 2017 Annual Meeting of Stockholders, to be held on Tuesday, September 19, 2017, at 9:00 a.m. (Pacific Time), at our headquarters located at 10250 Constellation Blvd., 5th Floor, Los Angeles, CA 90067.

The Notice of Annual Meeting of Stockholders and the proxy statement that follow describe the business to be conducted at the meeting.

Your vote is important. We encourage you to vote by proxy in advance of the meeting, whether or not you plan to attend the meeting.

Sincerely,

Scott L. Beiser

Chief Executive Officer

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Meeting Date:	Tuesday, September 19, 2017
Time:	9:00 a.m. (Pacific Time)
Place:	Houlihan Lokey, Inc. 10250 Constellation Blvd., 5th Floor Los Angeles, CA 90067

We are holding our 2017 annual meeting of stockholders for the following purposes, which are described in more detail in the proxy statement:

1. to elect four Class II directors to our board of directors;
2. to ratify the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending March 31, 2018;
3. to approve our Amended and Restated 2016 Incentive Award Plan; and
4. to transact any other business as may properly come before the meeting or any adjournment or postponement thereof.

Only stockholders of record as of the close of business on July 24, 2017 will be entitled to notice of, and to vote at the annual meeting.

As permitted by the rules of the Securities and Exchange Commission, we are sending our stockholders a Notice of Internet Availability of Proxy Materials (the "Notice") rather than a paper set of the proxy materials. The Notice includes instructions on how to access our proxy materials over the internet, as well as how to request the materials in paper form.

Your vote is important. We encourage you to vote by proxy in advance of the meeting, whether or not you plan to attend the meeting. The Notice includes instructions on how to vote, including by internet or telephone. If you hold your shares through a brokerage firm, bank, broker-dealer or other similar organization, please follow their instructions.

By order of the board of directors,

Christopher Crain
General Counsel and Secretary
July 26, 2017

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

FOR THE ANNUAL MEETING TO BE HELD ON SEPTEMBER 19, 2017.

The Company's Proxy Statement and 2017 Annual Report on Form 10-K

are also available at www.proxyvote.com.

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Although we refer to our website in this Proxy Statement, the contents of our website are not included or incorporated by reference into this Proxy Statement. All references to our website in this Proxy Statement are intended to be inactive textual references only.

PROXY STATEMENT

2017 ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON SEPTEMBER 19, 2017

GENERAL INFORMATION

Houlihan Lokey, Inc. (“Houlihan Lokey” or the “Company”) is making this Proxy Statement available to its stockholders on or about July 26, 2017 in connection with the solicitation of proxies by the board of directors for our 2017 Annual Meeting of Stockholders (the "Annual Meeting") to be held on Tuesday, September 19, 2017, at 9:00 a.m. (Pacific Time), at our headquarters located at 10250 Constellation Blvd., 5th Floor, Los Angeles, CA 90067, and any adjournment or postponement of the Annual Meeting. As a stockholder, you are invited to attend the Annual Meeting and are entitled and encouraged to vote on the proposals described in this Proxy Statement. On or about July 26, 2017, we mailed our stockholders a Notice of Internet Availability of Proxy Materials containing instructions on how to access our Proxy Statement and our 2017 Annual Report on Form 10-K ("Form 10-K").

Houlihan Lokey (NYSE: HLI) is a global investment bank with expertise in mergers and acquisitions, capital markets, valuation, financial restructuring, and strategic consulting. The firm serves corporations, institutions, and governments worldwide with offices in the United States, Europe, and the Asia-Pacific region. Independent advice and intellectual rigor are hallmarks of our commitment to client success across our advisory services. Houlihan Lokey is ranked as the No. 1 M&A advisor for all U.S. transactions, the No. 1 global M&A fairness opinion advisor over the past 15 years, and the No. 1 global restructuring advisor, according to Thomson Reuters.

Unless the context otherwise requires, as used in this Proxy Statement, the terms the “Company,” “Houlihan Lokey, Inc.,” “Houlihan Lokey,” “HL,” “we,” “us” and “our” refer to (i) prior to the corporate reorganization described under “Organization Structure” in the Form 10-K, Houlihan Lokey, Inc., a California corporation (“HL CA”), and (ii) following such corporate reorganization, Houlihan Lokey, Inc., a Delaware corporation (“HL DE”), and, in each case, unless otherwise stated, all of its subsidiaries. We use the term “ORIX USA” to refer to ORIX USA Corporation, a Delaware corporation and a wholly owned subsidiary of ORIX Corporation, a Japanese corporation. References to ORIX USA as a holder of our shares mean ORIX USA acting through its indirect wholly owned subsidiary, ORIX HLHZ Holding LLC, a Delaware limited liability company. We use the term “HL Holders” to refer to our employees and members of our management who hold our Class B common stock through the Houlihan Lokey Voting Trust (the “HL Voting Trust”). We use the term “Fram” to refer to Fram Holdings, Inc., a Delaware corporation and formerly our indirect parent. References to the “IPO” mean our initial public offering in August 2015 of 12,075,000 shares of Houlihan Lokey, Inc. Class A common stock in connection with which HL CA reorganized its business. Our fiscal year ends on March 31st; references to fiscal 2017 and fiscal 2016 are to the fiscal years ended March 31, 2017 and 2016, respectively; references in this Proxy Statement to years are to calendar years unless otherwise noted.

Below are answers to common questions stockholders may have about the Proxy Materials and the Annual Meeting.

What are the Proxy Materials?

The "Proxy Materials" are this Proxy Statement and our Form 10-K. If you request printed versions of the Proxy Materials, and you are entitled to vote at the Annual Meeting, you will also receive a proxy card.

Why did I receive a Notice of Internet Availability of Proxy Materials instead of a full set of materials?

Under rules adopted by the Securities and Exchange Commission (the "SEC"), we are furnishing Proxy Materials to many of our stockholders on the internet, rather than mailing printed copies. If you received a Notice of Internet Availability of Proxy Materials by mail, you will not receive printed copies of the Proxy Materials unless you request them. Instead, the notice will instruct you how to access and review the Proxy Materials on the internet. If you would like printed copies of the Proxy Materials, please follow the instructions in the notice.

Who may vote at the meeting?

Holders of Class A common stock and holders of Class B common stock as of the close of business on July 24, 2017 (the "Record Date") may vote at the Annual Meeting. Pursuant to the Voting Trust Agreement by and among the Company, each HL Holder and the Trustees named therein dated August 18, 2015, as amended (as so amended, the "Voting Trust Agreement"), each HL Holder agreed that the Trustees of the HL Voting Trust has full authority to vote his or her shares on all matters. Accordingly, holders of Class B common stock other than ORIX USA and the HL Voting Trust will not receive proxy cards and are not eligible to cast votes at the Annual Meeting.

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How many votes do I have?
Holders of our Class A common stock are entitled to one vote for each share held as of the Record Date. Holders of our Class B common stock are entitled to ten votes for each share held as of the Record Date. Holders of our Class A common stock and Class B common stock will vote as a single class on all matters at the Annual Meeting. Pursuant to the Voting Trust Agreement, each HL Holder has agreed that the Trustees of the HL Voting Trust has full authority to vote his or her shares on all matters. Accordingly, holders of Class B common stock other than ORIX USA and the HL Voting Trust will not receive proxy cards and are not eligible to cast votes at the Annual Meeting.
What items will be voted on at the Annual Meeting and how does the board of directors recommend that I vote?
There are three proposals to be voted on at the Annual Meeting:
1. the election of four Class II directors to our board of directors;
2. the ratification of the appointment of KPMG LLP ("KPMG") as our independent registered public accounting firm for the fiscal year ending March 31, 2018; and
3. the approval of our Amended and Restated 2016 Incentive Award Plan.

Our amended and restated bylaws require that we receive advance notice of any proposals to be brought before the Annual Meeting by our stockholders. We have not received any such proposals. We do not anticipate any other matters will come before the Annual Meeting. If any other matter properly comes before the Annual Meeting, the proxy holders appointed by our board of directors will have discretion to vote the shares subject to such proxies on those matters.
How many shares may be voted at the Annual Meeting?
Only stockholders of record as of the close of business on the Record Date will be entitled to vote at the Annual Meeting. As of the close of business on the Record Date, there were 23,382,144 shares of Class A common stock and 43,574,298 shares of Class B common stock entitled to vote. Holders of our Class A common stock are entitled to one vote for each share held as of the Record Date, and holders of our Class B common stock are entitled to ten votes for each share held as of the Record Date.
What vote is required for each proposal?
For the election of directors, each director must be elected by a plurality of the votes cast. This means that the three nominees receiving the largest number of "for" votes will be elected as directors. We do not have cumulative voting. The ratification of the Company's independent registered public accounting firm for the fiscal year ending March 31, 2018, the approval of our Amended and Restated 2016 Incentive Award Plan, and any other proposals that may come before the Annual Meeting will be determined by the majority of the votes cast.
In connection with the IPO, we entered into the Stockholders' Agreement dated August 18, 2015 with ORIX USA and the HL Voting Trust (the "Stockholders' Agreement"). Under the Stockholders' Agreement, ORIX USA and the HL Voting Trust each have agreed to vote in favor of the four nominees for Class II directors. As of the Record Date, such persons hold sufficient shares of Class B Common stock to ensure the election of such nominees at the Annual Meeting.
How are abstentions and broker non-votes counted?
Abstentions (shares present at the meeting in person or by proxy that are voted "abstain") and broker non-votes (explained below) are counted for the purpose of establishing the presence of a quorum, but are not counted as votes cast.
What is the difference between a stockholder of record and a beneficial owner of shares held in street name?
Stockholder of Record. If your shares are registered directly in your name with our transfer agent, Computershare, you are a stockholder of record. Each HL Holder is not a stockholder of record by virtue of shares he or she beneficially holds through the HL Voting Trust.
Beneficial Owner of Shares Held in Street Name. If your shares are held in an account at a brokerage firm, bank, broker-dealer or other similar organization, then you are a beneficial owner of shares held in "street name." The organization holding your account is considered the stockholder of record. As a beneficial owner, you have the right to direct the organization holding your account on how to vote the shares you hold in your account.

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How do stockholders of record vote?

There are four ways for stockholders of record to vote:

- Via the internet. You may vote via the internet until 11:59 p.m. (Eastern Time) on the day before the Annual Meeting by visiting http://www.proxyvote.com and entering the unique control number for your shares located on the Notice of Internet Availability of Proxy Materials.
- By telephone. You may vote by phone until 11:59 p.m. (Eastern Time) on the day before the Annual Meeting by calling (800) 690-6903. You will need the control number from your Notice of Internet Availability of Proxy Materials.
- By mail. If you requested that Proxy Materials be mailed to you, you will receive a proxy card with your Proxy Materials. You may vote by filling out and signing the proxy card and returning it in the envelope provided. The proxy card must be received by 5:00 p.m. (Pacific Time) on the day before the Annual Meeting.
- In person. You may also vote your shares in person by completing a ballot at the Annual Meeting.

How do beneficial owners of shares held in street name vote?

If you hold your shares through a brokerage firm, bank, broker-dealer or other similar organization, please follow their instructions.

Can I change my vote after submitting a proxy?

Stockholders of record may revoke their proxy before the Annual Meeting by delivering to the Company's General Counsel and Secretary a written notice stating that a proxy is revoked, by signing and delivering a proxy bearing a later date, by voting again via the internet or by telephone or by attending and voting in person at the Annual Meeting. Beneficial owners of share held in street name who wish to change their votes should contact the organization that holds their shares.

If I hold shares in street name through a broker, can the broker vote my shares for me?

If you hold your shares in street name and you do not vote, the broker or other organization holding your shares can vote on certain "routine" proposals but cannot vote on other proposals. Proposal 1 (election of directors) is not considered a "routine" proposal. Proposal 2 (ratification of the Company's independent registered public accounting firm) is a "routine" proposal. Proposal 3 (approval of our Amended and Restated 2016 Incentive Award Plan) is not considered a "routine" proposal. If you hold shares in street name and do not vote on Proposals 1 and 3, your shares will be counted as "broker non-votes."

Who is paying for this proxy solicitation?

The Company is paying the costs of the solicitation of proxies. Members of our board of directors and officers and employees may solicit proxies by mail, telephone, fax, email or in person. We will not pay directors, officers or employees any extra amounts for soliciting proxies. We may, upon request, reimburse brokerage firms, banks or similar entities representing street name holders for their expenses in forwarding Proxy Materials to their customers who are street name holders and obtaining their voting instructions.

What do I need to do if I want to attend the meeting?

You will need to provide evidence that you are a stockholder as of the Record Date. This can be a copy of your proxy card or a brokerage statement showing your shares. You should also bring photo identification. If you hold your shares in street name and wish to vote in person at the meeting, you will need to contact the organization that holds your shares in order to obtain a legal proxy from that organization.

Where can I find voting results?

We will file a Current Report on Form 8-K with the SEC including the final voting results from the Annual Meeting within four business days of the Annual Meeting.

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I share an address with another stockholder. Why did we receive only one set of Proxy Materials?

Some banks, brokers and nominees may be participating in the practice of "householding" Proxy Materials. This means that only one copy of our Proxy Materials may be sent to multiple stockholders in your household. If you hold your shares in street name and want to receive separate copies of the Proxy Materials in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact the bank, broker, or other nominee who holds your shares.

Upon written or oral request, the Company will promptly deliver a separate copy of the Proxy Materials to any stockholder at a shared address to which a single copy of any of those documents was delivered. To receive a separate copy of the Proxy Materials, you can contact Houlihan Lokey Investor Relations at (212) 331-8225, IR@HL.com or by mail at HLI Investor Relations , c/o ICR, 685 Third Avenue, New York, NY 10017.

What are the implications of being an "emerging growth company"?

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") and are therefore permitted to provide less disclosure about our executive compensation arrangements than is generally required for other public companies. We are also not required to provide our stockholders with the opportunity to vote on certain executive compensation matters on a non-binding advisory basis. We have elected to use these reduced disclosure requirements available to us as an emerging growth company, and are not soliciting stockholder votes on our executive compensation.

Under the JOBS Act, we will remain an emerging growth company until the earliest of: (i) the last day of the fiscal year during which we have total annual gross revenues of $1.07 billion or more (subject to adjustment for inflation); (ii) the last day of the fiscal year following the fifth anniversary of the completion of the IPO; (iii) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt; and (iv) the date on which we become a "large accelerated filer" under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Who should I contact if I have additional questions?

You can contact Houlihan Lokey Investor Relations at (212) 331-8225 or IR@HL.com. Stockholders who hold their shares in street name should contact the organization that holds their shares for additional information on how to vote.

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PROPOSAL 1: ELECTION OF DIRECTORS

Our amended and restated bylaws provide that our board of directors shall consist of such number of directors as shall from time to time be fixed by our board of directors. Currently, our board of directors is composed of 11 members, three of whom are independent directors as defined under the rules of the New York Stock Exchange. Further, our amended and restated certificate of incorporation and our amended and restated bylaws provide for the division of our board of directors into three classes, as nearly equal in number as possible, with each class serving for three year staggered terms. At each annual meeting of stockholders after the initial classification, the successors to the directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following their election. Our directors are divided among the three classes as follows:

- the Class I directors are Scott L. Beiser, Robert J.B. Lenhardt and Jacqueline B. Kosecoff, and their terms will expire at the annual meeting of stockholders to be held in 2019;
- the Class II directors are Irwin N. Gold, Bennet Van de Bunt, Ron K. Barger and Paul E. Wilson, and their terms will expire at the annual meeting of stockholders to be held in 2017; and
- the Class III directors are Scott J. Adelson, David A. Preiser, Robert A. Schriesheim and Hideto Nishitani, and their terms will expire at the annual meeting of stockholders to be held in 2018.

At the Annual Meeting, the stockholders will vote to elect as Class II directors of the Company the four nominees named in this Proxy Statement. Each of the Class II directors elected at the Annual Meeting will hold office until the 2020 Annual Meeting of Stockholders and until his or her successor has been duly elected and qualified. The board of directors has nominated Messrs. Gold, Van de Bunt, Barger and Wilson to serve as Class II directors of the Company. The persons named as proxies will vote to elect each of these nominees unless a stockholder indicates that his or her shares should be withheld with respect to one or more of such nominees.

Under the Stockholders' Agreement, ORIX USA and the HL Voting Trust each have agreed vote in favor of the four nominees for Class II director. Please see "Certain Relationships and Related Person Transactions," below for a description of the Stockholders' Agreement and the HL Voting Trust Agreement.

In the event that any nominee for director becomes unavailable or declines to serve as a director at the time of the Annual Meeting, the persons named as proxies will vote the proxies in their discretion for any nominee who is designated by the current board of directors to fill the vacancy. All of the nominees are currently serving as directors and we do not expect that any of the nominees will be unavailable or will decline to serve.

In determining that each director should be nominated for re-election, our board of directors considered his or her service, business experience, prior directorships, and the qualifications, attributes and skills described in the biography set forth below under "Corporate Governance—Executive Officers and Directors."

The board of directors recommends that you vote "FOR" each of Messrs. Gold, Van de Bunt, Barger and Wilson as Class II Directors in this Proposal 1.

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CORPORATE GOVERNANCE

Executive Officers and Directors

Below is a list of the names and ages, as of July 21, 2017, of our directors and executive officers, and a description of the business experience of each of them.

Name	Age	Position
Scott L. Beiser	57	Chief Executive Officer and Director
Irwin N. Gold	60	Executive Chairman and Director
Scott J. Adelson	56	Co President and Director
David A. Preiser	60	Co President and Director
J. Lindsey Alley	50	Chief Financial Officer
Christopher M. Crain	56	General Counsel and Secretary
Hideto Nishitani	57	Director
Ron K. Barger	62	Director
Paul E. Wilson	48	Director
Robert J.B. Lenhardt	54	Director
Robert A. Schriesheim	57	Director
Bennet Van de Bunt	55	Director
Jacqueline B. Kosecoff	68	Director

Scott L. Beiser has served as our Chief Executive Officer since 2003 and on our board of directors since 1991. His responsibilities include managing Houlihan Lokey's operations, identifying and developing new strategic opportunities, and pursuing and managing new and existing client relationships. Mr. Beiser previously led Houlihan Lokey's Infrastructure Services and Materials practice and has specialized expertise in investment banking services for engineering and construction businesses, including ownership and management transition programs, corporate acquisitions, divestitures, leveraged recapitalizations, and ESOP transactions. Mr. Beiser serves on the board of directors of FNF Construction and RoadSafe Traffic Systems, and is an advisor to several boards and executives in the engineering and construction industry. Mr. Beiser earned both a B.S. and an M.S. in Finance from the College of Business and Economics at California State University, Northridge. Mr. Beiser was chosen to be on our board of directors because of his leadership in our development and growth, and his particular knowledge and experience in strategic planning and leadership of complex organizations. Mr. Beiser has been with Houlihan Lokey for more than 33 years.

Irwin N. Gold has served as our Executive Chairman since 2013 and on our board of directors since 1994. Mr. Gold is one of Houlihan Lokey's senior executives responsible for strategic planning, client relations and business development, and manages the firm in conjunction with the other three members of the Office of the Executives. Mr. Gold co founded the Company's industry leading Financial Restructuring practice and was the Global Co Head of Financial Restructuring from 1988 until 2012. In that role, Mr. Gold has led many of the Company's largest and most complex Financial Restructuring engagements, both in bankruptcy and out of court situations. Mr. Gold has previously served on the boards of directors of Cole National Group, Inc., Advantica Restaurant Group, Inc. and The Bibb Company. Mr. Gold earned a B.A. in Economics, summa cum laude and Phi Beta Kappa, from Duke University and a J.D. from the University of Virginia Law School. Mr. Gold was chosen to be on our board of directors because of his long career in the financial services industry, and because he possesses particular knowledge and experience in the financial services industry and in leadership of complex organizations. Mr. Gold has been with Houlihan Lokey for more than 28 years.

Scott J. Adelson has served as our Co President since 2013, and has been a Senior Managing Director in our Corporate Finance group since 2002. As Co-President, Mr. Adelson is one of Houlihan Lokey's senior executives responsible for strategic planning, client relations and business development, and manages the firm in conjunction with the other three members of the Office of the Executives. Mr. Adelson also serves as as the Global Co Head of Corporate Finance. His practice embraces all aspects of corporate finance, including mergers and acquisitions, leveraged buyouts, and the issuance of debt and equity capital. He is an active board member of various public and private companies, including Motorcar Parts of America, Inc. and QAD Inc. Mr. Adelson completed his undergraduate studies at the University of

Southern California and earned his M.B.A. from the University of Chicago Booth School of Business. Mr. Adelson was chosen to be on our board of directors because of his long career in the financial services industry, and because he possesses particular knowledge and experience in strategic planning and board practices of other corporations. Mr. Adelson has been with Houlihan Lokey for more than 29 years.

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David A. Preiser has served as our Co President since 2013, and has been a Senior Managing Director in our Financial Restructuring group since 2008. Among his duties, he serves as Chairman of Houlihan Lokey (Europe) Limited. In the course of his more than two decades at Houlihan Lokey, Mr. Preiser has led many major transactions involving financially distressed companies, both in bankruptcy and in out of court situations, many of which have involved the sale or purchase of distressed assets. Mr. Preiser earned a B.A. in Economics and graduated magna cum laude from the University of Virginia. He earned a J.D. with honors from Columbia University, where he also served as an Editor of the Columbia Law Review, was named a Harlan Fisk Stone Scholar, and is currently a member of the Dean's Council. Mr. Preiser currently sits on the board of directors of NVR, Inc., a New York Stock Exchange listed company, where he currently chairs the Nominating Committee, and serves on the Compensation Committee. Mr. Preiser has previously served on the boards of directors of Joseph A. Bank, Inc., where he served as chair of the Compensation Committee, as well as Sudbury, Inc. and MLX, Inc. Mr. Preiser was chosen to be on our board of directors because of his long career in the financial services industry, his leadership role in our development and growth, and his particular knowledge and expertise in managing and growing international organizations and executing international transactions. Mr. Preiser has been with Houlihan Lokey for more than 26 years.

J. Lindsey Alley has served as our Chief Financial Officer since December 2012. In his role as Chief Financial Officer, Mr. Alley oversees our accounting and financial reporting operations as well as acquisition business development. Mr. Alley joined Houlihan Lokey in 1995 and was an investment banker focusing on advising public and private clients, boards of directors, and special committees on sell side and buy side mergers and acquisitions prior to being appointed to the Chief Financial Officer role in December 2012. Mr. Alley earned a B.S. in Systems Engineering from the University of Virginia and graduated with highest distinction with an M.B.A. in Finance from the University of Michigan. Mr. Alley has been with Houlihan Lokey for more than 21 years.

Christopher M. Crain has served as our General Counsel since September 2004. In that role, he directly manages our Legal department and oversees our Compliance and Human Resources departments. Mr. Crain earned a B.A. in Political Science from the University of California at Davis and a J.D., cum laude, from Loyola Law School. Mr. Crain has been with Houlihan Lokey for more than 12 years.

Hideto Nishitani is Chairman, President, and Chief Executive Officer of ORIX USA, Corporate Senior Vice President of ORIX Corporation in Japan, and has served on our board of directors since 2012. Mr. Nishitani has 33 years of experience in the global financial services industry working on behalf of ORIX Corporation in the U.S., U.K., Ireland, Canada and Japan. Between 2001 and 2006, he was Senior Vice President of the Principal Investment Group of ORIX Corporation's Investment Banking headquarters in Japan, where he was responsible for sourcing, acquiring, restructuring and managing portfolio companies. He earned a Bachelor of Economics degree from Kwansei Gakuin University in Japan and a Master of Economics degree from the London School of Economics, University of London. Mr. Nishitani was chosen to be on our board of directors because of his leadership proficiency and extensive experience in the financial services industry, particularly investment banking.

Ron K. Barger has served as Executive Vice President of Operations and General Counsel of ORIX USA since November 2014. He oversees operational areas of ORIX USA, including Legal, Human Resources, Technology, Corporate Planning and Administration, in addition to supporting strategic transactions for ORIX USA's multiple lines of business. Mr. Barger joined ORIX USA from Archon Group, L.P., where he served in a variety of roles from 1997 to 2012 including Global General Counsel, Global Chief Compliance Officer, Global Risk Committee chair, and Information Security Committee chair. While there, he also served as a member of the Archon Operating and Investment Committees, and was a Managing Director of The Goldman Sachs Group, Inc. Mr. Barger earned a B.S. degree from the University of Illinois and a J.D. from Southern Methodist University Dedman School of Law. Mr. Barger was chosen to be on our board of directors because of his particular knowledge of corporate governance, global operations, and enterprise risk for a financial services company, in addition to his years of experience in the financial services industry generally.

Paul E. Wilson is Chief Financial Officer of ORIX USA and has served on our board of directors since 2015. He is responsible for overseeing all financial functions of ORIX USA and its multiple lines of business and subsidiaries. Mr. Wilson joined the ORIX USA accounting and finance department as its Tax Director in 2004. Prior to joining ORIX USA, Mr. Wilson was a Senior Manager with Ernst & Young, spending 11 years in the public accounting practice. He is a Certified Public Accountant licensed in Texas and earned a B.B.A. and a master's degree in Accounting and Tax from Baylor University. Mr. Wilson was chosen to be on our board of directors because of his financial expertise and in depth knowledge of Houlihan Lokey's organizational and financial functions.

Robert J.B. Lenhardt is Deputy General Counsel of ORIX USA. He joined ORIX USA in 2001 and since then has overseen all legal functions of its corporate finance businesses, including high yield investing, direct leveraged lending, venture finance, structured products, fund investing, private equity, and special assets. Previously, he was a principal of Seaboard & Co., an asset management firm, whose team and assets were acquired by ORIX USA in 2001. He also previously practiced corporate and

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securities law in New York City. Mr. Lenhardt earned a B.A. degree, magna cum laude, from the University of Connecticut and a J.D. from Cornell Law School. Mr. Lenhardt was chosen to be on our board of directors because of his expertise in corporate finance and financial restructurings.

Robert A. Schriesheim served as the Executive Vice President and Chief Financial Officer of Sears Holdings Corporation from August 2011 until October 2016, and continued to serve as an advisor to Sears Holdings Corporation from November 2016 through January 2017. He served as the Chief Financial Officer of Hewitt Associates, Inc., a global human resources consulting and outsourcing company, from January 2010 to October 2010. From October 2006 to January 2010, he served as Executive Vice President and Chief Financial Officer of Lawson Software, Inc., an ERP software provider. From August 2002 to October 2006, he was affiliated with ARCH Development Partners, LLC, a seed stage venture capital fund. Before joining ARCH, Mr. Schriesheim held executive positions at Global TeleSystems, SBC Equity Partners, Ameritech, AC Nielsen and Brooke Group Ltd. Mr. Schriesheim has served as a director of Skyworks Solutions, Inc. since May 2006 and is chairman of its audit committee and a member of the compensation committee. Since August 2015, he has also served as a director of NII Holdings and serves as the chair of its audit committee and serves on the nominating and corporate governance committee. He also served as a director of Dobson Communications Corp. from 2004 to 2007, a director of Lawson Software from 2006 to 2011, a director and then Co Chairman of MSC Software Corporation from 2007 to 2009 and a director of Georgia Gulf Corporation from 2009 to 2010. Mr. Schriesheim earned an AB in Chemistry from Princeton University and an M.B.A. from the University of Chicago Booth School of Business. Mr. Schriesheim was chosen to be on our board of directors because of his expertise in corporate finance and capital markets, as well as his particular knowledge in public company governance and board practices of other corporations.

Bennet Van de Bunt is a principal in Guthy Renker, Cypress Creek, Paramount Equity, FHR and Rosewood Homes. He presently serves as chairman and co-founder of Cypress Creek Renewables and FHR, where he has served as a director since 2014 and 1998, respectively. Mr. Van de Bunt was previously the Chief Executive Officer and President of Guthy Renker from 2000 to 2013. Mr. Van de Bunt has made many venture capital investments in startups and serves and has served on many boards of directors, including Guthy-Renker (1995-present), Solar City (2013-2015), St. Johns Hospital (2014-present), Rosewood Homes (2008-present) and Paramount Equity (2009-present), among others. He earned a B.A. with honors in History from the University of California, Los Angeles and a J.D. from Harvard Law School. Mr. Van de Bunt was chosen to be on our board of directors because of his expertise in corporate governance and his significant experience with board practices of other corporations.

Jacqueline B. Kosecoff is a Managing Partner of Moriah Partners, where she works to identify, select, mentor and manage health services and IT companies. Dr. Kosecoff is also a Senior Advisor of Warburg Pincus. From 2002 to 2012, Dr. Kosecoff was a senior executive inside UnitedHealth Group-PacifiCare. Dr. Kosecoff joined UnitedHealth Group as part of its acquisition of PacifiCare Health Systems in 2005. At PacifiCare, Dr. Kosecoff served as Executive Vice President with responsibility for various business segments and, upon joining UnitedHealth Group, Dr. Kosecoff took responsibility for, among other areas, the Medicare Part D business and the consumer health product division serving seniors. In 2007, Dr. Kosecoff was appointed Chief Executive Officer of Prescription Solutions (now known as OptumRx). Prior to joining UnitedHealth Group-PacifiCare, Dr. Kosecoff was founder, President and Chief Operating Officer of Protocare, a firm whose lines of business included the clinical development of drugs, devices, biopharmaceutical and nutritional products, and health services consulting. Dr. Kosecoff served as Professor of Medicine and Public Health at the University of California, Los Angeles from 1975 to 2006. Currently, Dr. Kosecoff sits on the board of directors of these other public companies: athenahealth, Inc.; Sealed Air Corporation; and STERIS Corporation. Dr. Kosecoff holds a B.A. from the University of California, Los Angeles, an M.S. in Applied Mathematics from Brown University, and a doctorate from University of California, Los Angeles. Dr. Kosecoff was appointed to serve on our board of directors because of her extensive experience in managing organizations and her experience serving on the boards of other public companies.

Composition of our Board of Directors

Our business affairs are managed under the direction of our board of directors.

Our amended and restated bylaws provide that our board of directors shall consist of such number of directors as shall from time to time be fixed by our board of directors. Currently, our board of directors is composed of 11 members, three of whom are independent directors as defined under the rules of the New York Stock Exchange. Further, our amended and restated certificate of incorporation and our amended and restated bylaws provide for the division of our board of directors into three classes, as nearly equal in number as possible, with each class serving for three year staggered terms. At each annual meeting of stockholders after the initial classification, the successors to the directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following their election. Our directors are divided among the three classes as follows:

- the Class I directors are Messrs. Beiser and Lenhardt and Dr. Kosecoff, and their terms will expire at the annual meeting of stockholders to be held in 2019;

- the Class II directors are Messrs. Gold, Van de Bunt, Barger and Wilson, and their terms will expire at the annual meeting of stockholders to be held in 2017; and
- the Class III directors are Messrs. Adelson, Preiser, Schriesheim and Nishitani and their terms will expire at the annual meeting of stockholders to be held in 2018.

Each of our executive officers serves at the discretion of our board of directors and holds office until his or her successor is duly appointed and qualified or until his or her earlier resignation or removal. There are no family relationships among any of our directors or executive officers.

When considering whether directors and nominees have the experience, qualifications, attributes or skills, taken as a whole, to enable our board of directors to satisfy its oversight responsibilities effectively in light of our business and structure, the board of directors focuses primarily on each person’s background and experience as reflected in the information discussed in each of the directors’ individual biographies set forth herein. We believe that our directors provide an appropriate mix of experiences and skills relevant to the size and nature of our business.

Director Nomination and Removal Process

Under the Stockholders' Agreement, from the time of the completion of our IPO until its fifth anniversary, (i) so long ORIX USA’s Post IPO Percentage Ownership (as defined below) is 20% or greater, ORIX USA and the HL Voting Trust will each have the right to recommend four director nominees, with the remaining three director nominees recommended by mutual agreement of ORIX USA and the HL Voting Trust, (ii) so long as ORIX USA’s Post IPO Percentage Ownership is greater than or equal to 10% but less than 20%, ORIX USA will have the right to recommend three director nominees and the HL Voting Trust will have the right to recommend five director nominees, with the remaining three director nominees recommended by the HL Voting Trust with the approval of ORIX USA and (iii) so long as ORIX USA’s Post IPO Percentage Ownership is less than 10% but greater than zero, ORIX USA will have the right to recommend one director nominee and the HL Voting Trust will have the right to recommend the remaining ten director nominees. After the fifth anniversary of the IPO, (w) so long as ORIX USA’s Percentage Ownership (as defined below) is 20% or greater, ORIX USA will have the right to recommend three director nominees and the HL Voting Trust will have the right to recommend eight director nominees, (x) so long as ORIX USA’s Percentage Ownership is greater than or equal to 10% but less than 20%, ORIX USA will have the right to recommend two director nominees and the HL Voting Trust will have the right to recommend nine director nominees, (y) so long as ORIX USA’s Percentage Ownership is greater than or equal to 5% but less than 10%, ORIX USA will have the right to recommend one director nominee and the HL Voting Trust will have the right to recommend the remaining ten director nominees and (z) if ORIX USA’s Percentage Ownership is less than 5%, the HL Voting Trust will have the right to recommend all of the director nominees. The party that designated a director may cause that director to be removed at any time, and the other party will take all necessary action within its control to effect such removal.

Our amended and restated certificate of incorporation provides that, from and after the Final Conversion Date (the date on which (x) the aggregate outstanding shares of common stock owned by (i) ORIX USA, (ii) the HL Voting Trust and (iii) the beneficiaries of the HL Voting Trust or certain of their transferees, together with (y) the outstanding shares of our common stock (A) received by a holder of our common stock in connection with the grant, vesting and/or payment of an equity compensatory award and (B) with respect to which such holder has given the right to vote, pursuant to an irrevocable proxy, to the person or persons as may be designated by us from time to time, collectively represent less than 20% of the then aggregate outstanding shares of common stock, or on a date specified by the holders of at least $66^2/_3$% of the outstanding shares of Class B common stock), directors may be removed by stockholders only for cause and only with the affirmative vote of at least $66^2/_3$% of the voting interest of stockholders entitled to vote. Additional provisions with regard to removal of directors are included in the Stockholders’ Agreement. Our amended and restated certificate of incorporation also provides that any vacancy on our board of directors may be filled by a majority of the directors then in office.

The term “Post IPO Percentage Ownership” means, as of a specified date, the percentage equal to (a) the number of shares held by ORIX USA (directly or through a brokerage or similar account) on such date (not including any shares acquired by ORIX USA after the IPO, other than shares acquired by ORIX USA as a result of a stock split, distribution or similar pro rata reorganization) divided by (b) the total number of shares that were outstanding immediately following the consummation of the IPO, calculated on a fully diluted basis but excluding shares issued as purchase price consideration in certain acquisition transactions. “Percentage Ownership” means, as of a specified date, the percentage equal to (x) the number of shares held by ORIX USA (directly or through a brokerage or similar account) on such date (not including any shares acquired by ORIX USA after the IPO, other than shares acquired by ORIX USA as a result of a stock split, distribution or similar pro rata reorganization) divided by (y) the total number of shares outstanding on such date, calculated on a fully diluted basis.

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The board of directors will consider a candidate nominated by a stockholder in a manner consistent with its evaluation of potential nominees, so long as the nomination meets the requirements of our bylaws, as summarized below. The notice of nomination should include the following information:

- the stockholder's name, record address, and name and principal place of business;
- the name, age, business address, residence address, and principal occupation or employment of the nominee;
- the class or series, and number of all shares of the Company's stock owned beneficially or of record by the stockholder and the nominee;
- whether and the extent to which any derivative or other instrument, transaction, agreement, or arrangement has been entered into by the stockholder or the nominee with respect to the Company's stock;
- a description of all agreements or arrangements to which the stockholder or the nominee is a party with respect to the nomination, the Company or the Company's stock;
- a description of agreements or arrangements entered into by the stockholder or the nominee with the intent to mitigate loss, manage risk or benefit from changes in the stock price or increase or decrease the stockholder's voting power;
- a representation that the stockholder will attend the meeting in person or by proxy to nominate the persons named in its notice; and
- any other information related to the stockholder or the nominee required to be disclosed in the solicitation of proxies for election of directors under federal securities laws.

The notice must be accompanied by the nominee's consent to be elected and to serve as a director and include certain representations and agreements by the nominee set forth in our bylaws. This notice must be updated, if necessary, so that the information is true and correct as of the record date for the meeting.

Stockholder nominees should be submitted to the Company's General Counsel and Secretary at the Company's principal executive offices. Stockholder nominations may be made at any time. However, in order for a candidate to be included in the slate of director nominees for approval by stockholders in connection with a meeting of stockholders and for information about the candidate to be included in the Company's proxy materials for such a meeting, the stockholder must submit the information required by our bylaws and other information reasonably requested by the Company within the timeframe described in the proxy materials for such a meeting.

When the Company or the board of directors is required by contractual obligation (including pursuant to the Stockholders' Agreement) to nominate candidates designated by any person or entity, the selection and nomination of these directors is not subject to the above process.

The nominating and corporate governance committee is responsible for identifying and evaluating potential candidates and recommending such candidates to the board for nomination at the annual meeting. In evaluating director candidates, the nominating and corporate governance committee and the board may consider the following criteria, as well as any other factors that they deem to be relevant: (i) the candidate’s executive and directorial experience; (ii) the candidate’s professional and academic experience relevant to the company’s industry; (iii) the strength of the candidate’s leadership skills; (iv) the candidate’s experience in finance and accounting and/or executive compensation practices; and (v) the candidate's time availability. Generally, the nominating and corporate governance committee and the board will consider candidates who have a high level of personal and professional integrity, strong ethics, and the ability to make mature business judgments. The nominating and corporate governance committee and the board monitor the mix of specific experience, qualifications and skills of its directors in order to assure that the board, as a whole, has the necessary tools to perform its oversight function effectively in light of the company’s business and structure.

Actions by the Board

The Stockholders’ Agreement also provides that the approval of two thirds of the board will be required for certain corporate actions until the earlier of the third anniversary of the IPO and the date on which ORIX USA’s Post IPO Percentage Ownership first falls below 20%, which, in light of ORIX USA’s right to designate four director nominees during that period, essentially gives ORIX USA veto authority over those actions during such period. If, on the third anniversary of the IPO, ORIX USA’s Post IPO Percentage Ownership equals or exceeds 30%, the approval of two thirds of the board will continue to be required for such corporate actions until the earlier of the fifth anniversary of the IPO and the date on which ORIX USA’s Post IPO Percentage Ownership first falls below 20%. The actions generally requiring two thirds board approval during this period include the following:

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- subject to certain exceptions, material changes to the scope or nature of the Company's business, including launching or terminating a principal line of business;
- any sale of the Company or any material subsidiary (by way of merger, consolidation, business combination or asset sale) to a third party;
- cumulative acquisitions with an aggregate purchase price in excess of $225 million during any rolling three year period;
- hiring, terminating, promoting or demoting the chairman, chief executive officer, or president of the Company, or persons serving in equivalent positions;
- authorizing, creating, subdividing, or issuing any equity securities, other than (i) issuances for employee compensation up to specified levels; (ii) issuances of securities upon the conversion of outstanding convertible securities or compensation awards; and (iii) issuances representing less than 50.1% of the purchase price in connection with permitted acquisitions;
- subject to certain exceptions, redemption or repurchase of any equity securities in excess of the number of shares underlying annual employee stock compensation grants made during the relevant fiscal year;
- liquidation, dissolution or voluntary bankruptcy of the Company or any of its material subsidiaries, or any other similar extraordinary transactions;
- waiver of certain transfer restrictions;
- specified material changes in compensation structure, including any payment or grant of compensation that causes the consolidated compensation expense of the Company to be in excess of the Company's target compensation ratio; and
- amendment of the Company's organizational documents and lock up agreements.

Controlled Company

The HL Voting Trust and ORIX USA control a majority of the voting power of our outstanding common stock. As a result, we are a "controlled company" under the rules of the New York Stock Exchange. Under these rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain corporate governance standards, including the requirements that (i) a majority of our board of directors consist of independent directors and (ii) that our board of directors have compensation and nominating and corporate governance committees composed entirely of independent directors, as independence is defined in Rule 10A 3 of the Exchange Act and under the New York Stock Exchange listing standards. For an indeterminate period, we intend to utilize these exemptions. As a result, although we have a fully independent audit committee as required by the New York Stock Exchange, a majority of our directors are not currently independent and we do not expect in the immediate future that the majority of our directors will be independent. Accordingly, although we may transition to a board with a majority of independent directors prior to the time we cease to be a "controlled company," for such period of time our shareholders will not have the same protections afforded to stockholders of companies that are subject to all of these corporate governance requirements. Holders of Class A common stock do not have the same protections afforded to stockholders of companies that are subject to such requirements. In the event that we cease to be a "controlled company" and our shares continue to be listed on the New York Stock Exchange, we will be required to comply with these provisions within the applicable transition periods.

Director Independence

Prior to each director's appointment, our board of directors undertook a review of the independence of our directors and determined that Messrs. Schriesheim and Van de Bunt as well as Dr. Kosecoff are each independent directors as defined under the rules of the New York Stock Exchange. Under the listing requirements of the New York Stock Exchange, our board of directors is required to have at least three independent directors meeting the New York Stock Exchange's independence standards and we fulfill such requirements.

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Board and Committee Meetings; Annual Meeting Attendance

During fiscal 2017, our board of directors held four meetings, our audit committee held nine meetings, our compensation committee held five meetings and our Nominating and Corporate Governance Committee held three meetings. During fiscal 2017, each director attended at least 75% of the total number of meetings of the board of directors and committees on which the director served. Under our corporate governance guidelines, directors are expected to attend the Company's annual meetings of stockholders, either in person or by telephone A director who is unable to attend an annual meeting of stockholders (which it is understood will occur on occasion) is expected to notify the chairman of the board of directors. All or our directors attended the 2016 Annual Meeting of Stockholders in person.

The chair of the Audit Committee, or in his or her absence a director designated by the chair of the Audit Committee, presides over executive sessions of the independent directors which are held on a regularly scheduled basis, not less than once per year.

Communication with the Board of Directors

Any stockholder or other interested parties who would like to communicate with the board of directors, the independent directors as a group or any specific member or members of the board of directors should send such communications to the attention of our General Counsel and Secretary at Houlihan Lokey, Inc., 10250 Constellation Blvd., 5th Floor, Los Angeles, CA 90067. Communications should contain instructions specifying for which member or members of the board of directors the communication is intended. Such communications will generally be forwarded to the intended recipients. However, our General Counsel and Secretary may, in his sole discretion, decline to forward any communications that are inappropriate.

Compensation Committee Interlocks and Insider Participation

During fiscal 2017, the members of our compensation committee were Messrs. Beiser, Schriesheim, Preiser and Wilson. Mr. Beiser is our Chief Executive Officer and Mr. Preiser is our Co-President. Other than Messrs. Beiser and Preiser, none of the members of our compensation committee has ever been an officer or employee of our Company or any of our subsidiaries. None of our executive officers currently serves, or has served during the last completed fiscal year, on the compensation committee or board of directors of any other entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Board Committees

Pursuant to the Stockholders' Agreement, until the earlier of the fifth anniversary of the IPO or the date on which ORIX USA's Post IPO Percentage Ownership first falls below 10%, each standing committee must have at least one director nominee designated by each of ORIX USA and the HL Voting Trust as a member of such committee; provided that each of ORIX USA and the HL Voting Trust has caused its respective designated director to resign from the audit committee prior to the first anniversary of the IPO. In addition, actions and recommendations of any such standing committee will be subject to the approval of the board of directors. See "—Composition of our Board of Directors."

Current copies of each committee's charter are posted on our website, www.hl.com. The information on any of our websites is deemed not to be incorporated in or be a part of this Proxy Statement or any other document filed with or furnished to the SEC.

Audit Committee

The audit committee is responsible for, among other matters:

- appointing, compensating, retaining, evaluating, terminating and overseeing our independent registered public accounting firm;
- discussing with our independent registered public accounting firm their independence from management;
- reviewing with our independent registered public accounting firm the scope and results of their audit;
- approving all audit and permissible non audit services to be performed by our independent registered public accounting firm;
- overseeing the financial reporting process and discussing with management and our independent registered public accounting firm the interim and annual financial statements that we file with the SEC;

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- reviewing and monitoring our accounting principles, accounting policies, financial and accounting controls and compliance with legal and regulatory requirements; and
- establishing procedures for the confidential anonymous submission of concerns regarding questionable accounting, internal controls or auditing matters.

Our audit committee currently consists of Messrs. Schriesheim and Van de Bunt and Dr. Kosecoff, with Mr. Schriesheim serving as chair. Rule 10A 3 of the Exchange Act and the New York Stock Exchange rules require us to have an audit committee composed entirely of independent directors within one year of the date of the IPO. Our board of directors has affirmatively determined that Messrs. Schriesheim and Van de Bunt and Dr. Kosecoff meet the definition of an “independent director” for purposes of serving on an audit committee under Rule 10A 3 and the New York Stock Exchange rules. In addition, our board of directors has determined that Mr. Schriesheim qualifies as an “audit committee financial expert,” as such term is defined in Item 407(d)(5) of Regulation S K.

Compensation Committee

The compensation committee’s responsibilities include:

- reviewing and approving (either alone or, if directed by the board, in conjunction with a majority of the independent directors on the board) the compensation of our Chief Executive Officer;
- reviewing and setting, or recommending to the board, the compensation of our other executive officers;
- reviewing and recommending to our board of directors the compensation of our directors;
- selecting independent compensation consultants and advisors and assessing whether there are any conflicts of interest with any of the committee’s compensation advisors; and
- reviewing and approving, or recommending that our board of directors approve, incentive compensation and equity plans.

Our compensation committee currently consists of Messrs. Beiser, Schriesheim, Preiser and Wilson with Mr. Beiser serving as chair. Mr. Beiser, an executive officer, participates in the deliberations of the compensation committee in determining executive officer and director compensation, except as otherwise determined by the committee. As a controlled company, we rely upon the exemption from the requirement that we have a compensation committee composed entirely of independent directors. In April 2017, the company retained Vivient Consulting to provide advice to the compensation committee in connection with the design and implementation of our Amended and Restated 2016 Incentive Award Plan and executive bonus opportunities granted thereunder.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee’s responsibilities include:

- identifying individuals qualified to become members of our board of directors, consistent with criteria approved by our board of directors; and
- developing and recommending to our board of directors a set of corporate governance guidelines and principles, which are posted on our website, www.hl.com.

The committee , in nominating director candidates, considers candidates who have a high level of personal and professional integrity, strong ethics and values, and the ability to make mature business judgments. The committee may also consider the following criteria, as well as any other factor that they deem relevant: potential conflicts of interest with the candidate's other personal and professional pursuits; experience in corporate management; public company board experience; professional and academic experience; leadership skills; experience in finance, accounting or executive compensation; and, whether the candidate has the time available to prepare for, and participate in, board and committee meetings.

The members of our nominating and corporate governance committee are Messrs. Gold, Van de Bunt, Adelson and Barger and Dr. Kosecoff, with Mr. Gold serving as chair. As a controlled company, we rely upon the exemption from the requirement that we have a nominating and corporate governance committee composed entirely of independent directors.

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Risk Oversight

Our board of directors is responsible for overseeing our risk management process. Our board of directors focuses on our general risk management strategy, the most significant risks facing us, and oversees the implementation of risk mitigation strategies by management. Our board of directors is also apprised of particular risk management matters in connection with its general oversight and approval of corporate matters and significant transactions.

Code of Business Conduct and Ethics

We have adopted a written code of business conduct and ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We have posted a current copy of the code, as well as a copy of our corporate governance guidelines, on our website, www.hl.com. In addition, we intend to post on our website all disclosures that are required by law or the New York Stock Exchange listing standards concerning any amendments to, or waivers from, any provision of our code of business conduct and ethics. The information on any of our websites is deemed not to be incorporated in or be a part of this Proxy Statement or any other document filed with or furnished to the SEC.

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DIRECTOR COMPENSATION

Overview

In connection with our IPO, we approved and implemented a compensation policy which is applicable for our directors who are not our employees or employees of our subsidiaries or nominees of ORIX USA or the HL Voting Trust (each an “outside director”). Directors who are not outside directors did not receive compensation for their services as directors in fiscal 2017.

Each director was reimbursed for their travel expenses incurred in connection with his or her attendance at full board of directors or committee meetings.

Cash Compensation

Each outside director receives an annual cash retainer for his or her services equal to $62,500, payable quarterly in arrears, and pro-rated to reflect any partial year served.

Equity Compensation

Each outside director also receives, on each April 30, an annual, fully vested award of common stock with a dollar-denominated grant-day value of $62,500.

Additionally, each outside director who was serving on our board of directors at the time of our IPO received a one-time award of restricted stock with a dollar-denominated value equal to $100,000 (based on the IPO price); these awards vested in full on the first anniversary of the closing of the IPO. Upon joining the Board of Directors on June 20, 2016, Dr. Kosecoff recieved a one-time award of restricted stock with a dollar-denominated value equal to $100,000 (based on closing price of our Class A common stock on such date); this award vested in full on June 20, 2017.

The following table provides additional detail regarding the 2017 compensation of our outside directors:

Fiscal 2017 Outside Director Compensation

Name (1)	Fees Earned or Paid in Cash	Stock Awards (2)	Total
Robert A. Schriesheim	$62,500	$62,500	$125,000
Bennet Van de Bunt	62,500	62,500	125,000
Jacqueline B. Kosecoff	33,139	100,000	133,139

(1) Messrs. Adelson, Beiser, Gold, and Preiser (directors who are employees of the Company) and Messrs. Barger, Lenhardt, Nishitani and Wilson (directors who are nominees of ORIX USA) are not included in this table. None of these individuals received any compensation for services as a director.

(2) Amounts reflect the full grant date fair value of restricted stock and common stock awards granted during the relevant fiscal year, computed in accordance with ASC Topic 718, rather than the amounts paid to or realized by the outside director. We provide information regarding the assumptions used to calculate the value of all stock awards made to directors in Note 10-Employee Benefit Plans to our audited consolidated financial statements included in our Form 10-K.

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EXECUTIVE COMPENSATION

This section discusses the material components of the executive compensation program for our executive officers who are named in the "Summary Compensation Table" below. In fiscal 2017, our "named executive officers" and their positions were as follows:

- Scott L. Beiser, Chief Executive Officer;
- Irwin N. Gold, Executive Chairman; and
- Scott J. Adelson, Co President and Global Co Head of Corporate Finance.

Summary Compensation Table

The following table sets forth information concerning the compensation of our named executive officers for our fiscal years ended March 31, 2016 and March 31, 2017.

Name and Principal Position	Year	Salary	Bonus (1)	Stock Awards (2)	All Other Compensation (3)	Total
Scott L. Beiser	2017	$400,000	$2,592,812	$1,141,002	—	$4,133,814
Chief Executive Officer	2016	400,000	1,663,742	944,832	—	3,008,574
Irwin N. Gold	2017	400,000	1,842,812	674,335	—	2,917,147
Executive Chairman	2016	400,000	1,130,409	919,842	—	2,450,251
Scott J. Adelson	2017	400,000	4,215,877	902,000	—	5,517,877
Co President and Global Co Head of Corporate Finance	2016	400,000	297,516	5,699,841	1,209,501	7,606,858

(1) As described in further detail below under the caption "Narrative Disclosure to Summary Compensation Table—Incentive Compensation—Annual Incentive Compensation Program," our fiscal 2017 annual discretionary incentive compensation program was paid, in part, in cash bonuses and the remainder in restricted stock awards (granted in fiscal 2018), based on a subjective review of Company and individual performance for fiscal 2017. Amounts in this column with respect to fiscal 2017 include the payment of (i) discretionary cash bonuses awarded to the named executive officers with respect to fiscal 2017 performance, which for Messrs. Beiser, Gold and Adelson were $2,450,000, $1,700,000 and $3,620,844, respectively, (ii) 2/9 of the cash portion of IPO grants that were made to the named executive officers in connection with our IPO, which for Messrs. Beiser, Gold and Adelson were $142,812, $142,812 and $595,033, respectively. A portion of fiscal 2017 annual discretionary incentive compensation was paid to Messrs. Beiser, Gold and Adelson in the form of restricted stock awards in fiscal 2018, which consisted of 23,454, 16,275 and 35,620 shares granted, respectively, which have grant date dollar denominated values of $816,668, $566,696, and $1,240,288, respectively, vesting in substantially equal one quarter installments on the date on which annual bonuses are paid to officers of the Company (on or about May 15) for the fiscal years ending March 31, 2018, 2019, 2020 and 2021, subject to the executive's continued employment through the applicable vesting date. The number of shares was determined by dividing the applicable value by the closing price per share of our Class A common stock on May 15, 2017 (the date of such grants). Mr. Adelson also received a grant of restricted stock units with a dollar denominated value of $250,000, vesting in substantially equal one quarter installments on the date on which annual bonuses are paid to officers of the Company (on or about May 15) for the fiscal years ending March 31, 2018, 2019, 2020 and 2021, subject to Mr. Adelson's continued employment through the applicable vesting date. Mr. Adelson's grant of restricted stock units may be settled either in cash or by delivery of a number of shares of common stock equal to the dollar amount vesting on the applicable date divided by the fair market value of our common stock on such vesting date. Because these grants were made in fiscal 2018, in accordance with SEC rules, the associated values and numbers of shares do not appear in this Summary Compensation Table, but will appear in our proxy statement or annual report following the end of fiscal 2018.

(2) Amounts reflect the full grant date fair value of restricted stock and common stock awards granted during the relevant fiscal year, computed in accordance with ASC Topic 718, rather than the amounts paid to or realized by

the named individual. We provide information regarding the assumptions used to calculate the value of all stock awards made to executive officers in Note 10—Employee Benefit Plans to our audited consolidated financial statements included in our Form 10-K. In accordance with SEC rules, the amounts in this column reflect restricted stock and common stock awards granted during the relevant fiscal year that were awarded to the named executive officers.

(3) The amount for Mr. Adelson in this column reflects forgiveness in July 2015 of outstanding principle and interest on a loan made to him in 2013.

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Narrative Disclosure to Summary Compensation Table

The primary elements of compensation for our named executive officers are base salaries, annual cash bonuses and equity compensation awards. The named executive officers also participate in employee benefit plans and programs that we offer to our other full time employees on the same basis, including medical, dental, vision and death/disability benefits.

Base Salaries

The named executive officers receive base salaries that are intended to provide a fixed component of compensation commensurate with the executive's skill set, experience, role and responsibilities.

The total base salaries earned by our named executive officers in fiscal 2017 are disclosed in the Summary Compensation Table above.

The following table sets forth fiscal 2018 base salaries for each of our named executive officers.

Named Executive Officer	Fiscal 2018 Annual Base Salary
Scott L. Beiser	$400,000
Irwin N. Gold	400,000
Scott J. Adelson	400,000

We expect that base salaries for the named executive officers will be reviewed periodically by the board of directors or the compensation committee, with adjustments expected to be made generally in accordance with the considerations described above and to maintain base salaries at competitive levels.

Incentive Compensation

Annual Incentive Compensation Program

With respect to fiscal 2017 performance, we have paid and awarded cash bonuses and equity awards to our named executive officers with respect to both achievement of our short term financial and strategic objectives and progress made toward our longer term growth and other goals. During fiscal 2017, we did not maintain a formal bonus program; rather, annual bonuses have been determined on a discretionary basis based on a subjective assessment of the applicable executive's performance and the performance of the Company.

Historically, after the end of the applicable fiscal year, a dollar denominated value for each named executive officer's total annual incentive compensation award has been determined, and a portion of the total dollar denominated award has then been paid in cash, with the remainder granted in the form of restricted stock awards. The cash bonuses typically have been paid in part in the first quarter following the end of the applicable fiscal year, with the remainder paid on or about November 30 of the fiscal year following that in which it was earned, subject to the applicable executive's continued employment through the payment date. Restricted stock awards typically have been granted in the first quarter following the end of the applicable fiscal year. The number of our shares subject to each restricted stock award is based on the closing price per share of our Class A common stock as of the date of grant, with each award vesting in substantially equal one fourth installments over the following four years, subject to continued employment (except in the case of the applicable executive's death).

With respect to fiscal 2017, the cash bonuses awarded to Messrs. Beiser, Gold and Adelson for fiscal 2017 performance were $2,450,000, $1,700,000 and $3,620,844, respectively, and are included in the Summary Compensation Table above. The cash bonuses have been paid in part, with the remainder payable on or about November 30, 2017, subject to the applicable executive's continued employment through the payment date.

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Equity Awards

The Summary Compensation Table above reflects the grant date fair value of stock awards granted in fiscal 2017 pursuant to our fiscal 2016 bonus program. The total number of shares of restricted Class B common stock that was awarded to each named executive officer in fiscal 2017 is set forth in the following table.

Named Executive Officer	Stock Awards Granted in Fiscal 2017
Scott L. Beiser	45,260
Irwin N. Gold	26,749
Scott J. Adelson	35,780

In addition, in February 2017 in connection with a public offering of shares of our Class A shares of common stock, our board determined to accelerate the vesting of outstanding restricted stock awards such that the portion of each restricted stock award originally scheduled to vest on April 30, 2017 instead vested on the closing of such offering.

Other Elements of Compensation

We provide customary employee benefits to our full and eligible part time employees, including our named executive officers, in the United States, including medical and dental benefits, short term and long term disability insurance, accidental death and dismemberment insurance and life insurance.

We also maintain a 401(k) retirement savings plan for our employees in the United States, including our named executive officers, who satisfy certain eligibility requirements. Under our 401(k) plan, eligible employees may defer a portion of their compensation, within prescribed tax code limits, on a pre tax basis through contributions to the 401(k) plan. We did not make any matching contributions under our 401(k) plan to our named executive officers' 401(k) accounts during fiscal 2017.

We do not make gross up payments to cover our named executive officers' personal income taxes that may pertain to any of the compensation or perquisites paid or provided by us.

Outstanding Equity Awards at Fiscal Year End

The following table summarizes the number of shares of our Class B common stock underlying outstanding equity incentive plan awards for each named executive officer as of March 31, 2017 (note that awards granted in 2015 were originally made in Fram common stock that were converted into restricted shares of our Class B common stock in the corporate reorganization in connection with the IPO).

Name	Grant Date	Stock Awards: Number of Shares or Units of Stock That Have Not Vested		Market Value of Shares or Units of Stock That Have Not Vested (1)
Scott L. Beiser	April 30, 2015	1,389	(2)	$48,365
	August 12, 2015	27,218	(3)	$947,731
	April 30, 2016	33,945	(4)	$1,181,965
Irwin N. Gold	April 30, 2015	992	(2)	$34,541
	August 12, 2015	27,218	(3)	$947,731
	April 30, 2016	20,062	(5)	$698,559
Scott J. Adelson	April 30, 2015	2,024	(2)	$70,476
	August 12, 2015	113,409	(3)	$3,948,901

April 30, 2016	26,835	(6)	$934,395

(1) The market value of shares of stock that were not vested as of March 31, 2017 is calculated based on the closing price per share of our Class A common stock as of March 31, 2017.
(2) The remaining shares outstanding under this restricted stock award will vest on April 30, 2018.

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(3) The remaining shares outstanding under this restricted stock award will vest as to one-third of the aggregate number of shares of our Class B common stock on each of April 30, 2018, 2019 and 2020.

(4) This restricted stock award will vest as to 11,315 shares of our Class B common stock on each of May 15, 2018, 2019 and 2020.

(5) This restricted stock award will vest as to 6,687 shares of our Class B common stock on each of May 15, 2018 and May 15, 2019 and as to 6,688 shares of our Class B common stock on May 15, 2020.

(6) This restricted stock award will vest as to 8,945 shares of our Class B common stock on each of May 15, 2018, 2019 and 2020.

Executive Compensation Arrangements

We have not entered into any employment, severance or change in control arrangements with our named executive officers. However, upon a named executive officer’s death, the vesting of any unvested shares granted pursuant to outstanding restricted stock awards held by such executive would partially accelerate with respect to a number of shares that otherwise would have vested on the following vesting date (i.e., one-third, one-fourth or two-ninths of the total number of shares).

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STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to the beneficial ownership of our common stock, as of July 21, 2017, for:

- each person known by us to beneficially own more than 5% of our Class A common stock or Class B common stock;
- each of our named executive officers and directors; and
- all of our executive officers, directors and director nominees as a group.

The number of shares of our common stock beneficially owned by each stockholder is determined under rules issued by the SEC and includes voting or investment power with respect to securities. Under these rules, beneficial ownership includes any shares of our common stock as to which the individual or entity has sole or shared voting power or investment power. In computing the number of shares of our common stock beneficially owned by an individual or entity and the percentage ownership of that person, shares of our common stock subject to options, or other rights, held by such person that are currently exercisable or will become exercisable within 60 days of July 21, 2017, are considered outstanding, although these shares are not considered outstanding for purposes of computing the percentage ownership of any other person. Unless otherwise indicated, the address of all listed stockholders is c/o Houlihan Lokey, Inc.; 10250 Constellation Blvd., 5th Floor, Los Angeles, CA 90067. Each of the stockholders listed has sole voting and investment power with respect to the shares of our common stock beneficially owned by the stockholder unless noted otherwise, subject to community property laws where applicable.

Name of beneficial owner	Class A Shares	Percentage**	Class B Shares	Percentage**	% total voting power***
5% Stockholders					
ORIX USA(1)	1,500,000	6.4%	13,210,331	30.3%	29.1%
HL Voting Trust(2)	—	—	30,363,967	69.7%	66.1%
Black Rock Fund Advisors	1,821,655	7.8%	—	—	*
Royce & Associates, LP	1,628,848	7.0%	—	—	*
The Vanguard Group, Inc.	1,604,526	6.9%	—	—	*
Ariel Investments, LLC	1,566,735	6.7%	—	—	*
Burgundy Asset Management, LTD	1,238,818	5.3%	—	—	*
T. Rowe Price Associates, Inc.	1,238,484	5.3%	—	—	*
Named Executive Officers, Directors and Director Nominees					
Scott L. Beiser(3)	—	—	30,363,967	69.7%	66.1%
Irwin N. Gold(4)	—	—	30,363,967	69.7%	66.1%
Scott J. Adelson(5)	—	—	1,048,670	2.4%	2.3%
David A. Preiser	—	—	678,729	1.6%	1.5%
Hideto Nishitani	—	—	—	—	—
Ron K. Barger	—	—	—	—	—
Paul E. Wilson	—	—	—	—	—
Robert J.B. Lenhardt	—	—	—	—	—
Robert A. Schriesheim	18,224	*	—	—	—
Bennet Van de Bunt	24,104 6,042	*	—	—	—

Jacqueline B. Kosecoff	2018, 2017, and 2016 revenues were recorded under this method of accounting.

Warranties. We have recognized an accrued liability for warranty obligations equal to our estimate of the actual costs to be incurred in connection with our performance under the contractual warranties. Warranty estimates include costs of direct material and labor estimates to repair products over their warranty coverage period. Generally, estimates are based on historical experience taking into account known or expected changes. If we would become aware of an increase in our estimated warranty costs, additional accruals may become necessary, resulting in an increase in cost of sales. While prior estimates have been materially correct, estimates for warranty liabilities can change based on the actual versus estimated defect rates over the lifetime of the warranty coverage, a difference in actual to estimated costs to conduct repairs for the components and related labor needed, and other site related actual to estimated cost changes.

As of April 28, 2018 and April 29, 2017, we had approximately $30.0 million and $27.9 million accrued for these costs, respectively. Due to the difficulty in estimating probable costs related to certain warranty obligations, there is a reasonable likelihood that the ultimate remaining costs to remediate the warranty claims could differ materially from the recorded accrued liabilities. See "Note 18. Commitments and Contingencies" of the Notes to our Consolidated Financial Statements included in this Form 10-K for further information on warranties.

Income taxes. We record a tax provision for anticipated tax consequences of the reported results of operations. Deferred tax assets and liabilities are measured using currently enacted tax rates that apply to taxable income in effect for the years in which those deferred tax assets and liabilities are expected to be realized or settled. These assets and liabilities are analyzed regularly, and we assess the likelihood

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that deferred tax assets will be recoverable from future taxable income. A valuation allowance is established if it is more likely than not the deferred tax asset will not be realized.

In addition, because we operate in multiple income tax jurisdictions both within the United States and internationally, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our financial condition and operating results. For fiscal 2018, the U.S. tax law changed due to the adoption of the Tax Cuts and Jobs Act, requiring additional estimating processes and judgment in the application of the new laws. See "Note 14. Income Taxes" of the Notes to our Consolidated Financial Statements included in this Form 10-K for further information.

RECENT ACCOUNTING PRONOUNCEMENTS

For a summary of recently issued accounting pronouncements and the effects those pronouncements have on our financial results, refer to "Note 1. Nature of Business and Summary of Significant Accounting Policies" of the Notes to our Consolidated Financial Statements included elsewhere in this Form 10-K.

RESULTS OF OPERATIONS

Net Sales

The following table shows information regarding net sales for the fiscal years ended April 28, 2018, April 29, 2017, and April 30, 2016:

	April 28, 2018	April 29, 2017	2018 vs 2017		April 30, 2016	2017 vs 2016	
(dollars in thousands)	Amount	Amount	Dollar Change	Percent Change	Amount	Dollar Change	Percent Change
Net Sales:							
Commercial	$134,535	$148,073	$(13,538)	(9.1)%	$148,261	$(188)	(0.1)%
Live Events	236,333	213,982	22,351	10.4	205,151	8,831	4.3
High School Park and Recreation	87,627	82,798	4,829	5.8	70,035	12,763	18.2
Transportation	59,578	52,426	7,152	13.6	52,249	177	0.3
International	92,457	89,260	3,197	3.6	94,472	(5,212)	(5.5)
	$610,530	$586,539	$23,991	4.1 %	$570,168	$16,371	2.9 %
Orders:							
Commercial	$135,363	$151,562	$(16,199)	(10.7)%	$135,824	$15,738	11.6 %
Live Events	203,036	222,965	(19,929)	(8.9)	220,377	2,588	1.2
High School Park and Recreation	87,243	83,605	3,638	4.4	76,485	7,120	9.3
Transportation	50,581	62,638	(12,057)	(19.2)	56,834	5,804	10.2
International	107,244	92,734	14,510	15.6	71,266	21,468	30.1
	$583,467	$613,504	$(30,037)	(4.9)%	$560,786	$52,718	9.4 %

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Fiscal Year 2018 as compared to Fiscal Year 2017

Commercial: The decrease in net sales for fiscal 2018 compared to fiscal 2017 was primarily due to lower order volume in the on-premise niche and the timing of delivery of large projects in the spectacular niche, which was partially offset by an increase in sales in the OOH niche.

The decrease in orders for fiscal 2018 compared to fiscal 2017 was primarily due to decreases in orders in the on-premise and spectacular focused niches due to a number of factors, including competitive market pricing, a timing difference in national account-based opportunities, and the natural volatility of large project timing, which was partially offset by an increase in orders in the OOH niche.

We continue to see increased adoption of video solutions in our Commercial business unit marketplace. We see opportunity for orders and sales in our out of home, on-premise, and spectacular focused niches due to replacement cycles, expansion of dynamic messaging systems usage, and increased market size due to decline of digital pricing solutions over the years. A number of large custom video contract opportunities are available in the marketplace for unique facades throughout North America. Due to a number of factors, such as the discretionary nature of customers committing to a system, economic dependencies, regulatory environment, and competitive factors, it is difficult to predict orders and net sales for fiscal 2019. We expect growth in this business unit over the long-term, assuming favorable economic conditions and our success in counteracting competitive pressures.

Live Events: The increase in net sales for fiscal 2018 compared to fiscal 2017 was primarily the timing of the demand for upgraded or new solutions for arenas, professional sports, and colleges and universities. These types of installations occur for new construction or refurbishment needs of the customer and can vary in timing and size in accordance with the needs of the customer. During fiscal 2018, we completed and recognized more than $21 million of sales for two specific significant customer orders contributing to the increase in sales.

The decrease in orders for fiscal 2018 compared to fiscal 2017 was primarily the result of the size and timing of large contract order awards. During fiscal 2017, we were awarded five projects valued over five million dollars as compared to three in fiscal 2018 contributing to the change in orders.

We continue to see ongoing interest from venues at all levels to increase the size and capability of their display system and in the usage of dynamic messaging systems throughout facilities in our Live Events business unit marketplace. A number of factors, such as the discretionary nature of customers committing to upgrade systems, long replacement cycles, and competitive factors, make forecasting fiscal 2019 orders and net sales difficult. We expect similar results in fiscal 2019 and continued growth in this business unit over the long-term, assuming favorable economic conditions and our success in counteracting competitive pressures.

High School Park and Recreation: The increase in net sales for fiscal 2018 compared to fiscal 2017 was primarily due to continued success in winning orders in the growing market and the timing of shipments of scoring systems and message centers.

The increase in orders for fiscal 2018 compared to fiscal 2017 was primarily due to overall strong market demand and an increase in projects for larger video systems.

We expect larger video systems and our classic scoring and message centers to remain in demand in fiscal 2019, primarily in high school facilities which benefit from our sports marketing services that generate advertising revenue to fund the display systems and because of schools' desire to communicate with students and parents. A number of factors, such as the discretionary nature of customers committing to upgrade systems and competitive factors, make forecasting fiscal 2019 orders and net sales difficult. We expect growth in this business unit over the long-term, assuming favorable economic conditions.

Transportation: The increase in net sales for fiscal 2018 compared to fiscal 2017 was primarily due to the variability of large order production timing caused by customer project schedules.

The decrease in orders for fiscal 2018 compared to fiscal 2017 was primarily due to variability of size and large order timing.

A number of factors, such as transportation funding, the competitive environment, and customer delivery changes, make forecasting orders and net sales difficult for fiscal 2019. However, the stability of long-term federal transportation funding and the number of capital projects for highways and public transit that include dynamic message signs and for advertising and way-finding use in public transport and airport terminals continues to rise. We expect continued growth in this business unit over the long-term, assuming favorable economic conditions and continued transportation funding.

International: The increase in net sales for fiscal 2018 compared to fiscal 2017 was primarily the result of increased demand in the OOH niche market demand and improved economic conditions.

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The increase in orders for fiscal 2018 compared to fiscal 2017 was primarily due to variability caused by large order timing and included a number of orders for global OOH niche customers and professional soccer sports stadiums. In addition, we continued to market our solutions through multiple geographies to gain recognition and further our market-share.

For fiscal 2019, while our pipeline for large commercial, sports and OOH application, and transportation applications remains strong, macroeconomic factors may impact order bookings and timing, making it difficult to predict order and sales levels for fiscal 2019. For the long-term, we believe the International business unit has the potential for sales growth as we penetrate markets with our established sales networks to increase our International market share and to increase the use and adoption of our technology globally.

Backlog: The product order backlog as of April 28, 2018 was $170.8 million as compared to $203.2 million as of April 29, 2017. Historically, our backlog varies due to the seasonality of our business, the timing of large projects, and customer delivery schedules for these orders. The backlog increased from one year ago in our Commercial and International business units, decreased in our Live Events and Transportation business units, and remained relatively flat in our High School Park and Recreation business unit.

Fiscal Year 2017 as compared to Fiscal Year 2016

Commercial: Net sales for fiscal 2017 compared to fiscal 2016 remained relatively flat. We had declines in billboard shipments in fiscal 2017 compared to fiscal 2016 due to the volatility in large custom video demand in our spectacular niche, which was offset by increased demand in our on-premise niche related to a full year of sales from ADFLOW, the company we acquired in the fourth quarter of fiscal 2016. ADFLOW sales in the Commercial business unit were $9.9 million during fiscal 2017.

The increase in orders for fiscal 2017 compared to fiscal 2016 was primarily due to the timing of an increase in our on-premise niche related to in-store media solutions due to ADFLOW and increases in the spectacular niche due to the timing of large customer projects. Although we estimate our market share held in the national operators billboard niche expanded in fiscal 2017 with independent billboard operators, we experienced a decline in billboard niche orders for the year as compared to fiscal 2016. Order activity in the billboard niche is impacted by customer capital allocation decisions and overall satisfaction with our product lifetime, leading to longer product replacement cycles.

Live Events: The increase in net sales for fiscal 2017 compared to fiscal 2016 was primarily due to work completed for football stadiums and continued demand for upgraded or new solutions throughout other sports venues for national sports leagues, minor league teams and colleges and universities.

The increase in orders for fiscal 2017 compared to fiscal 2016 was primarily the result of order timing variability of large professional sports projects in fiscal 2017 compared to fiscal 2016.

High School Park and Recreation: The increase in net sales for fiscal 2017 compared to fiscal 2016 was primarily due to increased video project sizes with higher average selling prices and more custom indoor video and audio demand in fiscal 2017 compared to fiscal 2016.

The increase in orders for fiscal 2017 compared to fiscal 2016 was primarily due to strong market demand for video in sporting applications with larger average selling prices than orders for scoring or message centers.

Transportation: Net sales for fiscal 2017 compared to fiscal 2016 remained relatively flat.

The increase in orders for fiscal 2017 compared to fiscal 2016 was primarily due to the variability caused by large order timing and increased state government procurement project activity. During fiscal 2017, we had an award of a multimillion-dollar project for an active traffic management system with no same sized projects in the prior year.

International: The decrease in net sales for fiscal 2017 compared to fiscal 2016 was primarily the result of the variability of timing of conversion of orders to net sales. Our backlog increased at the end of fiscal 2017 and had been reduced at the end of fiscal 2016.

The increase in orders for fiscal 2017 compared to fiscal 2016 was primarily due to increased market activity in sports and spectacular projects and OOH application business. Global macroeconomic conditions also improved during fiscal 2017 as compared fiscal 2016.

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Gross Profit

	Year Ended					
	April 28, 2018		April 29, 2017		April 30, 2016	
(dollars in thousands)	Amount	As a Percent of Net Sales	Amount	As a Percent of Net Sales	Amount	As a Percent of Net Sales
Commercial	$26,665	19.8 %	$36,514	24.7 %	$29,147	19.7 %
Live Events	49,755	21.1	40,810	19.1	36,568	17.8
High School Park and Recreation	29,317	33.5	26,388	31.9	20,624	29.4
Transportation	21,247	35.7	18,027	34.4	16,572	31.7
International	18,685	20.2	18,676	20.9	18,108	19.2
	$145,669	23.9 %	$140,415	23.9 %	$121,019	21.2 %

Fiscal Year 2018 as compared to Fiscal Year 2017

The gross profit percentage remained flat for fiscal 2018 compared to fiscal 2017. The following describes the overall impact by business unit:

Commercial: The gross profit percent decrease in the Commercial business unit for fiscal 2018 compared to fiscal 2017 was primarily the result of higher warranty expenses and lower sales volumes over relatively fixed infrastructure costs.

Live Events: The gross profit percent increase in the Live Events business unit for fiscal 2018 compared to fiscal 2017 was the result of increased volume of sales over relatively fixed infrastructure costs and improved performance on large projects as compared to original estimates.

High School Park and Recreation: The gross profit percent increase in the High School Park and Recreation business unit for fiscal 2018 compared to fiscal 2017 was primarily due to a favorable sales mix and improved productivity.

Transportation: The gross profit percent increase in the Transportation business unit for fiscal 2018 compared to fiscal 2017 was primarily due to increased volume of sales over relatively fixed infrastructure costs and improved productivity.

International: The gross profit percent decrease in the International business unit for fiscal 2018 compared to fiscal 2017 was primarily the result of higher warranty expenses, which were offset by a $1.2 million gain from the sale of our non-digital division assets.

It is difficult to project gross profit levels for fiscal 2019 because of the uncertainty regarding the level of sales, the sales mix and timing, and the competitive factors in our business. We are focused on improving our gross profit margins as we execute our strategies for improved profitability, which include releasing new product designs to lower overall costs of the product, improving reliability to reduce warranty expenses, global capacity capability and planning, meeting customer solution expectations, and continued improvements in operational effectiveness in manufacturing, installation, and services delivery areas.

Fiscal Year 2017 as compared to Fiscal Year 2016

The gross profit percentage increase for fiscal 2017 compared to fiscal 2016 was primarily due to lower warranty charges, higher sales volumes, and the product mix of sales. The following describes the overall impact by business unit:

Commercial: The gross profit percent increase in the Commercial business unit for fiscal 2017 compared to fiscal 2016 was primarily the result of lower warranty charges, as fiscal 2016 had specific warranty obligations for particular projects, improved productivity at lower costs in manufacturing areas, and the non-recurrence of a licensing charge that negatively impacted fiscal 2016, offset by lower profitability on sales mix due to the competitive environment.

Live Events: The gross profit percent increase in the Live Events business unit for fiscal 2017 compared to fiscal 2016 was the result of a favorable sales mix impacted by project sizes and type, increased volumes of sales, and slight decline in manufacturing-related costs.

High School Park and Recreation: The gross profit percent increase in the High School Park and Recreation business unit for fiscal 2017 compared to fiscal 2016 was primarily due to increased volumes of sales over our relatively fixed manufacturing cost infrastructure and lower production costs due to process improvements.

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Transportation: The gross profit percent increase in the Transportation business unit for fiscal 2017 compared to fiscal 2016 was primarily due to favorable sales mix and lower warranty costs as a percent of sales.

International: The gross profit percent increase in the International business unit for fiscal 2017 compared to fiscal 2016 was primarily the result of lower warranty costs as a percent of sales, which were offset by a negative impact due to a $0.6 million non-digital technology intangible asset impairment.

Contribution Margin

	Year Ended April 28, 2018			April 29, 2017			April 30, 2016	
(dollars in thousands)	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales
Commercial	$7,986	5.9 %	(55.7)%	$18,046	12.2 %	36.6 %	$13,210	8.9 %
Live Events	35,439	15.0	27.7	27,750	13.0	19.7	23,178	11.3
High School Park and Recreation	18,317	20.9	13.7	16,114	19.5	56.2	10,314	14.7
Transportation	17,048	28.6	26.6	13,465	25.7	8.0	12,466	23.9
International	4,119	4.5	22.8	3,353	3.8	10.3	3,039	3.2
	$82,909	13.6 %	5.3 %	$78,728	13.4 %	26.6 %	$62,207	10.9 %

Fiscal Year 2018 as compared to Fiscal Year 2017

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

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

Selling expense for fiscal 2018 compared to fiscal 2017 increased in in our Commercial, Live Events, and High School Park and Recreation business units and decreased in our Transportation and International business units. Live Events selling expense increased year over year primarily due to increased conventions/advertising expenses and bad debt expenses. Commercial and High School Park and Recreation business unit selling expense increased year over year primarily due to increased personnel expenses. Transportation business unit selling expense decreased primarily due to lower bad debt expense. International business unit selling expense decreased primarily due to lower bad debt expense and personnel expenses.

During fiscal 2019, we plan to invest in areas to enable order growth, but we continue to expect constraints in selling expenses. We expect selling expenses will increase slightly in dollars for fiscal 2019 as compared to fiscal 2018.

Fiscal Year 2017 as compared to Fiscal Year 2016

Selling expense in the Commercial business unit increased in fiscal 2017 compared to fiscal 2016 primarily due to a full year of expenses from ADFLOW, the company we acquired in the fourth quarter of fiscal 2016. Selling expense remained relatively flat in dollars for fiscal 2017 compared to fiscal 2016 in our Live Events, High School Park and

Recreation, Transportation, and International business units. International business unit selling expenses included a $0.2 million intangible asset impairment related to a customer list. Bad debt expense Company-wide was $1.4 million for fiscal 2017 as compared to $1.3 million for fiscal 2016.

Other Operating Expenses

	Year Ended April 28, 2018			April 29, 2017			April 30, 2016	
(dollars in thousands)	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales
General and administrative	$34,919	5.7 %	2.0 %	$34,226	5.8 %	4.3 %	$32,801	5.8 %
Product design and development	$35,530	5.8 %	22.2 %	$29,081	5.0 %	8.1 %	$26,911	4.7 %

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Fiscal Year 2018 as compared to Fiscal Year 2017

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

General and administrative expenses in fiscal 2018 increased as compared to fiscal 2017 primarily due to increases in personnel expenses and information technology software and hardware expenses.

We expect general and administrative expenses to increase in dollars primarily for personnel related expenses and investments in information technology software and hardware expenses for fiscal 2019 as compared to fiscal 2018.

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

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

Product design and development expenses in fiscal 2018 increased compared to fiscal 2017 primarily due to increased labor costs and professional services assigned to product design and development projects relating to our strategy to accelerate the deployment of products and solutions to our markets. To deliver value to our customers and serve the markets' expectations we expect similar level of expenditures for new or enhanced customer solutions in fiscal 2019.

Fiscal Year 2017 as compared to Fiscal Year 2016

General and administrative expenses in fiscal 2017 increased as compared to fiscal 2016 primarily due to increases in personnel expenses and professional fees, partially offset by declines in information technology software and hardware expenses. Professional fees have increased due to defensive work to protect our patent portfolio.

Product design and development expenses in fiscal 2017 increased compared to fiscal 2016 primarily due to increased labor costs and professional services assigned to product design and development projects relating to our strategy to accelerate the deployment of our products and solutions to the market.

Other Income and Expenses

	Year Ended							
	April 28, 2018			April 29, 2017			April 30, 2016	
(dollars in thousands)	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales	Percent Change	Amount	As a Percent of Net Sales

Interest income, net	$506	0.1 %	(2.9)%	$521	0.1 %	(31.4)%	$759	0.1 %
Other (expense) income, net	$(537)	(0.1)%	51.7 %	$(354)	(0.1)%	176.6 %	$(128)	— %

Fiscal Year 2018 as compared to Fiscal Year 2017

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

Interest income, net decreased in fiscal 2018 as compared to fiscal 2017 as a result of lower long-term receivables which bear imputed interest rates. As a result of the volatility of working capital needs and changes in investing and financing activities, along with changes in the interest rate environment, it is difficult to project changes in interest income.

Other (expense) income, net: The change in other income and expense, net for fiscal 2018 as compared to fiscal 2017 was primarily due to foreign currency volatility and the losses recorded from an equity method affiliate.

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Fiscal Year 2017 as compared to Fiscal Year 2016

Interest income, net: Interest income, net decreased in fiscal 2017 as compared to fiscal 2016 as a result of lower long-term receivables which bear imputed interest rates and lower interest rates realized on lower average invested cash during the same period.

Other (expense) income, net: The change in other income and expense, net for fiscal 2017 as compared to fiscal 2016 was primarily due to foreign currency volatility offset by the losses from an equity method affiliate.

Income Taxes

Our effective tax rate was approximately 55.2 percent, 33.7 percent and 34.1 percent for fiscal 2018, fiscal 2017, and fiscal 2016, respectively.

The current-year tax rate was significantly impacted by the Tax Cuts and Jobs Act of 2017 (the "Tax Act"), which was signed into law on December 22, 2017. Most notably, the Tax Act reduced the statutory U.S. federal corporate income tax rate from 35% to 21%. Because we file our tax return based on our fiscal year, the statutory tax rate for our fiscal 2018 tax return will be a blended rate of 30.4%. In addition to the effect of the lower overall federal tax rate, the Tax Act resulted in a provisional $3.5 million one-time expense for the estimated re-measurement of our net deferred tax asset and a $0.3 million estimated one-time transition tax on certain undistributed earnings of our foreign subsidiaries in fiscal 2018. The actual impact of the Tax Act may differ materially from our provisional amounts due to further refinement of our calculations as allowed by SAB 118, changes in interpretations and assumptions we have made, or actions we may take as a result of the Tax Act. The provisional amounts will be finalized within the one-year measurement period as we gather and analyze the additional documentation necessary for the calculations. See "Note 14. Income Taxes" of the Notes to our Consolidated Financial Statements included in this Form 10-K for further information.

Our consolidated effective tax rate is impacted by the statutory income tax rates applicable to each of the jurisdictions in which we operate. Due to various factors and operating in multiple state and foreign jurisdictions, our effective tax is subject to fluctuation; however, with the lower U.S. statutory tax rate enacted by the Tax Act, we expect our fiscal 2019 effective tax rate to be approximately 21%.

The effective income tax rate for fiscal 2017 and 2016 includes the impact of benefits from increased research and development tax credits, which was offset by valuation allowances in certain foreign jurisdictions.

LIQUIDITY AND CAPITAL RESOURCES

	Year Ended		
(dollars in thousands)	April 28, 2018	April 29, 2017	Percent Change
Net cash provided by (used in):			
Operating activities	$30,361	$39,407	(23.0)%
Investing activities	(19,563)	(18,180)	7.6
Financing activities	(13,262)	(16,323)	(18.8)
Effect of exchange rate changes on cash	(620)	(591)	4.9
Net increase in cash and cash equivalents	$(3,084)	$4,313	171.5 %

Net cash provided by operating activities: Operating cash flows consist primarily of net income adjusted for non-cash items including depreciation and amortization, stock-based compensation, deferred income taxes and the effect of changes in operating assets and liabilities.

Net cash provided by operating activities was $30.4 million for fiscal 2018 compared to $39.4 million in fiscal 2017. The decrease in net cash provided by operating activities of $9.0 million was the net result of a decrease in net operating assets and liabilities of $5.3 million, a decrease of $4.8 million in net income, a $0.8 million decrease in depreciation and amortization, a $0.8 million decrease in an impairment loss of intangible assets, a $1.3 million gain on the sale of property, equipment and other assets mostly related to the sale of our non-digital division assets, and a $1.2 million decrease in other non-cash items, net, adjusted by an increase of $5.2 million in our deferred income taxes, net.

Overall, changes in operating assets and liabilities can be impacted by the timing of cash flows on large orders, which can cause significant short-term and seasonal fluctuations in inventory, accounts receivables, accounts payable, customer deposits, costs and earnings in excess of billings and billings in excess of costs and earnings, and various other operating assets and liabilities. Variability in costs and earnings in excess of billings and billings in excess of costs and earnings ("Net over/underbillings") relates to the timing of billings on construction-type contracts and revenue recognition, which can vary significantly depending on contractual payment terms and build and installation

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schedules. Balances are also impacted by the seasonality of the sports markets. The primary change in operating assets and liabilities were the timing of large projects orders and the work in process including their billings and work performed at the end of fiscal 2018 as compared to fiscal 2017. This timing differences created an outflow of cash for inventory, from accounts payable, and from Net over/underbillings. For specific quantitative changes in operating assets and liabilities, see "Note 15. Cash Flow Information" of the Notes to our Consolidated Financial Statements included in this Form 10-K.

Net cash used in investing activities: Net cash used in investing activities totaled $19.6 million for fiscal 2018 compared to $18.2 million in fiscal 2017. Purchases of property and equipment totaled $18.1 million in fiscal 2018 compared to $8.5 million in fiscal 2017, offset by a net increase in marketable securities of $6.1 million for fiscal 2018 as compared to fiscal 2017. Proceeds from the sale of property, equipment and other assets totaled $2.2 million for fiscal 2018 compared to $0.2 million for fiscal 2017; this was mostly related to the sale of our non-digital division assets.

Net cash used in financing activities: Net cash used in financing activities was $13.3 million for fiscal 2018 compared to $16.3 million in fiscal 2017. Dividends of $12.4 million, or $0.28 per share, were paid to Daktronics shareholders during fiscal 2018 compared to $13.7 million, or $0.31 per share, paid to Daktronics shareholders during fiscal 2017. In fiscal 2017, we used $1.8 million to purchase our common shares as part of the $40.0 million share repurchase plan authorized by our Board of Directors, and there were no purchases in fiscal 2018.

Other Liquidity and Capital Resources Discussion: We have $5.8 million of retainage on long-term contracts included in receivables and costs in excess of billings as of April 28, 2018, which we expect to collect within one year.

Working capital was $132.8 million at April 28, 2018 and $127.1 million at April 29, 2017. The changes in working capital, particularly changes in accounts receivable, accounts payable, inventory, and costs in excess of billings and billings in excess of costs, and the seasonality of the sports market can have a significant impact on the amount of net cash provided by operating activities largely due to the timing of payments and receipts. We have historically financed working capital needs through a combination of cash flow from operations and borrowings under bank credit agreements.

We have used and expect to continue to use cash balances to meet our short-term working capital requirements. On large product orders, the time between order acceptance and project completion may extend up to and exceed 24 months depending on the amount of custom work and a customer's delivery needs. We often receive down payments or progress payments on these product orders. To the extent these payments are not sufficient to fund the costs and other expenses associated with these orders, we use working capital and bank borrowings to finance these cash requirements. For additional information on financing agreements, see, "Note 10. Financing Agreements" of the Notes to our Consolidated Financial Statements included in this Form 10-K.

We utilize cash on hand to pay dividends to our investors. The following table summarizes the quarterly dividends declared and/or paid since the prior fiscal year end of April 29, 2017:

Date Declared	Record Date	Payment Date	Amount per Share
June 1, 2017	June 13, 2017	June 23, 2017	$0.07
August 31, 2017	September 11, 2017	September 21, 2017	$0.07
November 30, 2017	December 11, 2017	December 21, 2017	$0.07
March 1, 2018	March 12, 2018	March 22, 2018	$0.07
May 31, 2018	June 11, 2018	June 21, 2018	$0.07

Although we expect to continue to pay dividends for the foreseeable future, the nature and amounts of dividends will be reviewed regularly and declared by the Board at its discretion. In addition, our credit facility imposes limitations on our ability to pay dividends as further described in "Note 10. Financing Agreements" of the Notes to our Consolidated Financial Statements included in this Form 10-K.

During fiscal 2017, the Board of Directors authorized a share repurchase program for the purchase of shares from the open market. During fiscal 2017, we repurchased 0.3 million shares. Although we have authorization for additional share repurchases, any and all subsequent purchases are reviewed regularly for market conditions and are made to comply with the various regulations for company share repurchase programs. For additional information on the share repurchase program, see, "Note 11. Share Repurchase Program" of the Notes to our Consolidated Financial Statements included in this Form 10-K.

We are sometimes required to obtain performance bonds for display installations, and we have a bonding line available through a surety company for an aggregate of $150.0 million in bonded work outstanding. If we were unable to complete the work and our customer

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would call upon the bond for payment, the surety company would subrogate its loss to Daktronics. At April 28, 2018, we had $16.5 million of bonded work outstanding against this line.

Our business growth and profitability improvement strategies depend on investments in capital expenditures. We are projecting capital expenditures to be less than $20 million for fiscal 2019 for purchases of manufacturing equipment for new or enhanced product production, expanded capacity, investments in quality and reliability equipment, and continued information infrastructure investments.

We believe our working capital available from all sources will be adequate to meet the cash requirements of our operations in the foreseeable future. If our growth extends beyond current expectations, profitability does not continue, or if we make any strategic investments, we may need to increase our credit facilities or seek other means of financing. We anticipate we will be able to obtain any needed funds under commercially reasonable terms from our current lenders or other sources, although there can be no guarantee of such.

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OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

We enter into various lease, purchase and long-term obligations that require payments in future periods. Operating lease obligations relate primarily to leased manufacturing space, office space, furniture, and vehicles. Conditional and unconditional purchase obligations represent future payments for inventory, advertising rights and various other products and services purchase commitments. Long-term marketing obligations relate to amounts due in future periods for payments on net sales where we sold and installed our equipment in exchange for future advertising revenue. When certain advertising revenue thresholds are met, all or a portion of excess cash is owed back to the customer. Long-term obligations also consist of payments owed for a business combination if certain conditions in the business performance are met.

We have entered into standby letters of credit and surety bonds with financial institutions relating to the guarantee of future performance on contracts, primarily construction-type contracts. Performance guarantees are issued to certain customers to guarantee the operation and installation of equipment and our ability to complete a contract. These performance guarantees have various terms, which are typically one year or less.

As of April 28, 2018, our contractual obligations were as follows (in thousands):

Contractual Obligations	Total	Less than 1 year	1-3 Years	4-5 Years	After 5 Years
Cash commitments:					
Long-term obligations and accrued interest	$2,408	$1,188	$1,220	$—	$ —
Operating leases	8,959	2,795	4,108	1,759	297
Unconditional purchase obligations	5,118	2,585	2,011	256	266
Conditional purchase obligations	350	150	200	—	—
Unrecognized tax benefits(1)	3,178	—	—	—	—
Total	$20,013	$6,718	$7,539	$2,015	$ 563
Other commercial commitments:					
Standby letters of credit and bank guarantees	$7,706	$5,563	$2,131	$12	$ —
Surety bonds	$16,522	$11,723	$4,799	$—	$ —

(1) We are not able to reasonably estimate the timing of future payments relating to these non-current tax benefits. This
obligation is retired when the uncertain tax position is settled or applicable tax year is no longer subject to examination by the
tax authorities.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Exchange Rates

Our results of operations could be affected by factors such as changes in foreign currency rates or weak economic conditions in foreign markets. We derive net sales in U.S. dollars and other currencies including Canadian dollars, Euros, Chinese renminbi, British pounds, Australian dollars, Brazilian reais or other currencies. For fiscal 2018, 18% of net sales were derived in currencies other than U.S. dollars. We have expenses in currencies other than U.S. dollars relating to our sales, service, and manufacturing operations. The cost of raw materials derived from international sources can be impacted by fluctuations in foreign currency. We have foreign currency cash accounts to operate our global business. These accounts are also impacted by changes in foreign currency rates. As of April 28, 2018, we had $5.4 million denominated in currencies outside the U.S. dollar.

If we believe currency risk in any foreign location or specific sales or purchase transaction is significant, we utilize foreign exchange hedging contracts to manage our exposure to the currency fluctuations. The notional amount of the foreign currency agreements as of April 28, 2018 is $8.5 million, and all contracts mature within 16 months. These contracts are marked to market each balance sheet date and are not designated as hedges. See "Note 17. Derivative Financial Instruments" of the Notes to our Consolidated Financial Statements included in this Form 10-K for further details.

Over the long term, net sales to international markets are expected to increase as a percentage of total net sales and, consequently, a greater portion of our business could be denominated in foreign currencies. As a result, operating results may become more subject to fluctuations based upon changes in the exchange rates of certain currencies in relation to the U.S. dollar. To the extent we engage in international sales denominated in U.S. dollars, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. This effect is also impacted by sources of raw materials from international sources and costs of our sales, service, and manufacturing locations outside the U.S. We estimate that a 10 percent change in all foreign exchange rates would impact our reported income before taxes by approximately $1.2 million. This sensitivity analysis disregards the possibilities that rates can move in opposite directions and that losses from one geographic area may be offset by gains from another geographic area.

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We will continue to monitor and minimize our exposure to currency fluctuations and, when appropriate, use financial hedging techniques to minimize the effect of these fluctuations. However, exchange rate fluctuations as well as differing economic conditions, changes in political climates, and other rules and regulations could adversely affect our ability to effectively hedge exchange rate fluctuations in the future.

Interest Rate Risks

Our exposure to market rate risk for changes in interest rates relates primarily to our marketing obligations and long-term accounts receivable. As of April 28, 2018, our outstanding marketing obligations were $0.5 million, all of which were in fixed rate obligations.

In connection with the sale of certain display systems, we have entered into various types of financing with customers. The aggregate amounts due from customers include an imputed interest element. The majority of these financings carry fixed rates of interest. As of April 28, 2018, our outstanding long-term receivables were $3.4 million. Each 25 basis point increase in interest rates would have an associated immaterial annual opportunity cost.

The following table provides maturities and weighted average interest rates on our financial instruments sensitive to changes in interest rates.

	Fiscal Years (dollars in thousands)					
	2019	2020	2021	2022	2023	Thereafter
Assets:						
Long-term receivables, including current maturities:						
Fixed-rate	$1,752	$785	$447	$341	$42	$ 26
Average interest rate	8.7 %	8.6 %	8.5 %	9.0 %	9.0 %	9.0 %
Liabilities:						
Long- and short-term obligations:						
Variable-rate	$926	$1,074	$—	$—	$—	$ —
Average interest rate	8.5 %	3.0 %	— %	— %	— %	— %
Long-term marketing obligations, including current portion:						
Fixed-rate	$262	$136	$10	$—	$—	$ —
Average interest rate	9.0 %	7.2 %	9.0 %	— %	— %	— %

Of our $29.7 million in cash balances at April 28, 2018, $24.3 million were denominated in U.S. dollars of which $4.9 million is held by our foreign subsidiaries. We have an additional $5.4 million in cash balances denominated in foreign currencies, of which $4.9 million are maintained in accounts of our foreign subsidiaries. A portion of the cash held in foreign accounts is used to collateralize outstanding bank guarantees issued by our foreign subsidiaries.

Commodity Risk

We are dependent on basic raw materials, sub-assemblies, components, and other supplies used in our production operations. Our financial results could be affected by changes in the availability, prices, and global tariff regulations of these materials. Some of these materials are sourced from one or a limited number of suppliers. Some of these materials are also key source materials for our competitors and for other technology companies. Some of these materials are sourced outside of the countries in which we manufacture our products and are subject to transportation delays. Any of these factors may cause a sudden increase in costs and/or limited or unavailable supplies. As a result, we may not be able to acquire key production materials on a timely basis, which could impact our ability to produce products and satisfy incoming sales orders on a timely basis. Our sourcing and materials groups work to implement strategies to monitor and mitigate these risks. Periodically, 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. Over the years, we have been impacted by the factors noted; however, we believe that we have adequate sources of supply for our key materials in the near-term.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Daktronics, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheet of Daktronics, Inc. and subsidiaries (the "Company") as of April 28, 2018, the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows, for the fiscal year ended April 28, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). We also have audited the Company’s internal control over financial reporting as of April 28, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of April 28, 2018, and the results of its operations and its cash flows for the fiscal year ended April 28, 2018, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 28, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

Basis for Opinions

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audit of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP
Minneapolis, Minnesota
June 8, 2018

We have served as the Company's auditor since 2017.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Daktronics, Inc.

We have audited the accompanying consolidated balance sheets of Daktronics, Inc. and subsidiaries (the Company) as of April 29, 2017, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended April 29, 2017. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daktronics, Inc. and subsidiaries at April 29, 2017, and the consolidated results of their operations and their cash flows for each of the two years in the period ended April 29, 2017, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

/s/ Ernst & Young LLP
Minneapolis, Minnesota
June 9, 2017

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

	April 28, 2018	April 29, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$29,727	$32,623
Restricted cash	28	216
Marketable securities	34,522	32,713
Accounts receivable, net	77,387	78,846
Inventories	75,335	66,486
Costs and estimated earnings in excess of billings	30,968	36,403
Current maturities of long-term receivables	1,752	2,274
Prepaid expenses and other assets	9,029	7,553
Income tax receivables	5,385	611
Total current assets	264,133	257,725
Property and equipment, net	68,059	66,749
Long-term receivables, less current maturities	1,641	2,616
Goodwill	8,264	7,812
Intangibles, net	3,682	4,705
Investment in affiliates and other assets	5,091	4,534
Deferred income taxes	7,930	11,292
TOTAL ASSETS	$358,800	$355,433
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$48,845	$51,499
Accrued expenses	27,445	25,033
Warranty obligations	13,891	13,578
Billings in excess of costs and estimated earnings	12,195	10,897
Customer deposits	14,532	14,498
Deferred revenue	12,652	12,137
Current portion of other long-term obligations	1,088	1,409
Income taxes payable	660	1,544
Total current liabilities	131,308	130,595
Long-term warranty obligations	16,062	14,321
Long-term deferred revenue	7,475	5,434
Other long-term obligations	2,285	2,848
Long-term income tax payable	3,440	3,113
Deferred income taxes	614	836
Total long-term liabilities	29,876	26,552
SHAREHOLDERS' EQUITY:		
Common stock, no par value, authorized 120,000,000 shares; 44,779,534 and 44,372,357 shares issued at April 28, 2018 and April 29, 2017, respectively	54,731	52,530

Additional paid-in capital	40,328	38,004
Retained earnings	107,105	113,967
Treasury stock, at cost, 303,957 and 303,957 shares at April 28, 2018 and April 29, 2017, respectively	(1,834)	(1,834)
Accumulated other comprehensive loss	(2,714)	(4,381)
TOTAL SHAREHOLDERS' EQUITY	197,616	198,286
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$358,800	$355,433

See notes to consolidated financial statements.

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

	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
Net sales	$610,530	$586,539	$570,168
Cost of sales	464,861	446,124	449,149
Gross profit	145,669	140,415	121,019
Operating expenses:			
Selling	62,760	61,687	58,812
General and administrative	34,919	34,226	32,801
Product design and development	35,530	29,081	26,911
	133,209	124,994	118,524
Operating income	12,460	15,421	2,495
Nonoperating income (expense):			
Interest income	723	751	987
Interest expense	(217)	(230)	(228)
Other (expense) income, net	(537)	(354)	(128)
Income before income taxes	12,429	15,588	3,126
Income tax expense	6,867	5,246	1,065
Net income	$5,562	$10,342	$2,061
Weighted average shares outstanding:			
Basic	44,457	44,114	43,990
Diluted	44,873	44,303	44,456
Earnings per share:			
Basic	$0.13	$0.23	$0.05
Diluted	$0.12	$0.23	$0.05

See notes to consolidated financial statements.

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DAKTRONICS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
Net income	$ 5,562	$ 10,342	$ 2,061
Other comprehensive income (loss):			
Cumulative translation adjustments	1,808	(1,472)	(529)
Unrealized (loss) gain on available-for-sale securities, net of tax	(141)	(11)	7
Total other comprehensive income (loss), net of tax	1,667	(1,483)	(522)
Comprehensive income	$ 7,229	$ 8,859	$ 1,539

See notes to consolidated financial statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance as of May 2, 2015:	$48,960	$32,693	$132,771	$(9)	$ (2,376)	$212,039
Net income	—	—	2,061	—	—	2,061
Cumulative translation adjustments	—	—	—	—	(529)	(529)
Unrealized (loss) gain on available-for-sale securities, net of tax	—	—	—	—	7	7
Net tax benefit related to share-based compensation	—	3	—	—	—	3
Share-based compensation	—	2,958	—	—	—	2,958
Exercise of stock options	610	—	—	—	—	610
Tax payments related to RSU issuances	—	(303)	—	—	—	(303)
Employee savings plan activity	1,777	—	—	—	—	1,777
Dividends paid ($0.40 per share)	—	—	(17,556)	—	—	(17,556)
Balance as of April 30, 2016:	51,347	35,351	117,276	(9)	(2,898)	201,067
Net income	—	—	10,342	—	—	10,342
Cumulative translation adjustments	—	—	—	—	(1,472)	(1,472)
Unrealized (loss) gain on available-for-sale securities, net of tax	—	—	—	—	(11)	(11)
Share-based compensation	—	2,914	—	—	—	2,914
Exercise of stock options	343	—	—	—	—	343
Tax payments related to RSU issuances	—	(261)	—	—	—	(261)
Employee savings plan activity	840	—	—	—	—	840
Dividends paid ($0.31 per share)	—	—	(13,651)	—	—	(13,651)
Treasury stock purchase	—	—	—	(1,825)	—	(1,825)
Balance as of April 29, 2017:	52,530	38,004	113,967	(1,834)	(4,381)	198,286
Net income	—	—	5,562	—	—	5,562
Cumulative translation adjustments	—	—	—	—	1,808	1,808
Unrealized (loss) gain on available-for-sale securities, net of tax	—	—	—	—	(141)	(141)
Share-based compensation	—	2,635	—	—	—	2,635
Exercise of stock options	519	—	—	—	—	519
Tax payments related to RSU issuances	—	(311)	—	—	—	(311)
Employee savings plan activity	1,682	—	—	—	—	1,682
Dividends paid ($0.28 per share)	—	—	(12,424)	—	—	(12,424)
Balance as of April 28, 2018:	$54,731	$40,328	$107,105	$(1,834)	$ (2,714)	$197,616

See notes to consolidated financial statements

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

	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$5,562	$10,342	$2,061
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,784	18,562	16,943
Impairment of intangible assets	—	830	—
(Gain) loss on sale of property, equipment and other assets	(1,252)	36	(71)
Share-based compensation	2,635	2,914	2,958
Gain on sale of equity investment	—	—	(119)
Equity in loss of affiliate	481	136	—
Provision for doubtful accounts	140	1,426	481
Deferred income taxes, net	3,148	(2,043)	911
Change in operating assets and liabilities	1,863	7,204	(9,881)
Net cash provided by operating activities	30,361	39,407	13,283
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(18,127)	(8,502)	(17,056)
Proceeds from sales of property, equipment and other assets	2,179	199	152
Purchases of marketable securities	(17,438)	(24,159)	(21,286)
Proceeds from sales or maturities of marketable securities	15,273	15,928	21,862
Proceeds from sale of equity investment	—	—	377
Purchases of equity investment	(1,450)	(1,646)	(503)
Acquisitions, net of cash acquired	—	—	(7,364)
Net cash used in investing activities	(19,563)	(18,180)	(23,818)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on notes payable	—	(8)	(38)
Principal payments on long-term obligations	(1,046)	(921)	(467)
Dividends paid	(12,424)	(13,651)	(17,556)
Proceeds from exercise of stock options	519	343	610
Payments for common shares repurchased	—	(1,825)	—
Tax payments related to RSU issuances	(311)	(261)	(303)
Net cash used in financing activities	(13,262)	(16,323)	(17,754)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(620)	(591)	(965)
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(3,084)	4,313	(29,254)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:			
Beginning of period	32,839	28,526	57,780
End of period	$29,755	$32,839	$28,526

See notes to consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business: Daktronics, Inc. and its subsidiaries are engaged principally in the design, market, and manufacture of a wide range of integrated electronic display systems and related products which are sold in a variety of markets throughout the world and the rendering of related maintenance and professional services. Our products are designed primarily to inform and entertain people through the communication of content.

Fiscal year: We operate on a 52- or 53-week fiscal year, with our fiscal year ending on the Saturday closest to April 30 of each year. When April 30 falls on a Wednesday, the fiscal year ends on the preceding Saturday. Within each fiscal year, each quarter is comprised of 13-week periods following the beginning of each fiscal year. In each 53-week year, an additional week is added to the first quarter, and each of the last three quarters is comprised of a 13-week period. The years ended April 28, 2018, April 29, 2017, and April 30, 2016 contained operating results for 52 weeks.

Principles of consolidation: The consolidated financial statements include Daktronics, Inc. and its subsidiaries. All intercompany accounts and transactions are eliminated in consolidation.

Investments in affiliates: Investments in affiliates over which we have significant influence are accounted for under the equity method of accounting. Investments in affiliates over which we do not have the ability to exert significant influence over the affiliate's operating and financing activities are accounted for under the cost method of accounting. We have evaluated our relationships with our affiliates and have determined that these entities are not variable interest entities.

The aggregate amount of investments accounted for under the equity method was $3,647 and $2,678 at April 28, 2018 and April 29, 2017, respectively. The equity method requires us to report our share of losses up to our equity investment amount. Cash paid for investments in affiliates is included in the "Purchases of equity investment" line item in our consolidated statements of cash flows. Our proportional share of the respective affiliate’s earnings or losses is included in the "Other (expense) income, net" line item in our consolidated statements of operations. For the fiscal years ended April 28, 2018 and April 29, 2017, our share of the losses of our affiliates was $481 and $136, respectively.

The aggregate amount of investments accounted for under the cost method was $42 at each of April 28, 2018 and April 29, 2017. There have not been any identified events or changes in circumstances that may have a significant adverse effect on their fair value, and it is not practical to estimate their fair value.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles in the United States ("GAAP") requires us to make estimates and judgments that affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; the reported amounts of revenues and expenses during the reporting period; and our ability to continue as a going concern. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the estimated total costs on long-term construction-type contracts, estimated costs to be incurred for product warranties and income taxes. Estimation processes are also used in inventory valuation, the allowance for doubtful accounts, share-based compensation, goodwill impairment, and extended warranty and product maintenance agreements. Changes in estimates are reflected in the periods in which they become known.

Cash and cash equivalents: All highly liquid investments with maturities of three months or less at the date of purchase are considered to be cash equivalents and consist primarily of government repurchase agreements, savings accounts and money market accounts that are carried at cost, which approximates fair value. We maintain our cash in bank deposit accounts, the balances of which at times may exceed federally insured limits. We have not experienced any losses in such accounts.

Restricted cash: Restricted cash consists of cash and cash equivalents held in bank deposit accounts to secure issuances of foreign bank guarantees.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to total of the same amounts showing in the statement of cash flows.

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	April 28, 2018	April 29, 2017
Cash and cash equivalents	$ 29,727	$ 32,623
Restricted cash	28	216
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 29,755	$ 32,839

Inventories: In accordance with Accounting Standards Codification ("ASC") 330, Inventory, our inventories are stated at the lower of cost (first-in, first-out method) and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. When we estimate net realizable value to be lower than cost, any necessary adjustments are charged to cost of sales in that period. In determining net realizable value, we review various factors such as current inventory levels, forecasted demand, and technological obsolescence.

Allowance for doubtful accounts: We make estimates regarding the collectability of our accounts receivable, long-term receivables, costs and estimated earnings in excess of billings and other receivables. In evaluating the adequacy of our allowance for doubtful accounts, we analyze specific balances, customer creditworthiness, changes in customer payment cycles, and current economic trends. If the financial condition of any customer were to deteriorate, resulting in an impairment of its ability to make payments, additional allowances may be required. We charge off receivables at such time as it is determined collection will not occur in accordance with ASC 310, Receivables.

Revenue recognition: Net sales are reported net of estimated sales returns and discounts and exclude sales taxes. We estimate our sales returns reserve based on historical return rates and analysis of specific accounts. Our sales returns reserve was $39 and $42 at April 28, 2018 and April 29, 2017, respectively.

Long-term construction-type contracts: Earnings on construction-type contracts are recognized on the percentage-of-completion method, measured by the percentage of costs incurred to date to estimated total costs for each contract. Construction-type contracts include uniquely configured combinations of technical design services, equipment specified for the customer design, installation and integration services and other related services. Contract costs include all direct material, manufacturing, project management, engineering labor, subcontracting and indirect costs related to contract design, production, integration, installation, delivery of all performance obligations, and any warranty reserve. Indirect costs include allocated charges for such items as facilities, equipment depreciation, and general overhead. Provisions for estimated losses on uncompleted contracts are made in the period such losses are capable of being estimated. Generally, construction-type contracts we enter into have fixed prices established, and to the extent the actual costs to complete construction-type contracts are higher than the amounts estimated as of the date of the financial statements, the resulting gross margin would be negatively affected in future quarters when we revise our estimates. Our policy and practice is to revise estimates as soon as such changes in estimates are known. We combine contracts for accounting purposes when they are negotiated as a package with an overall profit margin objective, essentially represent an agreement to do a single project for a customer, involve interrelated construction activities, and are performed concurrently or sequentially. When we combine a group of contracts, revenue and profit are recognized uniformly over the performance of the combined projects. We segment revenues in accordance with the contract segmenting criteria in ASC 605-35, Construction-Type and Production-Type Contracts. Approximately 60.8 percent, 58.1 percent, and 59.7 percent of our fiscal 2018, 2017, and 2016 revenues were recorded under this method of accounting.

Equipment contracts: In accordance with ASC 605, Revenue Recognition, we recognize revenue on standard equipment and replacement part orders when title passes and the related installation services are substantially complete. We recognize the revenue only if the terms of the arrangement are fixed and determinable and collectability is reasonably assured. We record estimated sales returns and discounts as a reduction of net sales in the same period revenue is recognized. Approximately 31.1 percent, 34.0 percent, and 33.0 percent of our fiscal 2018, 2017, and 2016 revenues were recorded under this method of accounting.

Extended warranty and product maintenance: In accordance with ASC 605, Revenue Recognition, we recognize deferred revenue related to separately priced extended warranty and product maintenance agreements. The deferred revenue is recognized ratably over the contractual term, which vary up to 10 years. If we would become aware of an increase in our estimated costs under these agreements in excess of our deferred revenue, additional charges may be necessary, resulting in an increase in cost of sales. In determining if additional charges are necessary, we examine cost trends on the contracts and other information and compare them to the deferred revenue. We do not believe there is a reasonable likelihood there will be a material change in the future estimates or assumptions we use to determine estimated costs under these agreements. As of April 28, 2018 and April 29, 2017, we had $20,127 and $17,571 of deferred revenue related to separately priced extended warranty and product maintenance agreements, respectively.

Services: Revenues generated by us for services, such as event support, control room upgrades, content creation, on-site training, equipment service, and technical support sold after the completion of an initial long-term construction-type contract or equipment contract or that are considered a separate unit of accounting under these types of sales, are recognized as net sales when the services are performed in accordance with ASC 605, Revenue Recognition. Net sales from services, extended warranty and product maintenance was approximately 8.0 percent, 7.8 percent and 7.3 percent for fiscal 2018, 2017, and 2016, respectively.

Software: We follow ASC 985-605, Software-Revenue Recognition. Revenues from software license fees on sales, other than construction-type contracts, are recognized when persuasive evidence of an arrangement exists, delivery of the product has occurred, the fee is fixed or determinable, and collectability is probable. Subscription-based licenses include the right for a customer to use our licenses and receive related support for a specified term and revenue is recognized ratably over the term of the arrangement.
Multiple-element arrangements: We often contract some or all equipment and services to our customers under the terms of a bundled multiple-element sales arrangement. We also contract to deliver multiple pieces of equipment over time rather than at a single point in time.

When a sales arrangement involves multiple elements, the items included in the arrangement (deliverables) are evaluated pursuant to ASC 605-25, Revenue Arrangements with Multiple Deliverables, and ASC 605-35, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, to determine whether they represent separate units of accounting. We perform this evaluation at the inception of an arrangement and as we deliver each item in the arrangement. We first consider the separation criteria of ASC 605-35. Deliverables not within the scope of ASC 605-35 are evaluated for separation under ASC 605-25. For those elements falling under the guidance of ASC 605-25, we generally account for a deliverable (or a group of deliverables) separately if the delivered item(s) has standalone value to the customer and if we have given the customer a general right of return relative to the delivered item(s) and delivery or performance of the undelivered item(s) or service(s) is probable and substantially in our control.

When items included in a multiple-element arrangement represent separate units of accounting, we allocate the arrangement consideration to the individual items based on their relative fair values. The amount of arrangement consideration allocated to the delivered item(s) is limited to the amount not contingent on us delivering additional products or services. Once we have determined the amount, if any, of arrangement consideration allocable to the delivered item(s), we apply the applicable revenue recognition policy to determine when and by which method such amount may be recognized as revenue.

We generally determine if objective and reliable evidence of fair value for the items included in a multiple-element arrangement exists based on whether we have vendor-specific objective evidence ("VSOE") of the price for which we sell an item on a standalone basis. If we do not have VSOE for the item, we will use the price charged by a competitor selling a comparable product or service on a standalone basis to similarly situated customers, if available. If neither VSOE nor third party evidence is available, we use our best estimate of the selling price for that deliverable.

Long-term receivables and advertising rights: We occasionally sell and install our products at facilities in exchange for the rights to sell or to retain future advertising revenues. For these transactions, we recognize revenue equal to the amount of the present value of the future advertising payments if enough advertising is sold to obtain normal margins on the contract, and we record the related receivable in long-term receivables. We recognize imputed interest as earned.

Property and equipment: In accordance with ASC 360, Property, Plant, and Equipment, Property and equipment is stated at cost and depreciated principally on the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	5 - 40
Machinery and equipment	5 - 7
Office furniture and equipment	3 - 5

Computer software and hardware	3 - 5
Equipment held for rental	2 - 7
Demonstration equipment	3 - 5
Transportation equipment	5 - 7

Leasehold improvements are depreciated over the lesser of the useful life of the asset or the term of the lease.

Impairment of Long-Lived Assets: In accordance with ASC 360, Property, Plant, and Equipment, we assess long-lived tangible assets and definite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying value of the asset,

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we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value. We recognize an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining useful life of that asset.

Our impairment loss calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including forecasting useful lives of the assets and selecting the discount rate that reflects the risk inherent in future cash flows.

During fiscal 2017, we recognized an impairment loss of $830 on intangible assets related to a technology and customer list. No intangible asset impairment was recognized for fiscal 2018. See "Note 6. Goodwill and Intangible Assets" for further information.

Goodwill and Other Intangible Assets: We account for goodwill and other intangible assets with indefinite lives in accordance with ASC 350, Goodwill and Other. Under these provisions, goodwill is not amortized but is tested for impairment on at least an annual basis. Impairment testing is required more often than annually if an event or circumstance indicates an impairment or a decline in value may have occurred. Such circumstances could include, but are not limited to, a worsening trend of orders and sales without a corresponding way to preserve future cash flows or a significant decline in our stock price. In conducting our impairment testing, we compare the fair value of each of our business units (reporting unit) to the related carrying value. If the fair value of a reporting unit exceeds its carrying value, goodwill is not impaired. If the carrying value of a reporting unit exceeds its fair value, an impairment loss is measured and recognized.

We utilize an income approach to estimate the fair value of each reporting unit. We selected this method because we believe it most appropriately measures our income producing assets. We considered using the market approach and cost approach, but concluded they were not appropriate in valuing our reporting units given the lack of relevant and available market comparisons. The income approach is based on the projected cash flows, which are discounted to their present value using discount rates which consider the timing and risk of the forecasted cash flows. We believe that this approach is appropriate because it provides a fair value estimate based upon the reporting unit's expected long-term operating cash performance. This approach also mitigates the impact of the cyclical trends occurring in the industry. Fair value is estimated using internally-developed forecasts and assumptions. The discount rate used is the average estimated value of a market participant's cost of capital and debt, derived using customary market metrics. Other significant assumptions include terminal value margin rates, future capital expenditures, and changes in future working capital requirements. We also compare and reconcile our overall fair value to our market capitalization. Although there are inherent uncertainties related to the assumptions used and to our application of these assumptions to this analysis, we believe the income approach provides a reasonable estimate of the fair value of our reporting units. The foregoing assumptions to a large degree were consistent with our long-term performance, with limited exceptions. We believe our future investments for capital expenditures as a percent of revenue will remain similar to the historical rates as a percentage of sales in future years. Our investments are expected to relate to equipment replacements and new product line manufacturing equipment needs, and to keep our information technology infrastructure robust. These assumptions could deviate materially from actual results.

Software costs to be sold, leased, or marketed: We follow the provisions of ASC 985, Software, which states software development costs are expensed as incurred until technological feasibility has been established. At such time, such costs are capitalized until the product is made available for release to customers. Additionally, costs incurred after release to customers are expensed as research and development expenses. As of April 28, 2018 and April 29, 2017, capitalized software to be sold, leased, or otherwise marketed had a net book value of $869 and $1,759, respectively.

Foreign currency translation: We follow the provisions of ASC 830, Foreign Currency Matters. Our foreign subsidiaries use the local currency of their respective countries as their functional currency. The assets and liabilities of foreign operations are generally translated at the exchange rates in effect at the balance sheet date. The operating results of foreign operations are translated at weighted average exchange rates. The related translation gains or losses are reported as a separate component of shareholders' equity in accumulated other comprehensive loss.

Income taxes: We account for income taxes in accordance with ASC 740, Income Taxes. We record a tax provision for anticipated tax consequences of the reported results of operations. Deferred tax assets and liabilities are measured using currently enacted tax rates that apply to taxable income in effect for the years in which those deferred tax assets and liabilities are expected to be realized or settled. These assets and liabilities are analyzed regularly, and we assess the likelihood that deferred tax assets will be recoverable from future taxable income. A valuation allowance is established if it is more likely than not the deferred tax asset will not be realized.

In addition, because we operate in multiple income tax jurisdictions both within the United States and internationally, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution

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of these uncertainties in a manner inconsistent with our expectations could have a material impact on our financial condition and operating results. See "Note 14. Income Taxes" for further information.

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

Product design and development: We follow the provisions of ASC 730, Research and Development, which states all expenses related to product design and development are charged to operations as incurred. Our product design and development activities include the enhancement of existing products and technologies and the development of new products and technologies.

Advertising costs: In accordance with ASC 720-35, Advertising Costs, we expense advertising costs as incurred. Advertising expenses were $2,855, $2,125 and $2,209 for the fiscal years 2018, 2017 and 2016, respectively.

Shipping and handling costs: In accordance with ASC 605-45, Shipping and Handling Fees and Costs, shipping and handling costs collected from our customers in connection with our sales are recorded as revenue. We record shipping and handling costs as a component of cost of sales at the time the product is shipped.

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

The following is a reconciliation of the net income and common share amounts used in the calculation of basic and diluted EPS for the fiscal years ended 2018, 2017 and 2016:

	Net income	Shares	Per share income
For the year ended April 28, 2018:			
Basic earnings per share	$5,562	44,457	$0.13
Dilution associated with stock compensation plans	—	416	(0.01)
Diluted earnings per share	$5,562	44,873	$0.12
For the year ended April 29, 2017:			
Basic earnings per share	$10,342	44,114	$0.23
Dilution associated with stock compensation plans	—	189	—
Diluted earnings per share	$10,342	44,303	$0.23
For the year ended April 30, 2016:			
Basic earnings per share	$2,061	43,990	$0.05
Dilution associated with stock compensation plans	—	466	—
Diluted earnings per share	$2,061	44,456	$0.05

Options outstanding to purchase 1,548, 2,112 and 2,122 shares of common stock with a weighted average exercise price of $11.69, $13.30 and $15.04 for the fiscal years ended April 28, 2018, April 29, 2017 and April 30, 2016, respectively, were not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

Share-based compensation: We account for share-based compensation in accordance with ASC 718, Compensation-Stock Compensation. Under the fair value recognition provisions of ASC 718, we measure share-based compensation cost at the grant date based on the fair value of the award and recognize the compensation expense over the requisite service period, which is the vesting period. See "Note 12. Shareholders' Equity and Share-Based Compensation" for additional information and the assumptions we use to calculate the fair value of share-based employee compensation.

Recent Accounting Pronouncements

Accounting Standards Adopted

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In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments, which reduces the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. We early adopted ASU 2016-15 during the second quarter of fiscal 2018. Adoption of ASU 2016-15 did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash, which requires that the statements of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. Accordingly, restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on the statements of cash flows. We early adopted ASU 2016-18 during the second quarter of fiscal 2018 and applied its provisions retrospectively. Other than the change in presentation within the statements of cash flows, the adoption of ASU 2016-18 did not have an impact on our consolidated financial statements.

New Accounting Standards Not Yet Adopted

In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate under the U.S. Tax Cuts and Jobs Act (the "Tax Act"). ASU 2018-02 is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect that adopting ASU 2018-02 will have on our consolidated financial statements and related disclosures.

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

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) Intra-Entity Transfers of Assets Other than Inventory, which is intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party, which is an exception to the principle of comprehensive recognition of current and deferred income taxes in GAAP. This update eliminates the exception by requiring entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. We will adopt ASU 2016-16 and related guidance during the first quarter of fiscal 2019 and apply its provisions on a modified retrospective basis. We are currently evaluating the effect that adopting ASU 2016-16 will have on our consolidated financial statements and related disclosures.

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (that is, lessees and lessors). ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of their classification. ASU 2016-02 requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted and will require adoption on a modified retrospective basis. We are currently evaluating the effect that adopting ASU 2016-02 will have on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Subsequently, the FASB also issued ASUs 2016-08, 2016-10, 2016-12, and 2016-20 to give further guidance to revenue recognition matters. ASU 2014-09 and related guidance supersedes revenue recognition requirements under FASB ASC Topic 605 and related industry specific revenue recognition guidance. This new standard defines a comprehensive revenue recognition model, requiring a company to recognize revenue from the transfer of goods or services to customers in an amount that reflects the consideration that the entity expects to receive in exchange for those goods or services. It defines a five-step process to achieve this core principle and allows companies to use more judgment and make more estimates than under current guidance and requires additional disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the customer contracts. It provides guidance on transition requirements.

We will adopt ASU 2014-09 and related guidance under the modified retrospective method during the first quarter of fiscal 2019. We have completed our evaluation of our revenue arrangements under the new standard and have assessed that the adoption will not materially change the timing or amount of revenue recognized, based upon our current assessment of "point in time" and "over time" revenue recognition. No adjustment to beginning retained earnings will be recorded upon adoption. We will make additional disclosures related to revenue from contracts with customers as required by the new standard upon adoption.

Note 2. Segment Reporting

We have organized our business into five segments which meet the definition of reportable segments under ASC 280-10, Segment Reporting: Commercial, Live Events, High School Park and Recreation, Transportation, and International. These segments are based on the customer type or geography and are the same as our business units.

Our Commercial business unit primarily consists of sales of our integrated video display systems, digital billboards, Galaxy® and Fuelight™ product lines, and dynamic messaging systems to resellers (primarily sign companies), out-of-home ("OOH") companies, national retailers, quick-serve restaurants, casinos, commercial building owners, and petroleum retailers. Our Live Events business unit primarily consists of sales of integrated scoring and video display systems to college and professional sports facilities and convention centers and sales of our mobile display technology to video rental organizations and other live events type venues. Our High School Park and Recreation business unit primarily consists of sales of scoring systems, Galaxy® displays and video display systems to primary and secondary education facilities and resellers (primarily sign companies). Our Transportation business unit primarily consists of sales of intelligent transportation system dynamic messaging signs for road management, mass transit, and aviation applications and other electronic signage for advertising and way-finding needs, which includes our Vanguard® and Galaxy® product lines and other intelligent transportation systems dynamic message signs, to governmental transportation departments, transportation industry contractors, airlines and other transportation related customers. Our International business unit consists of sales of all product lines outside the United States and Canada. In our International business unit, we focus on product lines related to integrated scoring and video display systems for sports and commercial applications, OOH advertising products, architectural lighting, and transportation related products to the related type of company, including sports and commercial business facilities, OOH companies, and governmental transportation agencies.

We evaluate segment performance based on operating results through contribution margin, which is comprised of gross profit less selling expense. Gross profit is net sales less cost of sales. Cost of sales consists primarily of inventory and components, consumables, salaries, other employee-related costs, facilities-related costs for manufacturing locations, machinery and equipment maintenance and depreciation, site sub-contractors, warranty costs, enterprise resource and service management systems, inventory obsolescence and write-downs, inventory procurement and handling costs, and other manufacturing, installation, and service delivery expenses. Selling expenses consist primarily of salaries, other employee-related costs, travel and entertainment expenses, facilities-related costs for sales and service offices, bad debt expenses, third-party commissions and expenditures for marketing efforts, including the costs of collateral materials, conventions and trade shows, product demonstrations, customer relationship management systems, and supplies. Contribution margin excludes general and administration expense, product design and development expense, non-operating income and expense and income tax expense. Assets are not allocated to the segments. Depreciation and amortization are allocated to each segment based on various financial measures; however, some depreciation and amortization are corporate in nature and remain unallocated. Our segments follow the same accounting policies as those described in "Note 1. Nature of Business and Summary of Significant Accounting Policies." Some expenses or services are not directly allocable to a sale or segment or the resources and related expenses are shared across business segment areas. These expenses are allocated using estimates and allocation methodologies based on some financial measures and professional judgment. Shared or unabsorbed manufacturing costs are allocated to the business unit benefiting most from that manufacturing location's production capabilities. Shared or unabsorbed costs of domestic field sales and services infrastructure, including most field administrative staff, are allocated to the Commercial, Live Events, High School Park and Recreation, and Transportation business units based on cost of sales. Shared manufacturing, buildings and utilities, and procurement costs are allocated based on payroll dollars, square footage and various other financial measures.

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

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

	Year Ended April 28, 2018	April 29, 2017	April 30, 2016
Net sales:			
Commercial	$134,535	$148,073	$148,261
Live Events	236,333	213,982	205,151
High School Park and Recreation	87,627	82,798	70,035
Transportation	59,578	52,426	52,249
International	92,457	89,260	94,472
	610,530	586,539	570,168
Gross profit:			
Commercial	$26,665	$36,514	$29,147
Live Events	49,755	40,810	36,568
High School Park and Recreation	29,317	26,388	20,624
Transportation	21,247	18,027	16,572
International	18,685	18,676	18,108
	145,669	140,415	121,019
Contribution margin: (1)			
Commercial	7,986	18,046	13,210
Live Events	35,439	27,750	23,178
High School Park and Recreation	18,317	16,114	10,314
Transportation	17,048	13,465	12,466
International	4,119	3,353	3,039
	82,909	78,728	62,207
Non-allocated operating expenses:			
General and administrative	34,919	34,226	32,801
Product design and development	35,530	29,081	26,911
Operating income	12,460	15,421	2,495
Nonoperating income (expense):			
Interest income	723	751	987
Interest expense	(217)	(230)	(228)
Other (expense) income, net	(537)	(354)	(128)
Income before income taxes	12,429	15,588	3,126
Income tax expense	6,867	5,246	1,065
Net income	$5,562	$10,342	$2,061
Depreciation, amortization and impairment:			
Commercial	$6,199	$6,337	$4,925
Live Events	4,783	5,032	4,970
High School Park and Recreation	1,646	1,725	1,722
Transportation	1,138	1,267	1,364

International	1,163	2,317	1,227
Unallocated corporate depreciation	2,855	2,714	2,735
	$17,784	$19,392	$16,943

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

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

	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
Net sales:			
United States	$502,701	$486,573	$465,598
Outside United States	107,829	99,966	104,570
	$610,530	$586,539	$570,168
Property and equipment, net of accumulated depreciation:			
United States	$61,206	$62,425	$68,233
Outside United States	6,853	4,324	4,930
	$68,059	$66,749	$73,163

We have numerous customers worldwide for sales of our products and services, and no customers accounted for 10% or more of net sales; therefore, we are not economically dependent on a limited number of customers for the sale of our products and services except with respect to our dependence on two major digital billboard customers in our Commercial business unit.

We have numerous raw material and component suppliers, and no supplier accounts for 10% or more of our cost of sales; however, we have a number of single-source suppliers that could limit our supply or cause delays in obtaining raw material and components needed in manufacturing.

Note 3. Marketable Securities

We have a cash management program which provides for the investment of cash balances not used in current operations. We classify our investments in marketable securities as available-for-sale in accordance with the provisions of ASC 320, Investments – Debt and Equity Securities. Marketable securities classified as available-for-sale are reported at fair value with unrealized gains or losses, net of tax, reported in accumulated other comprehensive loss on the balance sheet. As it relates to fixed income marketable securities, it is not likely we will be required to sell any of these investments before recovery of the entire amortized cost basis. In addition, as of April 28, 2018, we anticipate we will recover the entire amortized cost basis of such fixed income securities, and we have determined no other-than-temporary impairments associated with credit losses were required to be recognized. The cost of securities sold is based on the specific identification method. Where quoted market prices are not available, we use the market price of similar types of securities traded in the market to estimate fair value.

As of April 28, 2018 and April 29, 2017, our available-for-sale securities consisted of the following:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Balance as of April 28, 2018:				
Certificates of deposit	$ 8,669	$ —	$ —	$8,669
U.S. Government securities	999	—	(7)	992
U.S. Government sponsored entities	20,072	—	(123)	19,949
Municipal bonds	4,936	—	(24)	4,912
	$ 34,676	$ —	$ (154)	$34,522
Balance as of April 29, 2017:				
Certificates of deposit	$ 12,487	$ —	$ —	$12,487

U.S. Government securities	400	—	—	400
U.S. Government sponsored entities	12,260	—	(22)	12,238
Municipal bonds	7,574	14	—	7,588
	$ 32,721	$ 14	$ (22)	$32,713

Realized gains or losses on investments are recorded in our consolidated statements of operations as Other (expense) income, net. Upon the sale of a security classified as available-for-sale, the security's specific unrealized gain (loss) is reclassified out of accumulated other comprehensive loss into earnings based on the specific identification method. In the fiscal years ended April 28, 2018 and April 29, 2017, the reclassifications from accumulated other comprehensive loss to net earnings were immaterial.

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All available-for-sale securities are classified as current assets, as they are readily available to support our current operating needs. The contractual maturities of available-for-sale debt securities as of April 28, 2018 were as follows:

	Less than 12 months	1-5 Years	Total
Certificates of deposit	$5,205	$3,464	$8,669
U.S. Government securities	—	992	992
U.S. Government sponsored entities	11,355	8,594	19,949
Municipal bonds	3,248	1,664	4,912
	$19,808	$14,714	$34,522

Note 4. Business Combinations

ADFLOW Acquisition

We acquired 100 percent ownership in ADFLOW Networks, Inc. ("ADFLOW"), a Canadian company, on March 15, 2016 for an undisclosed amount. The results of its operations and its assets and liabilities have been included in our consolidated financial statements since the date of acquisition. We have not made pro forma disclosures because the results of its operations are not material to our consolidated financial statements.

The purchase price included deferred payments of $1,833 to be made over three years unless certain conditions in the business are not met. We have included the payment obligation in other long-term obligations in our consolidated balance sheets. The fair value of such contingent consideration is estimated as of the acquisition date, and subsequently at the end of each reporting period, using forecasted cash flows. Projecting future cash flows requires us to make significant estimates and assumptions regarding future events, conditions, or revenues being achieved under the subject contingent agreement as well as the appropriate discount rate. Such valuation techniques include one or more significant inputs that are not observable. See "Note 16. Fair Value Measurement" for more information.

Note 5. Sale of Non-Digital Division Assets

In fiscal 2018, we sold our non-digital division assets, primarily consisting of inventory, non-digital manufacturing equipment, patented and unpatented technology and know-how, customer lists, and backlog, net of warranty obligations and accounts payable with a net book value of $517. We recorded a gain of $1,267 on the disposal, which is included in cost of sales in the International business unit.

During fiscal 2017, we recognized an impairment loss of $830 on intangible assets related to the technology and customer list. See "Note 6. Goodwill and Intangible Assets" for further information.

Note 6. Goodwill and Intangible Assets

We account for goodwill and intangible assets in accordance with ASC 350, Goodwill and Other Intangible Assets.

Goodwill

The changes in the carrying amount of goodwill related to each reportable segment for the fiscal year ended April 28, 2018 were as follows:

	Commercial	Transportation	International	Total

	Live Events				
Balance as of April 29, 2017:	$2,274	$ 3,199	$ 45	$ 2,294	$7,812
Foreign currency translation	21	145	22	264	452
Balance as of April 28, 2018:	$2,295	$ 3,344	$ 67	$ 2,558	$8,264

We perform an analysis of goodwill on an annual basis, and it is tested for impairment more frequently if events or changes in circumstances indicate that an asset might be impaired. We perform our annual analysis during our third quarter of each fiscal year, based on the goodwill amount as of the first business day of our third fiscal quarter. The result of the analysis indicated no goodwill impairment existed for fiscal years 2018, 2017, and 2016.

In conducting our impairment testing, we compare the fair value of each of our business units to the related carrying value of the allocated assets. We utilize the income approach based on discounted projected cash flows to estimate the fair value of each unit. The projected cash flows use many estimates including market conditions, expected market demand and our ability to grow or maintain market share,

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gross profit, and expected expenditures for capital and operating expenses. Assets shared or not directly attributed to a reportable segment's activities are allocated to the reportable segment based on sales and other measures.

Intangible Assets

The following table summarizes intangible assets, net, as of April 28, 2018 and April 29, 2017:

	April 28, 2018				
	Weighted Average Life (in years)	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Registered trademarks	20.0	$ 709	$ 118	$ —	$ 591
Software	3.0	2,978	2,109	—	869
Customer relationships	10.0	2,859	637	—	2,222
Other	1.0	100	100	—	—
Total amortized intangible assets	7.8	$ 6,646	$ 2,964	$ —	$ 3,682

	April 29, 2017				
	Weighted Average Life (in years)	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Registered trademarks	20.0	$ 1,604	$ 429	$ 604	$ 571
Software	3.0	2,814	1,055	—	1,759
Customer relationships	9.7	3,209	608	226	2,375
Other	1.0	95	95	—	—
Total amortized intangible assets	9.3	$ 7,722	$ 2,187	$ 830	$ 4,705

During fiscal 2017, we chose to transition out of the non-digital market in our International business unit. We identified certain technology and customer lists with carrying values deemed to not be recoverable. Based on this evaluation, we recognized an impairment loss of $830 for non-digital related technology and customer list intangible assets. This was included in cost of sales and selling expense in the consolidated statement of operations. The impairment loss was calculated based on expected future cash flows using level 3 inputs. The level 3 inputs included weighted average estimated future cash flows from non-digital product sales and estimated selling value of non-digital intellectual property. See "Note 5. Sale of Non-Digital Division Assets" for more information.

In the fiscal years 2018, 2017, and 2016, amortization expense including impairment related to intangible assets was $1,330, $2,546, and $295, respectively. Amortization expenses are included primarily in product design and development and selling expense in the consolidated statement of operations.

As of April 28, 2018, amortization expenses for future periods were estimated to be as follows:

Fiscal years ending	Amount
2019	$ 1,200
2020	331
2021	328
2022	303
2023	303
Thereafter	1,217
Total expected amortization expense	$ 3,682

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Note 7. Selected Financial Statement Data

Inventories consisted of the following:

	April 28, 2018	April 29, 2017
Raw materials	$ 30,570	$ 24,801
Work-in-process	8,645	7,366
Finished goods	36,120	34,319
	$ 75,335	$ 66,486

Property and equipment, net consisted of the following:

	April 28, 2018	April 29, 2017
Land	$ 2,161	$ 2,099
Buildings	67,773	65,935
Machinery and equipment	93,439	84,189
Office furniture and equipment	5,878	5,604
Computer software and hardware	53,004	51,523
Equipment held for rental	287	374
Demonstration equipment	7,035	7,109
Transportation equipment	7,632	7,108
	237,209	223,941
Less accumulated depreciation	169,150	157,192
	$ 68,059	$ 66,749

Our depreciation expense was $16,273, $16,732, and $16,561 for the fiscal years 2018, 2017, and 2016, respectively.

In the fiscal years 2018, 2017, and 2016, the pretax impairment charges for property and equipment were immaterial. The impairment charges were related to equipment obsoleted due to technology improvements or to custom demonstration equipment with no resale value. These impairment charges were included primarily in product design and development and selling expense in the consolidated statements of operations.

Accrued expenses consisted of the following:

	April 28, 2018	April 29, 2017
Compensation	$ 12,841	$ 12,732
Taxes, other than income taxes	2,907	3,878
Accrued employee benefits	2,829	2,916
Short-term accrued expenses	6,157	5,357
Claims liabilities	2,711	150
	$ 27,445	$ 25,033

Other (expense) income, net consisted of the following:

	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
Foreign currency transaction gains (losses)	$ 29	$ (331)	$ (326)
Equity in losses of affiliates	(481)	(136)	—

Other	(85)	113	198
	$(537)	$ (354)	$ (128)

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Note 8. Uncompleted Contracts

Uncompleted contracts consisted of the following:

	April 28, 2018	April 29, 2017
Costs incurred	$524,453	$508,993
Estimated earnings	168,731	161,611
	693,184	670,604
Less billings to date	674,411	645,098
	$18,773	$25,506

Uncompleted contracts are included in the accompanying consolidated balance sheets as follows:

	April 28, 2018	April 29, 2017
Costs and estimated earnings in excess of billings	$30,968	$36,403
Billings in excess of costs and estimated earnings	(12,195)	(10,897)
	$18,773	$25,506

Note 9. Receivables

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

Accounts receivable are reported net of an allowance for doubtful accounts of $2,151 and $2,610 at April 28, 2018 and April 29, 2017, respectively. Included in accounts receivable as of April 28, 2018 and April 29, 2017 was $964 and $1,857, respectively, of retainage on construction-type contracts, all of which is expected to be collected within one year.

In connection with certain sales transactions, we have entered into sales contracts with installment payments exceeding 12 months and sales-type leases. The present value of these contracts and leases are recorded as a receivable as the revenue is recognized in accordance with GAAP, and profit is recognized to the extent the present value is in excess of cost. We generally retain a security interest in the equipment or in the cash flow generated by the equipment until the contract is paid. The present value of long-term contracts and lease receivables, including accrued interest and current maturities, was $3,393 and $4,890 as of April 28, 2018 and April 29, 2017, respectively. Contract and lease receivables bearing annual interest rates of 4.8 to 10.0 percent are due in varying annual installments through 2024. The face amount of long-term receivables was $3,733 as of April 28, 2018 and $5,201 as of April 29, 2017, respectively.

Note 10. Financing Agreements

On November 15, 2016, we entered into a credit agreement and a related revolving note with a U.S. bank. The agreement and note have a maturity date of November 15, 2019. The revolving amount of the agreement and note is $35,000, including up to $15,000 for commercial and standby letters of credits. The interest rate ranges from LIBOR plus 145 basis points to LIBOR plus 195 basis points depending on the ratio of our interest-bearing debt to EBITDA. EBITDA is defined as net income before deductions for interest expense, income taxes, depreciation and amortization, all as determined in accordance with GAAP. The effective interest rate was 3.4 percent at April 28,

2018. We are assessed a loan fee equal to 0.125 percent per annum on any unused portion of the loan. As of April 28, 2018, there were no advances to us under the loan portion of the line of credit, and the balance of letters of credit outstanding was approximately $6,495.

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

- A minimum fixed charge coverage ratio of at least 2 to 1 at the end of any fiscal year. The ratio is equal to (a) EBITDA minus the sum of dividends or other distributions (unless the bank approves), share repurchases, a maintenance capital expenditure reserve in the amount of $6,000, and income tax to (b) all principal and interest payments with respect to indebtedness, excluding principal payments on the line of credit; and
- A ratio of funded debt, excluding any marketing obligations, to EBITDA of less than 1 to 1 at the end of any fiscal quarter.

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On November 15, 2016, we entered into an amended and restated loan agreement and a continuing and unlimited guaranty agreement with another U.S. bank which supports our credit needs outside of the United States. The loan and guaranty have a maturity date of November 15, 2019. The revolving amount of the loan is $20,000. We intend to use the borrowings under the agreement to support credit needs for general corporate purposes outside the United States. This credit agreement is unsecured. It contains the same covenants as the credit agreement on the line of credit and contains an inter creditor agreement whereby the debt has a cross default provision with the primary credit agreement. Total credit allowed between the two credit agreements is limited to $55,000. The interest rate is equal to LIBOR plus 1.5 percent. As of April 28, 2018, there were no advances outstanding under the loan agreement and approximately $1,211 in bank guarantees under this line of credit.

As of April 28, 2018, we were in compliance with all applicable bank loan covenants.

Note 11. Share Repurchase Program

On June 17, 2016, our Board of Directors approved a stock repurchase program under which Daktronics, Inc. may purchase up to $40,000 of its outstanding shares of common stock. Under this program, we may repurchase shares from time to time in open market transactions and in privately negotiated transactions based on business, market, applicable legal requirements and other considerations. The repurchase program does not require the repurchase of a specific number of shares and may be terminated at any time. During fiscal 2018, we had no repurchases of shares of our outstanding common stock. During fiscal 2017, we repurchased 284 shares of common stock at a total cost of $1,825. As of April 28, 2018, we had $38,175 of remaining capacity under our current share repurchase program.

Note 12. Shareholders' Equity and Share-Based Compensation

Common stock: Our 120,000 authorized shares consist of 115,000 shares of common stock and 5,000 shares of "undesignated stock." Our Board of Directors has the power to authorize and issue any or all of the shares of undesignated stock without shareholder approval, including the authority to establish the rights and preferences of the undesignated stock.

Each outstanding share of our common stock includes one common share purchase right. Each right entitles the registered holder to purchase from us one-tenth of one share of common stock at a price of $100 per common share, subject to adjustment and the terms of the shareholder rights agreement under which the dividend was declared and paid. The rights become exercisable immediately after the earlier of (i) 10 business days following a public announcement that a person or group has acquired beneficial ownership of 15 percent or more of our outstanding common shares (subject to certain exclusions) or (ii) 10 business days following the commencement or announcement of an intention to make a tender offer or exchange offer for our common shares, the consummation of which would result in the beneficial ownership by a person or group of 15 percent or more of our outstanding common shares. The rights expire on November 19, 2018, which date may be extended by our Board of Directors subject to certain additional conditions.

Stock incentive plans: During fiscal 2016, we established the 2015 Stock Incentive Plan ("2015 Plan") and ceased granting options under the 2007 Stock Incentive Plan ("2007 Plan"). The 2015 Plan provides for the issuance of stock-based awards, including stock options, restricted stock, restricted stock units and deferred stock, to employees, directors and consultants. Stock options issued to employees under the plans generally have a 10-year life, an exercise price equal to the fair market value on the grant date and a five-year annual vesting period. Stock options granted to independent directors under these plans have a seven-year life and an exercise price equal to the fair market value on the date of grant. Stock options granted to independent directors vest in one year. The restricted stock granted to independent directors vests in one year, provided that the directors remain on the Board. Restricted stock units are granted to employees and have a five-year annual vesting period. As with stock options, restricted stock and restricted stock unit ownership cannot be transferred during the vesting period.

At April 28, 2018, the aggregate number of shares available for future grant under the 2015 Plan for stock options and restricted stock awards was 1,870 shares. Shares of common stock subject to all stock awards granted under the 2015 Plan are counted as one share of stock for each share of stock subject to the award. Although the 2007 Plan remains in effect for options outstanding, no new options can be granted under this plan.

Restricted stock and restricted stock units: We issue restricted stock to our non-employee directors and restricted stock units to employees. Restricted stock issued to non-employee directors are participating securities and receive dividends prior to vesting. Unvested restricted stock will terminate and be forfeited upon termination of employment or service. The fair value of restricted stock and our restricted stock unit awards are measured on the grant date based on the market value of our common stock. The related compensation expense as calculated under ASC 718, net of estimated forfeitures, is recognized over the applicable vesting period. Unrecognized compensation expense related to the restricted stock and restricted stock unit awards was approximately $1,226 at April 28, 2018, which is expected to be recognized over a weighted-average period of 2.8 years. The total fair value of restricted stock vested was $1,274, $1,214, and $1,191 for fiscal years 2018, 2017, and 2016, respectively.

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A summary of nonvested restricted stock and restricted stock units for fiscal years 2018, 2017, and 2016 is as follows:

	Year Ended					
	April 28, 2018		April 29, 2017		April 30, 2016	
	Number of Nonvested Shares	Weighted Average Grant Date Fair Value Per Share	Number of Nonvested Shares	Weighted Average Grant Date Fair Value Per Share	Number of Nonvested Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of year	402	$ 8.69	384	$ 9.10	344	$ 10.63
Granted	178	8.46	157	8.00	159	7.04
Vested	(141)	9.06	(134)	9.03	(110)	10.76
Forfeited	(2)	8.93	(5)	8.98	(9)	10.69
Outstanding at end of year	437	$ 8.48	402	$ 8.69	384	$ 9.10

Stock Options: We issue incentive stock options to our employees and non-qualified stock options to our independent directors. A summary of stock option activity under all stock option plans during the fiscal year ended April 28, 2018 is as follows:

	Stock Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at April 29, 2017	2,481	$ 11.15	4.53	$ 768
Granted	169	9.63	—	—
Canceled or forfeited	(287)	19.78	—	—
Exercised	(58)	8.91	—	65
Outstanding at April 28, 2018	2,305	$ 10.02	4.51	$ 356
Shares vested and expected to vest	2,282	$ 10.02	4.47	$ 354
Exercisable at April 28, 2018	1,788	$ 10.04	3.50	$ 304

The aggregate intrinsic value of stock options represents the difference between the exercise price of stock options and the fair market value of the underlying common stock for all in-the-money options. We define in-the-money options at April 28, 2018 as options having exercise prices lower than the $9.01 per share market price of our common stock on that date. There were in-the-money options to purchase 594 shares exercisable at April 28, 2018. The total intrinsic value of options exercised during fiscal years 2018, 2017, and 2016 was $65, $64, and $132, respectively. The total fair value of stock options vested was $977, $1,102, and $1,190 for fiscal years 2018, 2017, and 2016, respectively.

We estimate the fair value of stock options granted using the Black-Scholes option valuation model. We recognize the fair value of the stock options on a straight-line basis as compensation expense. All options are recognized over the requisite service periods of the awards, which are generally the vesting periods.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. ASC 718 requires us to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards expected to vest. The following factors are the significant assumptions used in the computation of the fair value of options:

Expected life. The expected life of options granted represents the period of time they are expected to be outstanding. We estimate the expected life of options granted based on historical exercise patterns, which we believe are representative of future behavior. We have examined our historical pattern of option exercises in an effort to determine if there were any discernible patterns of activity based on certain demographic characteristics. Demographic characteristics tested included age, salary level, job level and geographic location. We have determined there were no meaningful differences in option exercise activity based on the demographic characteristics tested.

Expected volatility. We estimate the volatility of our common stock at the date of grant based on historical volatility consistent with ASC 718 and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 107, Share Based Payments.

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Risk-free interest rate. The rate is based on the U.S. Treasury zero-coupon yield curve on the grant date for a term similar to the expected life of the options.

Dividend yield. We use an expected dividend yield consistent with our historical dividend yield pattern.

The following table provides the weighted-average fair value of options granted and the related assumptions used in the Black-Scholes model:

	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
Fair value of options granted	$2.82	$2.93	$2.92
Risk-free interest rate	1.95 %	1.31 - 1.44%	1.70 - 1.90%
Expected dividend rate	3.27 %	3.15 %	2.78 %
Expected volatility	42.51%	44.12 - 44.51%	42.71 - 48.32%
Expected life of option	6.83 years	5.78 - 6.98 years	5.78 - 6.98 years

Employee stock purchase plan: We have an employee stock purchase plan (“ESPP”), which enables employees after six months of continuous employment to elect, in advance and semi-annually, to contribute up to 15 percent of their compensation, subject to certain limitations, toward the purchase of our common stock at a purchase price equal to 85 percent of the lower of the fair market value of the common stock on the first or last day of the participation period. The ESPP requires participants to hold any shares purchased under the ESPP for a minimum period of one year after the date of purchase. Compensation expense recognized on shares issued under our ESPP is based on the value of a traded option to purchase shares of our stock at a 15 percent discount to the stock price. The total number of shares reserved under the ESPP is 2,500. The number of shares of common stock issued under the ESPP totaled 223, 118, and 227 shares in fiscal 2018, 2017, and 2016, respectively. The number of shares of common stock reserved for future employee purchases under the ESPP totaled 173 shares at April 28, 2018. The ESPP is intended to qualify under Section 423 of the Internal Revenue Code of 1986 (the "Code").

Total share-based compensation expense: As of April 28, 2018, there was $3,752 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under all equity compensation plans. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. We expect to recognize the cost over a weighted-average period of 2.9 years.

The following table presents a summary of the share-based compensation expense by equity type as follows:

	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
Stock options	$763	$ 1,072	$ 1,179
Restricted stock and stock units	1,442	1,287	1,237
Employee stock purchase plans	430	555	542
	$2,635	$ 2,914	$ 2,958

A summary of the share-based compensation expenses for stock options, restricted stock, restricted stock units and shares issued under the ESPP for fiscal years 2018, 2017, and 2016 is as follows:

	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
Cost of sales	$619	$ 714	$ 751
Selling	644	723	780
General and administrative	851	877	839
Product design and development	521	600	588
	$2,635	$ 2,914	$ 2,958

We received $519 in cash from option exercises under all share-based payment arrangements for the fiscal year ended April 28, 2018. The tax benefit (expense) related to non-qualified options and restricted stock units under all share-based payment arrangements totaled $9, $2, and $(69) for fiscal years 2018, 2017, and 2016, respectively.

Note 13. Retirement Benefits

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We sponsor a 401(k) savings plan providing benefits for substantially all United States based employees of both Daktronics, Inc. and its subsidiaries, subject to certain Internal Revenue Service ("IRS") limits. We make matching cash contributions equal to 50 percent of the employee's qualifying contribution up to six percent of such employee's compensation. Employees are eligible to participate upon completion of three months of continuous service if they have attained the age of 21. We contributed $2,612, $2,463 and $2,382 to the plan for fiscal years 2018, 2017, and 2016, respectively.

Note 14. Income Taxes

On December 22, 2017, President Trump signed the Tax Act into law. The Tax Act makes broad and complex changes to the Code. Some of the most significant provisions of the Tax Act impacting us include a reduction of the U.S. federal corporate income tax rate from 35% to 21%, a one-time "deemed repatriation" tax on previously untaxed accumulated earnings and profits of subsidiaries in non-U.S. jurisdictions, and a transition of U.S. international taxation from a worldwide tax system to a territorial tax system. Because we file our tax return based on our fiscal year, the federal statutory tax rate for our fiscal 2018 tax return will be a blended rate of 30.4%.

As a result of the Tax Act, we have recorded a provisional reduction to our net U.S. deferred tax assets of $3,534, which resulted in a corresponding increase to income tax expense for fiscal 2018. Additionally, we have recorded a provisional increase to income tax expense of $285 for the one-time deemed repatriation tax.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 which allows the recording of provisional amounts during a measurement period, not to exceed one year from the enactment date of the Tax Act, to account for the impacts of the Tax Act in companies' financial statements when companies do not have the necessary information available, prepared or analyzed in reasonable detail to complete their accounting for the effects of the changes in the Tax Act. Since the Tax Act was passed late in the fourth quarter of calendar 2018, ongoing guidance and accounting interpretation are expected over the next year, and significant data and analysis is required to finalize amounts recorded pursuant to the Tax Act. We will continue to refine any estimates throughout the measurement period or until the accounting is complete, and the impact of the Tax Act may differ from these estimates, possibly materially, due to, among other things, changes in estimates and assumptions that we have made.

The Tax Act includes a provision designed to currently tax global intangible low-taxed income ("GILTI") starting in fiscal 2019. Due to the complexity of the new GILTI tax rules, we are continuing to evaluate this provision of the Tax Act and the application of ASC 740, and we are considering available accounting policy alternatives to adopt to either record the U.S. income tax effect of future GILTI inclusions in the period in which they arise or establish deferred taxes with respect to the expected future tax liabilities associated with future GILTI inclusions. In addition, we are awaiting further interpretive guidance in connection with the computation of the GILTI tax. For these reasons, we have not yet determined a policy for the effect of this provision of the Tax Act. We expect to complete our analysis within the measurement period in accordance with Staff Accounting Bulletin No.118.

The fiscal 2018 effective rate was higher than the federal statutory rate primarily due to the impacts of the new tax law totaling $3,819.

The effective income tax rate for fiscal 2017 included the impact of benefits from increased research and development tax credits, which was offset by valuation allowances recorded during the current year in certain foreign jurisdictions.

The effective income tax rate for fiscal 2016 included the impact of the Protecting Americans from Tax Hikes Act of 2015 (“PATH Act”) signed in December 2015, which retroactively reinstated as well as permanently extended the research and development tax credit. This provided a recognition of approximately $2,015 in tax benefits during fiscal 2016. The benefit is largely offset by pre-tax losses with no tax benefit due to valuation allowances and the current year establishment of valuation allowances in certain jurisdictions of $1,265 that were recognized during fiscal 2016.

The following tables reflect the significant components of our income tax provision. The pretax income attributable to domestic and foreign operations was as follows:

	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
Domestic	$9,235	$16,010	$3,264
Foreign	3,194	(422)	(138)
Income before income taxes	$12,429	$15,588	$3,126

Income tax expense consisted of the following:

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	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
Current:			
Federal	$1,646	$5,268	$(467)
State	868	1,158	123
Foreign	1,205	863	557
Deferred:			
Federal	3,693	(1,625)	463
State	27	(397)	(89)
Foreign	(572)	(21)	478
	$6,867	$5,246	$1,065

A reconciliation of the provision for income taxes and the amount computed by applying the federal statutory rate to income before income taxes is as follows:

	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
Computed income tax expense at federal, state and local jurisdiction statutory rates	$3,779	$5,456	$1,063
Impact of Tax Act	3,819	—	—
Research and development tax credit	(1,598)	(1,573)	(2,015)
State taxes, net of federal benefit	592	539	40
Other, net	559	378	142
Change in valuation allowances	(486)	388	1,265
Stock compensation	336	497	525
Meals and entertainment	333	299	334
Domestic production activities deduction	(294)	(542)	(91)
Dividends paid to retirement plan	(238)	(293)	(323)
Change in uncertain tax positions	65	97	125
	$6,867	$5,246	$1,065

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The components of the net deferred tax asset were as follows:

	April 28, 2018	April 29, 2017
Deferred tax assets:		
Accrued warranty obligations	$7,282	$10,469
Vacation accrual	1,567	2,100
Deferred maintenance revenue	392	1,336
Allowance for excess and obsolete inventory	1,376	1,254
Equity compensation	553	848
Allowance for doubtful accounts	531	677
Inventory capitalization	481	354
Accrued compensation and benefits	651	1,232
Unrealized loss on foreign currency exchange	37	226
Net operating loss carry forwards	1,286	1,772
Research and development tax credit carry forwards	334	311
Other	1,042	1,266
	15,532	21,845
Valuation allowance	(1,506)	(2,061)
	14,026	19,784
Deferred tax liabilities:		
Property and equipment	(4,881)	(6,762)
Prepaid expenses	(486)	(601)
Intangible assets	(1,302)	(1,809)
Other	(41)	(156)
	(6,710)	(9,328)
	$7,316	$10,456

The classification of net deferred tax assets in the accompanying consolidated balance sheets is:

	April 28, 2018	April 29, 2017
Non-current assets	$7,930	$11,292
Non-current liabilities	(614)	(836)
	$7,316	$10,456

The summary of changes in the amounts related to unrecognized uncertain tax benefits are:

	April 28, 2018	April 29, 2017
Balance at beginning of year	$3,113	$3,016
Gross increases related to prior period tax positions	82	235
Gross decreases related to prior period tax positions	(30)	—
Gross increases related to current period tax positions	152	—
Lapse of statute of limitations	(139)	(138)
Balance at end of year	$3,178	$3,113

All of our unrecognized tax benefits would have an impact on the effective tax rate if recognized. It is reasonably possible that the amount of unrecognized tax benefits could change due to one or more of the following events in the next 12 months: expiring statutes, audit activity, tax payments, or competent authority proceedings. A statute relating to $2,569 of the unrecognized tax benefits (including interest) expires in the next 12 months. The benefit will be recognized if the statute lapses with no further action taken by regulators.

Interest and penalties incurred associated with uncertain tax positions are included in the "Income tax expense" line item in our consolidated statement of operations. Accrued interest and penalties are included in the related tax liability line item in our consolidated balance sheet of $238 and $170 as of April 28, 2018 and April 29, 2017, respectively.

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As of April 28, 2018, we had foreign net operating loss ("NOL") carryforwards of approximately $7,223 primarily related to our operations in Belgium and Ireland, which have indefinite lives, and $62 is related to other international operations that expires in fiscal 2019. A deferred tax asset has been recorded for all NOL carryforwards totaling approximately $1,286. However, due to uncertainty in future taxable income, a valuation allowance totaling approximately $1,279 has been recorded in Belgium and Ireland. If sufficient evidence of our ability to generate future taxable income in the jurisdictions in which we currently maintain a valuation allowance causes us to determine that our deferred tax assets are more likely than not realizable, we would release our valuation allowance, which would result in an income tax benefit being recorded in our consolidated statement of operations.

Additional tax information:

We are subject to U.S. federal income tax as well as income taxes of multiple state and foreign jurisdictions. Due to various factors and operating in multiple state and foreign jurisdictions, our effective tax is subject to fluctuation. As a result of the expiration of statutes of limitations, our fiscal years 2015, 2016, and 2017 are the remaining years open under statutes of limitations for federal and state income tax examinations. Certain subsidiaries are also subject to income tax in several foreign jurisdictions which have open tax years varying by jurisdiction beginning in fiscal 2008.

As of April 28, 2018, we have no deferred tax liability recognized relating to our investment in foreign subsidiaries where the earnings have been indefinitely reinvested. The Tax Act generally eliminates U.S. federal income taxes on dividends from foreign subsidiaries, and as a result, the accumulated undistributed earnings would only be subject to other taxes, such as withholding taxes and state income taxes, on distribution of such earnings. No additional withholding or income taxes have been provided for any remaining undistributed foreign earnings not subject to the one-time deemed repatriation tax, as it is our intention for these amounts to continue to be indefinitely reinvested in foreign operations in all of our non-U.S. jurisdictions.

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Note 15. Cash Flow Information

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

	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
(Increase) decrease:			
Account receivable	$2,266	$(2,718)	$3,789
Long-term receivables	1,548	2,213	2,851
Inventories	(8,517)	3,581	(5,100)
Costs and estimated earnings in excess of billings	5,911	(6,203)	4,867
Prepaid expenses and other current assets	(1,252)	(980)	1,290
Income taxes receivables	(4,747)	4,201	1,061
Investment in affiliates and other assets	413	(611)	(776)
Increase (decrease):			
Current marketing obligations and other payables	(358)	857	21
Accounts payable	(2,573)	5,544	(9,926)
Customer deposits	(53)	(1,514)	(941)
Accrued expenses	3,830	2,351	776
Warranty obligations	346	(2,986)	4,726
Billings in excess of costs and estimated earnings	1,034	536	(13,436)
Long-term warranty obligations	1,729	389	(710)
Income taxes payable	(592)	1,331	(37)
Deferred revenue	2,499	1,256	2,120
Long-term marketing obligations and other payables	379	(43)	(456)
	$1,863	$7,204	$(9,881)

Supplemental disclosures of cash flow information consisted of the following:

	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
Cash payments for:			
Interest	$193	$ 228	$ 303
Income taxes, net of refunds	8,937	3,196	(824)

Supplemental schedule of non-cash investing and financing activities consisted of the following:

	Year Ended		
	April 28, 2018	April 29, 2017	April 30, 2016
Demonstration equipment transferred to inventory	$72	$ 218	$ 227
Purchases of property and equipment included in accounts payable	1,983	2,524	142
Contributions of common stock under the ESPP	1,682	840	1,777
Contingent consideration related to acquisition of ADFLOW	—	31	1,955

Note 16. Fair Value Measurement

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

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

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

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

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

The following table sets forth by Level within the fair value hierarchy our financial assets and liabilities that were accounted for at fair value on a recurring basis at April 28, 2018 and April 29, 2017 according to the valuation techniques we used to determine their fair values. There have been no transfers of assets or liabilities among the fair value hierarchies presented.

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Balance as of April 28, 2018:				
Cash and cash equivalents	$29,727	$—	$—	$29,727
Restricted cash	28	—	—	28
Available-for-sale securities:				
Certificates of deposit	—	8,669	—	8,669
U.S. Government securities	992	—	—	992
U.S. Government sponsored entities	—	19,949	—	19,949
Municipal bonds	—	4,912	—	4,912
Derivatives - asset position	—	41	—	41
Derivatives - liability position	—	(236)	—	(236)
Contingent liability	—	—	(1,000)	(1,000)
	$30,747	$33,335	$(1,000)	$63,082
Balance as of April 29, 2017:				
Cash and cash equivalents	$32,623	$—	$—	$32,623
Restricted cash	216	—	—	216
Available-for-sale securities:				
Certificates of deposit	—	12,487	—	12,487
U.S. Government securities	400	—	—	400
U.S. Government sponsored entities	—	12,238	—	12,238
Municipal bonds	—	7,588	—	7,588
Derivatives - asset position	—	64	—	64
Derivatives - liability position	—	(277)	—	(277)
Contingent liability	—	—	(1,891)	(1,891)

$33,239	$32,100	$(1,891)	$63,448

A roll forward of the Level 3 contingent liability, both short- and long-term, for the year ended April 28, 2018 is as follows:

Contingent liability as of April 29, 2017	$1,891
Settlements	(1,009)
Interest	37
Foreign currency translation	81
Contingent liability as of April 28, 2018	$1,000

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

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

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

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

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

U.S. Government sponsored entities: Consists of Fannie Mae and Federal Home Loan Bank investment grade debt securities trading with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The fair value of these securities was measured based on valuations observed in less active markets than Level 1 investments. The contractual maturities of these investments vary from one month to three years.

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

Derivatives – currency forward contracts: Consists of currency forward contracts trading with sufficient frequency and volume to enable us to obtain pricing information on an ongoing basis. The fair value of these securities was measured based on a valuation from a third-party bank. See "Note 17. Derivative Financial Instruments" for more information regarding our derivatives.

Contingent liability: Consists of the fair value of a liability measured on an expected future payment in fiscal 2019 relating to a business acquisition if future financial performance measures are achieved. The contingent liability was calculated by estimating the discounted present value of expected future payments for estimated performance measure attainment. To estimate future performance measure attainment, we utilized significant unobservable inputs as of April 28, 2018 and April 29, 2017. The unobservable inputs included management expectations and forecasts for business sales and profits performance and an estimated discount rate based on current borrowing interest rates. To the extent that these assumptions changed or actual results differed from these estimates, the fair value of the contingent consideration liability could change from $1,000 to $0 or increase in proportion to increased business performance from this estimate. The contingent liability is presented in other long-term obligations in our consolidated balance sheets.

Non-recurring measurements: The fair value measurement standard also applies to certain non-financial assets and liabilities measured at fair value on a nonrecurring basis. Certain long-lived assets such as goodwill, intangible assets and property and equipment are measured at fair value on a nonrecurring basis and are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment. We used Level 3 inputs to measure and record a technology and customer list intangible asset impairment of $830 during fiscal 2017. See "Note 6. Goodwill and Intangible Assets" for more information.

Other measurements using fair value: Some of our financial instruments, such as accounts receivable, long-term receivables, prepaid expense and other assets, costs and earnings in excess of billings and billings in excess of costs, accounts payable, warranty obligations, customer deposits, deferred revenue, and other long-term obligations, are reflected in the balance sheet at carrying value, which approximates fair value due to their short-term nature.

Note 17. Derivative Financial Instruments

We utilize derivative financial instruments to manage the economic impact of fluctuations in currency exchange rates on those transactions denominated in currencies other than our functional currency, which is the U.S. dollar. We enter into currency forward contracts to manage these economic risks. We account for all derivatives on the balance sheet within accounts receivable or accounts payable measured at fair value, and changes in fair values are recognized in earnings unless specific hedge accounting criteria are met for cash flow or net investment hedges. As of April 28, 2018 and April 29, 2017, we had not designated any of our derivative instruments as accounting hedges, and thus we recorded the changes in fair value in "Other (expense) income, net."

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The foreign currency exchange contracts in aggregated notional amounts in place to exchange U.S. dollars at April 28, 2018 and April 29, 2017 were as follows:

	April 28, 2018		April 29, 2017	
	U.S. Dollars	Foreign Currency	U.S. Dollars	Foreign Currency
Foreign Currency Exchange Forward Contracts:				
U.S. Dollars/Australian Dollars	1,081	1,400	7,984	10,669
U.S. Dollars/Canadian Dollars	2,165	2,819	256	345
U.S. Dollars/British Pounds	5,856	4,368	4,936	3,959
U.S. Dollars/Singapore Dollars	236	312	605	844
U.S. Dollars/Euros	(854)	(708)	528	491
U.S. Dollars/Swiss Franc	41	40	—	—

As of April 28, 2018, there was an asset and liability of $41 and $236, respectively, and, as of April 29, 2017, there was an asset and liability of $64 and $277, respectively, representing the fair value of foreign currency exchange forward contracts, which were determined using Level 2 inputs from a third-party bank.

Note 18. Commitments and Contingencies

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

As of April 28, 2018, we recorded a liability and related other receivable of $1,904 for a net claim from a customer against work performed by one of our subcontractors during installation which damaged our customer's property. The amount recorded is for probable and reasonably estimated cost to remediate the damage. Our subcontractor has full insurance for such matters, we have claims to a performance bond as additional collateral, and we carry insurance to cover such matters. In the opinion of management, the ultimate liability of this claim is not expected to have a material effect on our financial position, liquidity or capital resources.

As of April 28, 2018, a customer was withholding $2,224 of payment claiming we did not perform to the customer's specifications. We believe we have performed to the agreed-upon written specifications, have strong contractual documentation to support our position, and a customer with wherewithal to pay. We believe that we will ultimately prevail in collections. Although our assessment of the loss is remote, a number of factors could change the outcome.

We did not believe there was a reasonable probability that any material loss for other various claims or legal actions, including reviews, inspections or other legal proceedings, if any, would be incurred. Accordingly, no material accrual or disclosure of a potential range of loss has been made related to these matters. We do not expect the ultimate liability of these unresolved legal proceedings to have a material effect on our financial position, liquidity or capital resources.

As of April 29, 2017, we did not believe there was a reasonable probability that any material loss for various claims or legal actions, including reviews, inspections or other legal proceedings, if any, would be incurred. Accordingly, no material accrual or disclosure of a potential range of loss has been made.

Warranties: We offer a standard parts coverage warranty for periods varying from one to five years for most of our products. We also offer additional types of warranties to include on-site labor, routine maintenance and event support. In addition, the terms of warranties on some installations can vary from one to 10 years. The specific terms and conditions of these warranties vary primarily depending on the type of product sold. We estimate the costs which may be incurred under the contractual warranty obligations and record a liability in the amount of such estimated costs at the time the revenue is recognized. Factors affecting our estimate of the cost of our warranty obligations include historical experience and expectations of future conditions. We continually assess the adequacy of our recorded warranty accruals and, to the extent we experience any changes in warranty claim activity or costs associated with servicing those claims, our accrued warranty obligation is adjusted accordingly.

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During fiscal 2016, we discovered a warranty issue caused by a mechanical device failure within a module for displays primarily in our OOH applications built prior to fiscal 2013. The device failure causes a visual defect in the display. Over the past three years, we have deployed preventative maintenance to impacted sites and repaired the defective devices in our repair center. When certain site locations have exceeded an acceptable failure rate, we have refurbished the display to meet customers' expectations under contractual obligations. During fiscal 2018, 2017, and 2016, we recognized warranty expense for probable and reasonably estimated costs to remediate this issue of $4,539, $1,766, and $9,174, respectively. The decision to incur additional warranty expense in fiscal 2018 is primarily based on our decision to preserve our market leadership and, in certain cases, customer relationship by providing coverage beyond our contractual obligations. As of April 28, 2018, we had $1,555 remaining in accrued warranty obligations for the estimate of probable future claims related to this issue. Although many of our contractual warranty arrangements are nearing expiration for products with this issue, we may incur additional discretionary costs to maintain customer relationships or for higher than expected failure rates. Accordingly, it is possible that the ultimate cost to resolve this matter may increase and be materially different from the amount of the current estimate and accrual.

Changes in our warranty obligation for the fiscal years ended April 28, 2018 and April 29, 2017 consisted of the following:

	April 28, 2018	April 29, 2017	April 30, 2016
Beginning accrued warranty obligations	$27,899	$30,496	$26,481
Warranties issued during the period	11,961	10,930	10,528
Settlements made during the period	(17,653)	(16,790)	(18,377)
Changes in accrued warranty obligations for pre-existing warranties during the period, including expirations	7,746	3,263	11,864
Ending accrued warranty obligations	$29,953	$27,899	$30,496

Performance guarantees: We have entered into standby letters of credit and surety bonds with financial institutions relating to the guarantee of our future performance on contracts, primarily construction-type contracts. As of April 28, 2018, we had outstanding letters of credit and surety bonds in the amount of $7,706 and $16,522, respectively. Performance guarantees are issued to certain customers to guarantee the operation and installation of the equipment and our ability to complete a contract. These performance guarantees have various terms, but are generally one year.

Leases: We lease vehicles, office space and equipment for various global sales and service locations, including manufacturing space in the United States and China. Some of these leases, including the lease for manufacturing facilities in Sioux Falls, South Dakota, include provisions for extensions or purchase. The lease for the facilities in Sioux Falls, South Dakota can be extended for an additional five years past its current term, which ends March 31, 2022, and it contains an option to purchase the property subject to the lease from March 31, 2017 to March 31, 2022 for $9,000, which approximates fair value. If the lease is extended, the purchase option increases to $9,090 for the year ending March 31, 2023 and $9,180 for the year ending March 31, 2024. Rental expense for operating leases was $3,477, $3,175 and $3,031 for the fiscal years 2018, 2017, and 2016, respectively.

Future minimum payments under noncancelable operating leases, excluding executory costs such as management and maintenance fees, with initial or remaining terms of one year or more consisted of the following at April 28, 2018:

Fiscal years ending	Amount
2019	$ 2,795
2020	2,220

2021	1,888
2022	1,510
2023	249
Thereafter	297
	$ 8,959

Purchase commitments: From time to time, we commit to purchase inventory, advertising, cloud-based information systems, information technology maintenance and support services, and various other products and services over periods that extend beyond one year. As of April 28, 2018, we were obligated under the following conditional and unconditional purchase commitments, which included $350 in conditional purchase commitments:

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Fiscal years ending	Amount
2019	$ 2,735
2020	1,898
2021	313
2022	143
2023	113
Thereafter	266
	$ 5,468

Other long-term obligations: We are obligated to pay the following payments for acquisitions and for other various obligations:

	April 28, 2018	April 29, 2017
Advertising	$ 408	$ 580
Deferred purchase price	1,844	2,479
Other	156	165
Total outstanding	2,408	3,224
Less: current liability	1,187	1,506
Other long-term obligations	$ 1,221	$ 1,718

Note 19. Subsequent Events

On May 31, 2018, our Board of Directors declared a regular quarterly dividend of $0.07 per share on our common stock payable on June 21, 2018 to holders of record of our common stock on June 11, 2018.

Note 20. Quarterly Financial Data (Unaudited)

The following table presents summarized quarterly financial data:

	Fiscal Year 2018(1)(2)(3)			
	July 29, 2017	October 28, 2017	January 27, 2018	April 28, 2018
Net sales	$ 172,728	$ 169,309	$ 130,316	$ 138,177
Gross profit	44,646	42,604	28,567	29,852
Net income (loss)	8,429	7,132	(6,189)	(3,810)
Basic earnings (loss) per share	0.19	0.16	(0.14)	(0.09)
Diluted earnings (loss) per share	0.19	0.16	(0.14)	(0.09)

	Fiscal Year 2017(4)			
	July 30, 2016	October 29, 2016	January 28, 2017	April 29, 2017
Net sales	$ 157,146	$ 169,992	$ 115,719	$ 143,682
Gross profit	39,067	44,308	23,316	33,724
Net income (loss)	5,539	9,021	(5,127)	909
Basic earnings (loss) per share	0.13	0.21	(0.12)	0.02
Diluted earnings (loss) per share	0.13	0.20	(0.12)	0.02

(1) The financial data for the quarter ended October 28, 2017 includes the sale of our non-digital division assets. See "Note 5. Sale of Non-Digital Division Assets" for further information.

(2) The financial data for the quarters ended October 28, 2017 and April 28, 2018 includes additional warranty charges due to specific site issues of $3,179 and $2,354, respectively. See "Note 18. Commitments and Contingencies" for further information.
(3) The financial data for the quarters ended January 27, 2018 and April 28, 2018 includes the effects of the Tax Act, which impacted our deferred tax asset valuation and the impact of deemed repatriation of foreign earnings with an increase to tax expense of $4,280 and a decrease to tax expense of $461. See "Note 14. Income Taxes" for further information.
(4) The financial data for the quarter ended October 29, 2016 includes an impairment loss on intangible assets. See "Note 6. Goodwill and Intangible Assets" for further information.

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Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As reported on the Company's Current Report on Form 8-K filed on September 15, 2017, effective on September 12, 2017, the Audit Committee dismissed Ernst & Young LLP as the Company's independent registered public accounting firm and appointed Deloitte & Touche, LLP to serve in this role for the fiscal year ended April 28, 2018. For more information, see the Current Report on Form 8-K filed on September 15, 2017, as amended by the Current Report on Form 8-K/A (Amendment No. 1) filed on December 1, 2017.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management of our Company is responsible for establishing and maintaining effective disclosure controls and procedures as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934. As of April 28, 2018, an evaluation was performed, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of April 28, 2018, our disclosure controls and procedures were effective at the reasonable assurance level to ensure information required to be disclosed in this Annual Report on Form 10-K was recorded, processed, summarized and reported within the time period required by the SEC's rules and forms and accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the quarter ended April 28, 2018, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on our evaluation under the framework in Internal Control—Integrated Framework, our management concluded our internal control over financial reporting was effective as of April 28, 2018.

Our internal control over financial reporting as of April 28, 2018 has been audited by Deloitte & Touche, LLP, our independent registered public accounting firm, which is included in this Annual Report on Form 10-K.
By /s/ Reece A. Kurtenbach By /s/ Sheila M. Anderson

Reece A. Kurtenbach	Sheila M. Anderson
Chief Executive Officer	Chief Financial Officer
June 8, 2018	June 8, 2018

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Item 9B. OTHER INFORMATION

None

PART III.

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 will be included under the captions “Proposal One - Election of Directors” and “Corporate Governance” in our Proxy Statement for our 2018 annual meeting of shareholders (“Proxy Statement”) to be filed within 120 days after our most recent fiscal year-end. Information concerning the compliance of our officers, directors and 10 percent shareholders with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the information to be contained in the Proxy Statement under the caption “Section 16(a) Beneficial Ownership Reporting Compliance.” The information regarding Audit Committee members and “Audit Committee Financial Experts” is incorporated by reference to the information to be contained in the Proxy Statement under the caption “Corporate Governance–Committees of the Board of Directors.” The information regarding our Code of Conduct is incorporated by reference to the information to be contained in the Proxy Statement under the heading “Corporate Governance – Code of Conduct.”

Item 11. EXECUTIVE COMPENSATION

Information regarding the compensation of our directors and officers for the fiscal year ended April 28, 2018 will be in the Proxy Statement under the heading “Proposal One - Election of Directors” and “Executive Compensation” and is incorporated herein by reference.

We maintain a Code of Conduct which applies to all of our employees, officers and directors. Included in the Code of Conduct are ethics provisions that apply to our Chief Executive Officer, Chief Financial Officer and all other financial and accounting management employees. A copy of our Code of Conduct can be obtained from our website at www.daktronics.com on the Investor Relations page and will be made available free of charge to any shareholder upon request. Information on or available through our website is not part of this Form 10-K. We intend to disclose any waivers from, or amendments to, the Code of Conduct by posting a description of such waiver or amendment on our Internet website. However, to date, we have not granted a waiver from the Code of Conduct.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The security ownership of certain beneficial owners and management will be contained in the Proxy Statement under the heading “Security Ownership of Certain Beneficial Owners and Management” and “Executive Compensation - Securities Authorized for Issuance Under Equity Compensation Plans” and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference from the sections entitled “Proposal One – Election of Directors – Independent Directors” and “Corporate Governance - Compensation Committee Interlocks and Insider Participation” that will be contained in our Proxy Statement. There were no related party transactions in fiscal 2018.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding our principal accountant will be contained in the Proxy Statement under the heading “Proposal Three - Ratification of Appointment of Independent Registered Public Accounting Firm” and is incorporated herein by reference.

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PART IV.

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements
Our financial statements, a description of which follows, are contained in Part II, Item 8:

(2) Schedules

The following financial statement schedule is submitted herewith:

Other schedules are omitted because they are not required or are not applicable or because the required information is included in the financial statements listed above.

(3) Exhibits

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

ADFLOW®, All Sport®, Daktronics®, D®, DakStats®, DataTime®, Fuelight™, Fuelink™, Galaxy®, GalaxyPro™, Go Digital®, Hoffend®, Keyframe®, Matside®, OmniSport®, ProAd®, ProPixel®, ProRail®, ProStar®, Replay®, Sportsound®, Statvision®, Tuff Sport®, Uniview®, Vac®, Vanguard®, Venus®, Visiconn®, V-Tour®, V-Link®, and Web-Sync® are trademarks of Daktronics, Inc. All other trademarks referenced are the intellectual property of their respective companies.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized, on June 8, 2018.

DAKTRONICS, INC.

By: /s/ Reece A. Kurtenbach
Chief Executive Officer and President
(Principal Executive Officer)

By: /s/ Sheila M. Anderson
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
By /s/ Byron J. Anderson Byron J. Anderson	Director	June 8, 2018
By /s/ Robert G. Dutcher Robert G. Dutcher	Director	June 8, 2018
By /s/ Nancy D. Frame Nancy D. Frame	Director	June 8, 2018
By /s/ Reece A. Kurtenbach Reece A. Kurtenbach	Director	June 8, 2018
By /s/ James B. Morgan James B. Morgan	Director	June 8, 2018
By /s/ John L. Mulligan John L. Mulligan	Director	June 8, 2018
By /s/ John P. Friel John P. Friel	Director	June 8, 2018
	Director	June 8, 2018

By /s/ Kevin P.
McDermott
Kevin P. McDermott

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DAKTRONICS, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Charged to Other Accounts	Deductions		Balance at End of Year
For the year ended April 28, 2018:						
Deducted from asset accounts:						
Allowance for doubtful accounts	2,610	1,451	—	(1,910	) (a)	2,151
For the year ended April 29, 2017:						
Deducted from asset accounts:						
Allowance for doubtful accounts	2,797	2,496	—	(2,683	) (a)	2,610
For the year ended April 30, 2016:						
Deducted from asset accounts:						
Allowance for doubtful accounts	2,316	934	—	(453	) (a)	2,797

(a) Write-off of uncollected accounts, net of collections

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Index of Exhibits

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

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3.1	Amended and Restated Articles of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 filed with our Quarterly Report on Form 10-Q on August 30, 2013).
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.4 filed with our Annual Report on Form 10-K on June 12, 2013).
4.1	Form of Stock Certificate Evidencing Common Stock, without par value, of the Company (Incorporated by reference to Exhibit 4.1 filed with our Amendment No. 1 to the Registration Statement on Form S-1 on January 12, 1994 as Commission File No. 33-72466).
4.2	Rights Agreement (Incorporated by reference to Exhibit 4.1 filed with our Form 8-A on August 29, 2008).
4.3	Daktronics, Inc. 2007 Incentive Stock Plan (Incorporated by reference to Exhibit 10.1 filed with our Quarterly Report on Form 10-Q on August 20, 2007).*
4.5	Daktronics, Inc. 2015 Incentive Stock Plan ("2015 Plan") (Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A filed on July 14, 2015).*
4.6	Form of Restricted Stock Award Agreement under the 2015 Plan (Incorporated by reference to Exhibit 10.2 filed with our Current Report on Form 8-K on September 3, 2015).*
4.7	Form of Non-Qualified Stock Option Agreement Terms and Conditions under the 2015 Plan (Incorporated by reference to Exhibit 10.3 filed with our Current Report on Form 8-K on September 3, 2015).*
4.8	Form of Incentive Stock Option Terms and Conditions under the 2015 Plan (Incorporated by reference to Exhibit 10.4 filed with our Current Report on Form 8-K on September 3, 2015).*
4.9	Form of Restricted Stock Unit Terms and Conditions under the 2015 Plan (Incorporated by reference to Exhibit 10.5 filed with our Current Report on Form 8-K on September 3, 2015).*
10.1	Amended and Restated Deferred Compensation Agreement Between the Company and Aelred Kurtenbach (Incorporated by reference to Exhibit 10.1 filed with our Annual Report on Form 10-K on June 28, 2004).*
10.2	Credit Agreement dated November 15, 2016 by and between the Company and U.S. Bank National Association (Incorporated by reference to Exhibit 10.1 filed with our Current Report on Form 8-K filed on November 16, 2016).
10.3	Revolving Note dated November 15, 2016 issued by the Company to U.S. Bank National Association (Incorporated by reference to Exhibit 10.2 filed with our Current Report on Form 8-K filed on November 16, 2016).
10.4	Amended and Restated Loan Agreement dated November 15, 2016 by and between the Company and Bank of America, N.A. (Incorporated by reference to Exhibit 10.3 filed with our Current Report on Form 8-K filed on November 16, 2016).
10.5	Continuing and Unconditional Guaranty dated November 15, 2016 by and between the Company and Bank of America, N.A. (Incorporated by reference to Exhibit 10.4 filed with our Current Report on Form 8-K filed

	on November 16, 2016).
10.6	Amended and Restated Loan Agreement dated May 5, 2017 by and between the Company and Bank of America, N.A. (Incorporated by reference to Exhibit 10.6 filed with our Annual Report on Form 10-K filed on June 9, 2017).
16.1	Letter from Ernst & Young LLP, dated September 14, 2017, to the Securities and Exchange Commission (Incorporated by reference to Exhibit 16.1 filed with our Current Report on Form 8-K filed on September 15, 2017).
21.1	Subsidiaries of the Company. (1)
23.1	Consent of Deloitte & Touche LLP. (1)
23.2	Consent of Ernst & Young LLP. (1)
24	Power of Attorney. (1)
31.1	Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
31.2	Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (1)
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350). (1)
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350). (1)
101	The following financial information from our Annual Report on Form 10-K for the fiscal year ended April 28, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, (vi) Notes to Consolidated Financial Statements, and (vii) document and entity information. (1)

(1) Filed herewith electronically.

* Indicates a management contract or compensatory plan or arrangement.

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